

## **Avoiding Common Divorce Pitfalls**

*Certified Divorce Financial Analysts™ offer their best tips to help you avoid some of the most common mistakes made by divorcing people.*



### **Understand your financial and emotional limits.**

When you understand yourself, you are better equipped to be objective. This saves time, which leads to cost savings. If you are not prepared to look at reality - without the emotional entanglements - the outcome will never be what you need, let alone what you want. Instead of asking “why” questions, which lead to people becoming defensive, try asking questions that start with “how.” For instance, asking, “How did you come to that conclusion?” leads to a discussion about process. It allows both people to step back from the brink and look at things as they are.

### **Settle out of court.**

When given the choice to go to settle at mediation or settle at trial, always try to for the former for two reasons. First, going to trial is very expensive: typically, the only ones who win are the lawyers and experts, which leaves a smaller “pie” for the divorcing husband and wife to divide. Second, going to trial is risky because all of the decisions are left to the judge who has known the parties for a few hours at most; in mediation, the divorcing parties still have 100% control over how things will be settled (assuming they can come to an agreement).

### **Know what you have – and what you need.**

It is very important to know what assets you own, the value of those assets, and where they are held. This should cover everything from retirements to investment to bank accounts, as well as future pensions and social security. Make copies of your and your spouse’s tax returns. These returns can help explain to a financial advisor a lot more than your income and taxes paid: they can help find assets, capital gains and losses,

depreciation, and business expenses. The tax returns are also helpful in uncovering assets that a spouse might have hidden.

Before splitting your assets is made, you should think about what you need: you must create a budget, identify which assets will help ensure your financial security, and negotiate for this.

### **Identify your priorities.**

It's important to be frugal given that you have to manage the cost of separation and divorce, along with meeting your basic life needs. Try to follow a balanced approach, and don't let your pride get in the way of accepting and/or asking for help from family and friends when you really need it. If your ex-to-be is prone to unpredictable behavior, you must find a safe place for you and your children to live. Don't forego your personal security; prioritize this above other more "materialistic" items.

### **Do your financial homework.**

If you do your financial homework, you will be able to recognize a fair offer rather than settling for too little or rejecting a reasonable offer. Even if you have never seen a retirement plan, investment account, or bank statement, information is available if you know where to look. Contact the Human Resources Department at your spouse's employer and ask about any and all benefits. As a spouse, you are entitled to know about current and future benefits; be sure to ask if there's a pension plan in place. Review your last two or three tax returns, which will list any interest earnings, dividends, or capital gains that were reported. By comparing the financial affidavit to the tax return, you can reconcile assets and look for omissions. Finally, prepare yourself for the post-divorce lifestyle change by figuring out what your long-term needs will be and making a budget.

### **Pensions can be worth more than houses.**

Trading their share of a spouse's pension for the marital home is one of the most common mistakes divorcing people make. The marital home and the retirement plans are likely to be the largest assets in your marriage. Many people have such an emotional attachment to their home that they cannot fathom life in another house. The house, though, usually comes with high mortgage payments, maintenance and repair bills that can devastate a person's finances. Even though the value of the house might be equal to the value of the pension at the time of divorce, they are apples and oranges. A house requires income to pay for repairs, maintenance, improvements, property taxes, and assessments; a pension, however, produces income without costing income. A 50/50 division of assets may sound equal, and it may in fact be

equal in value as of the date of divorce, but it may not meet your long-term needs. You cannot sell a windowpane to put food on your table during your retirement years. It's not how many assets you have - it's what you can do with the value of those assets that matters most.

### **Make the best use of your lawyer.**

You can help your lawyer (and cut your costs) by making sure you have copies of all important financial documents related to your marriage, and by keeping track of expenses during the divorce process. Remember that your lawyer is not your psychiatrist: there is no point in telling your lawyer all the feelings you have towards your soon-to-be-ex-spouse. Letting your lawyer hear about your feelings will only make your wallet thinner. If you need to talk to someone, hire a psychiatrist - or talk to a friend if you don't need professional help. Finally, ask your lawyer and/or financial advisor to help you identify which decisions absolutely need to be made now, and which can wait until your emotions are under control. Big decisions made in an emotionally unstable state of mind usually turn out to be expensive and non-sustainable ones.

