

Love is Grand—Divorce is a Hundred Grand. How Financial Planning Can Help.

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Financial Planning for Divorce

Divorce is something most people brush off casually with a laugh and a smile. “Never going to happen. I’m locked in eternal marital bliss.” But the fact of the matter is, between 40% and 50% of marriages end in divorce. It can be one of the low points in your life, both emotionally and socially. Amongst the grieving, you realize: this life-altering event has significant financial repercussions. With everything going on, the last thing you’ll want to worry about is making a mistake that will jeopardize your retirement or future well-being. Fret not; there’s still time. The following are financial planning for divorce tips to help make the transition as smooth as possible.

Get organized

Hopefully, you’ve been keeping all your financial documents readily accessible in one form or another. Make sure you have a listing or better yet, statements, reflecting all your bank accounts, retirement accounts, investment accounts, any loans (mortgage, auto, etc.), pay stubs, and recent tax returns. If this isn’t something you normally stay on top of, the process can be tedious, so it’s best to start as soon as possible.

Additionally, if you haven’t created a budget for yourself, now is the time. You may need large amounts of cash for legal proceedings or a potential home purchase if you end up having to move. It’s important to track all income and expenses so that you’ll be armed with the most accurate picture of what you can and can’t afford.

As Al Green would say...

Let’s stay together. Regarding joint accounts, it’s best to leave these accounts as is until the process is finished. States have different laws regarding how marital property is divided between spouses. A judge could potentially require you to return any money that was deemed your spouse’s if you pull it out and move it to an individual account prior to the separation being finalized. To the extent possible, keep track of your spouse’s spending, and if you see any strange or excessive transactions, notify your attorney.

Row your boat...

Right back to where you got it from. Professionals agree that it’s best to refrain from large financial purchases during a divorce. The temptation to spend money on things that your spouse wouldn’t agree to can feel liberating—but save it for later once everything is finalized. If you show up to your litigation in a brand-new Ferrari, you’re not helping yourself when it’s time to determine which assets should be divided up between the two of you.



The elephant in the room: Alimony

Breaking it down to its simplest level, alimony is the support and maintenance of a spouse. This can be in the form of a one-time payment or on a continuing basis for a set number of years. Generally, the lower earner of the two spouses would be due alimony, because just as during the relationship, they needed a portion of the other spouse’s income to maintain a certain standard of living. The amount and duration vary and depend on several factors including, but not limited to: children, employability, and assets. If you are currently going through a divorce and alimony is involved, be sure to check with a financial advisor or tax professional to review the upcoming tax law changes and how they will affect you.

Back in the saddle

So, you’ve decided to try marriage again! If you remarry, it’s important to understand how this will affect your Social Security benefits. To claim benefits as a divorced spouse, you’re required to have been married at least ten years, and currently be single. In most cases, if you remarry, you’re ineligible to collect benefits on your ex-spouse. The exception to this is if you’re a widow or widower, in which case you can claim survivor benefits if you wait until age 60 or later to remarry. Another scenario of note is when two people who are each collecting benefits on their former spouses’ earnings marry each other; they are both allowed to keep those auxiliary benefits despite being remarried. There are many other rules and scenarios regarding Social Security, so it’s important to consult with a financial planning expert.

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Love is Grand—Divorce is a Hundred Grand. How Financial Planning Can Help. (Continued)

Know what you don't know

Throughout the entire divorce process, you'll undoubtedly receive advice from a multitude of people. Many of these tidbits will come from family and friends, whom while they have your best interests at heart, usually are not attorneys who specialize in divorce litigation, or financial advisors who have navigated many a client through a separation. You may think you'll be able to go through this with minimal help, but now is not the time to "give it a shot" and see where you end up. The ramifications of divorce are too significant to be settled around the dinner table.

If you're anticipating a divorce or are interested in learning more about how to financially prepare for one, make sure you seek the advice of qualified legal and financial professionals.



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