



7 Little-Known Financial Benefits of Divorce

Divorce is often devastating, but there are a few financial silver linings.

By Maryalene LaPonsie | Sept. 29, 2017



A divorce is one of the few times a person can pull money out of a retirement account early and not pay an early withdrawal penalty. (Getty Images)

From the cost of the lawyer to the loss of a spouse's income, divorce often comes at [a high price](#). What's more, spouses may walk away from the proceedings with significantly fewer assets and retirement savings. That's not to mention the emotional toll of the process.

"At the end of the day, divorce is terrible," says David Hays, president of Comprehensive Financial Consultants in Bloomington, Indiana.

However, that doesn't mean the news is all bad. While not a reason to run out and get a divorce, here's a look at seven financial benefits that could make a sad situation seem a little better.

1. Easier budgeting and greater control over money. The end of a marriage can mean the end of fights over money. There is no more struggle over which categories get

priority in the budget; no more evenings spent cajoling or pleading with a spouse to rein in spending. “On the other side of divorce is some freedom,” says Elijah Kovar, a partner with Great Waters Financial in the Richfield suburb of Minneapolis.

Nancy Hetrick, a senior financial advisor with Better Money Decisions in Phoenix, can attest to that. In the six months after her divorce to a spendthrift husband, she accumulated \$20,000 in savings, thanks to her ability to set her own budgeting priorities. Meanwhile, her ex racked up tens of thousands in debt over the same period. “Typically, it’s going to be positive for one person, not the other,” she says.

2. Early access to a retirement fund, penalty-free. A divorce is one of the few times a person can pull money out of a retirement account early and [not pay an early withdrawal penalty](#). When an agreement known as a qualified domestic relations order is reached as part of a divorce, it allows for an early withdrawal from the account. This money is exempt from the typical 10 percent penalty assessed to those younger than age 59 1/2, although income tax still needs to be paid if the money is not rolled into an IRA.

[Cashing out part of a retirement account](#) can be a risky move, but it gives the newly divorced some options they may not otherwise have. “You can really get someone in a much better cash-flow position,” Hetrick says of the smart use of that money.

Ric Edelman, founder of Edelman Financial Services, cautions people not to be too hasty about withdrawing money from an account. He notes that sometimes, in amicable divorces, people try to split the balance of a retirement fund without a qualified domestic relations order. That can be an expensive mistake. “Don’t make any decisions without the advice of an attorney and a financial planner,” he says.

3. Potentially better investment returns. Divorce could mean better investment returns, [at least for women](#), says Mela Garber, principal at accounting firm Anchin Block and Anchin in New York City. “Men usually take a more aggressive approach to investments and take more risks,” she says. Her observation is backed up by studies such as a 2017 analysis by Fidelity Investments that found women were less likely to fully invest in equities and earned marginally better gains than men. After a divorce, women have the opportunity to take over their own retirement planning, which could be a financial positive in the long run.

4. More college financial aid for the kids. Divorce can be difficult for children, but there is one place where they come out ahead: college financial aid. The Free Application for Federal Student Aid only requires financial information from the custodial parent rather than both parents. However, child support and alimony received from the non-custodial parent must be included on the FAFSA. “We’ve structured some really creative settlements to minimize the income of one parent,” Hetrick says. Additional financial aid is a little-known benefit of divorce, but one that is significant.

5. Social Security perks for older divorcees. Divorced spouses may be eligible to file for [Social Security spousal benefits](#) at retirement. You're entitled to these benefits if you were married to your spouse for at least 10 years. "The ex doesn't even know you're doing it," Edelman says. "It doesn't have an impact on the benefits the ex will receive."

If you were 62 by Jan. 1, 2016, you can file a restricted application for Social Security spousal benefits once you hit full retirement age. [No longer allowed for younger workers](#), this application will allow you to receive half your spouse's benefit while you defer your own and let it grow until age 70. For married couples, this only works if a person's spouse has already started his or her benefit. However, for divorced spouses, the rules are different. "When divorced, you don't have to wait until your ex turns on Social Security," Kovar says.

6. Opportunity to reset financial priorities. While people are sometimes resentful of lifestyle changes necessitated by divorce, finance experts say the opportunity to rethink priorities and start fresh can be a positive. Even major adjustments, like giving up a family home, can be beneficial in the long run. "Sometimes it's financially better to have a smaller house or apartment," Garber says.

7. A better bottom line. As Hetrick discovered, divorce doesn't have to mean a depleted bank account. Even on a lower income, divorced people can build wealth by making smart use of their resources.

The reality is not everyone's financial situation will improve with divorce, but some people are surprised to learn that it does. "One [client] said, I don't know why I have so much money now," Hays says.

Getting a divorce isn't something to rush into, but if you find yourself in the midst of a crumbling marriage, don't despair. You may still come out ahead thanks to these little-known financial benefits of divorce.

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