The Smart Divorce

THE 10 MISTAKES WOMEN MAKE WHEN GOING THROUGH A DIVORCE

an eBook by

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According to the U.S. Census Bureau, the national divorce rate for women was 9.7% in 2009. Divorced women generally report lower household income when compared to divorced men and are more likely to be at poverty level after a marriage ends. Many women just aren't prepared for divorce and don't know what to do when going through one. To help these women take control of their lives and their finances, **Melissa Motz addresses the most common mistakes women make when faced with divorce and explains how to avoid them.**

Contents

Mistake #10:

BELIEVING THAT 50/50 IS FAIR

If you're going through a divorce, you may assume that splitting assets evenly with your former husband is a fair deal. But for many women, that's simply not the case.

Here's why.

First, the future earning potential of each spouse should be a factor when splitting assets, especially when looking at how long it takes for each spouse to "become whole" again financially. Usually, both spouses are not making the same amount of money. For example, one might have stayed at home to raise the children and taken a big cut in their pay as a result. You can split assets in a way that will make up for that, which is really important.

Second, if a certain asset generates income, the income can be taxed differently. So, if you have dividend income coming from stock investments, for example, that's taxed in one way. If you have income coming in from a rental property, that's taxed in a different way. It's really important to understand how assets are being taxed because they won't net the same amount in the end, which could affect your cash flow significantly.

So, before you split up the property, you first need to know what assets you have.

Second, you need to know the tax basis of each asset, because without that you cannot truly compare the two assets.

9

Mistake #9:

DECIDING FINANCIAL ISSUES ONE AT A TIME INSTEAD OF UNDERSTANDING HOW THEY AFFECT EACH OTHER

During a divorce, it's easy to mistakenly look at financial issues in isolation rather than trying to understand how they all affect each other.

This can happen in many ways.

Here are just a few:

Not considering the way taxes interact with other financial issues and how this affects the "big picture."

Failing to utilize capital gains and losses to your benefit. Losses can benefit you tax-wise if they're paired with gains so you might want to get a sprinkling of assets with both.

Not timing assets to make a better impact on your taxes.

Not considering inflation, including how purchasing power will be a factor for any assets without inflationary protection, as well as inflation issues when receiving or withdrawing from assets.

To get the most out of your divorce settlement, and to make sure that you're on track to achieve financial wellness after your divorce, you need to think about financial issues

holistically, rather than individually.

Mistake #8:

NOT UNDERSTANDING THE TAX IMPLICATIONS OF THE ASSETS YOU RECEIVE

As you go through a divorce, you should understand two things about taxes. **First,** you need to know what assets you will need to pay taxes on immediately. **Second,** you need to know what assets you will pay taxes on when taking distributions or withdrawals in the future.

In both cases, you need to understand the tax rates that apply. That's easier said than done, however, because taxes are so complicated. There are different tax rates for all different types of income. For that reason, seeking professional help in this area is strongly recommended. You also need to consider expected tax changes and the tax bracket you expect to be in when the taxes will be due.

For example, if you're looking ahead to take money out in the future, keep in mind that tax rates could be higher. If you're going to take assets that have a high tax rate as part of your divorce settlement, you want to make sure that you're adequately compensated when the assets are split up.

Finally, you should also consider what effect the assets that you're receiving in the divorce have on your estate planning and your estate taxes. There are some very high taxes that can be due depending on the size of your estate when you pass away and **it's really important to plan for the impact of these taxes in advance**.

7

Mistake #7:

NOT CONSIDERING INTANGIBLE ASSETS

Not considering intangible assets, such as insurance policies, stock options and pension plans, is a **major mistake** that many women make when going through a divorce.

For example, if you're going through a divorce, it's critically important to understand the difference between being insured and being the owner of an insurance policy. You also need to understand how a policy can be used in a divorce settlement as an asset.

Or consider stock options and Restricted Stock Units. Options and RSUs can represent huge values in a divorce settlement. It's important to understand their value and the tax implications of receiving or exercising them when they vest and when they come due. If that's going to happen after the divorce is final, you really want to make sure that you follow-up and get your portion before they expire.

Also, don't forget about pension plans. Understanding the rules regarding distributions from the plan, how a portion of the plan will be designated for the spouse, and the value of the pension payments in the long run is very important.

Finally, be sure to think about both the present and future value of assets. When receiving intangible assets, you must think of **the tax implications** of receiving them, taking distributions and making withdrawals, **as well as** the projected future income.

Mistake #6:

NOT UNDERSTANDING THE VALUE OF RETIREMENT ACCOUNTS

Failing to consider the true value of retirement accounts is a critical error many **women make in a divorce.**

First, it's important to understand how retirement accounts are taxed. Typically, they are not taxed until you take the money out. You'll have to pay tax penalties if you take the money out before age 59½ (except under certain circumstances). Ultimately, you'll be required to start taking money out at age 70½; it's important to think about how these retirement account withdrawals will impact your overall financial and tax picture.

It's also essential to understand the difference between Roth and traditional retirement accounts. Traditional retirement accounts include 401(k)s, 403(b)s, IRAs, SEP, SARSEPs and Simple plans. All of these plans are taxed when you take the money out. Roth 401(k)s and Roth IRAs, on the other hand, are funded by after-tax dollars so they aren't taxed when you take the money out. All retirement accounts come with their own specific restrictions and time restraints. You should make sure you're familiar with all the aspects of your particular situation.