### **Take a "Big Picture" approach.**

Clarify the issues that are most important to you and keep your primary focus there. These issues should concern both finances and parenting. Consider refining these issues with the help of a financial or mental-health professional who can provide the focus, objectivity, and long-term vision that may be difficult for you at this tumultuous time. By clearly articulating your needs and goals, you will expend less time, money, and emotional capital over the small stuff - or by seeking to redress emotional hurts in ways that the divorce process really can't address.

### **Plan for tomorrow today.**

Plan for your children's contingencies today to avoid going back to court annually. For instance, who will be paying for college? How much? What happens when the kids get to be drivers? Who will buy the car, paying for insurance, etc.? Who will pay for her prom dress or his tuxedo rental? Some of these items may seem trivial, but they can all lead to continuing litigation. Finally, make sure you and your children are covered by health insurance, and agree as to payment for the short and the long-term.

### **Four keys to survive divorce.**

There are four basic things that you will need to survive divorce: a place to live, little or no debt, retirement assets, and liquid money. You should strive for a balance of each of these. You need a mix of each of these categories - not an abundance of one

category and none in the others. There are three different general phases of the divorce process: the beginning, the middle, and after the divorce. In each of these stages, your budget may be different, so you should make sure that you have liquid money available at all times. In the beginning, you will need liquid money for the retainer to hire a lawyer. You should consider putting this liquid money in a money market account rather than a savings or checking account; this is a vehicle where you are able to earn more interest on your money. Make sure you understand what a money market account is and what it can do for you before making any decisions.

### **Understand your disposable income after divorce.**

After divorce, you may be receiving different types of income - employment earnings, spousal, or perhaps child support - some of which will probably be taxable. In the midst of support negotiations, you need to know how much you'll actually be left with each month to understand the impact of a proposed settlement. To figure this out, you first need to separate the taxable and tax-free income amounts you will be receiving. Total all your taxable income, estimate and subtract the tax payable, and then add the tax-free income amount to the after-tax figure. Be aware that additional taxable income may move you to a different tax bracket, so be mindful of the tax rate you use. Compare your after-tax income to your expenses to create your new budget. If you're not sure how to do this, get help from a financial professional. Calculating your net disposal income is critical to helping you budget and to understand your new financial reality after divorce.

### **Don't let your emotions rule your divorce**

Going through divorce can make you feel like the captain of a leaky boat on stormy seas - there seems to be a new crisis at every turn. But don't let uncertainty whip you into an emotional tizzy: the more frenzied your emotions, the longer the proceedings and the more costly the divorce. Here are five strategies to help you separate emotions from economics:

1. **Don't let guilt rule you.** "Please release me, let me go" goes the country song, but don't give up everything to buy your freedom. Your spouse will still be unhappy, and you'll be equally unhappy when you find yourself impoverished by your foolish gesture.
2. **Don't make nice to get him or her back.** Even if you hope your divorce will end in reconciliation, don't bend over backward to make it happen. Stand up

for yourself and get your share. If you reconcile, that's fine, but if you don't, you'll still be able to take care of yourself financially.

3. **Leave revenge at the door.** Legally, it probably doesn't matter who did wrong. Revenge is costly, and a wild rampage is bound to turn out poorly. You might even end up paying your spouse's attorney fees.
4. **Don't succumb to threats, or threaten your spouse.** Money and power are emotionally linked, but you can't use money to control your spouse and get your way. Whatever you can't agree on will end up being split between your attorneys.
5. **Focus on problem-solving, not fighting.** Don't let meetings with your ex turn into posturing to show who's in control or how smart you are. Settling your divorce is the problem you must confront, and it won't get solved by fighting.