5

Mistake #5:

NOT UNDERSTANDING THE PURPOSE OF A QUALIFIED DOMESTIC RELATIONS ORDER

A Qualified Domestic Relations Order (QDRO) isn't a term that many people are familiar with, but it's something that almost every divorcing woman needs to **know about.**

QDROs are tools that allow the non-employee spouse to tell a retirement plan administrator the amount that they're entitled to from the plan, so that the money can be transferred out of the retirement plan or IRA into the wife's own IRA or retirement plan. She can then use this money for her retirement. You need to use a QDRO so that no one pays tax when the money is transferred to your IRA.

QDROs are **especially important** if your ex-husband has a retirement plan that doesn't permit money to be transferred out. In this situation, you would have to wait until your ex-husband retires before you could claim your portion of the benefits. Even though that distribution could be decades away, it's important to set up the QDRO now so that the transfer happens smoothly. For example, if your former spouse passes away and you don't have a QDRO, it may be more difficult to get your share of his retirement assets.

Mistake #4:

NOT INCLUDING LIFE INSURANCE AS PART OF THE SETTLEMENT

It's easy to forget about life insurance policies when you're going through a divorce, but they're definitely assets that **you need to consider.**

Being the owner of a life insurance policy doesn't necessarily mean that you're responsible for the premiums, but it does mean that you'll be notified if your former spouse doesn't pay the premium. Changing the ownership of life insurance policies is critically important if you and your ex-spouse have children together, but it's something that many women fail to consider.

Essentially, for familes with children, the custodial parent should have ownership of the life insurance policy. This prevents the non-custodial parent from cancelling or cashing out a policy. For example, if you have custody of the children, but the ownership of the life insurance policy is left with your ex-husband, he could cash it out, cancel it or change the beneficiary without your knowledge.

3

Mistake #3:

NOT KNOWING YOUR FINANCIAL SITUATION

If you have always depended on your husband to handle the finances, what do you do now? It's important to understand your cash flow and know where your money comes from & where it goes, since this will directly affect **your standard of living after your divorce.**

Do you know your monthly and annual expenses, as well as your standard of living? This is very important to consider, yet many women don't ask the question, "How do I know that I will be secure financially after my divorce?" That's something you need to understand before you make the divorce settlement.

What about joint debt? What happens there? Joint debt doesn't change when you're separated or divorced. You must take action to close the joint debt and start your own individual accounts. Anything that your ex-spouse does to joint debt while it still exists will affect your credit rating.

Even though you're dealing with a lot of smaller moving parts, you should also **look at the big picture** to be sure that what's being decided will be the **best for you and your family in the long run.**

Mistake #2:

MAKING EMOTIONAL DECISIONS

Going through a divorce can be very stressful, and it's very easy to make emotional decisions along the way. **But that's a big mistake.**

One emotional decision many women make is keeping the house. Depending on your situation, this can end up being disastrous for you financially.

Many women also want to rush through their divorce. The reality is that divorce is a painful process; it can be very stressful and frustrating. While it's tempting to want to get everything over as quickly as possible, the process should not be rushed. Instead, you need to take things slow so that everything is addressed and nothing is missed or overlooked. This is especially important if you have not been the one handling the finances in your family.

It's going to take time to find out about everything that's going on in your life financially and to understand it. Try to make an effort to educate yourself about financial issues. There's a wealth of information on the Internet, or you could even take classes at your local community college or adult education program. **The key thing is to get the information you need so that you**

do not make financial decisions that are driven by emotions.

Mistake #1:

NOT HIRING A FINANCIAL ADVISOR

If you're getting divorced, a financial advisor is one of the first people you should hire. A qualified financial professional **can help you** analyze an agreement before you settle your divorce. They will also give you insight on things you should request in the agreement as well as how the final outcome will affect your **overall financial situation.**

Creating a comprehensive financial plan showing the outcome after the divorce will help you greatly in knowing what life after settlement will look like. It will also help you set up a plan for future goals.

A comprehensive financial plan will address:

- Debt
- Cash flow
- Education funding
- Insurance needs
- Employee benefits
- Retirement planning
- Investments
- Estate planning
- Tax planning

Partnering with a financial advisor can help you to take an active role in managing your financial life today for the benefit of your future. A qualified financial advisor can guide you through the divorce process and **help lead you toward a path of financial wellness.** We encourage you to take that step today, so that you can move forward to the next stage of **your life with clarity and confidence.**

ABOUT THE AUTHOR

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Melissa Motz, CPA, CFP®, MS, is the President and Founder of Motz Wealth Management. A Pennsylvania native, she attended Montgomery County Community College and Temple University. In 1981, she graduated Summa Cum Laude with a BBA in accounting. She began her career at the public accounting firm Touche Ross and Co. She then passed the CPA exam and earned a Master's degree in taxation from Drexel University.

Melissa established her own accounting practice in 1983, while also serving as an adjunct professor at Cabrini College, Ursinus College, and Penn State (Fogelsville Campus). Melissa's common-sense advice prompted many of her clients to encourage her to formally offer financial planning services, which she did in 1995.

In 2002, she became a CERTIFIED FINANCIAL PLANNER™ professional. Melissa built Motz Wealth Management through a meticulous work ethic and compassion for her clients. She is able to understand complex financial, tax, and economic issues, and convey them to clients in a way they understand. Her specialty is providing financial advice to women throughout the various stages of their life, helping to put them on a path toward a better life and greater financial wellness.

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