



## **13 Tips to Surviving Divorce Financially: Before, During and After**

by Michelle Ash, CFP®, CDFATM

Going through a divorce is hard for almost everyone. Whether you ask for the divorce or not, whether you were married for a long time or a short time, kids or no kids, divorce is really the end of a business relationship that was formed between you and your spouse. It is common sense to think that any business that might split and form two separate organizations would have a long to-do list and many after-effects of the restructuring. Put in that context, it is easy to understand how marriage is the same way. There are many pieces to the puzzle, but one of the largest for many couples are the financial matters. Often both husband and wife have angst over how they will make ends meet, how they'll feel certain they got their "fair share", how the financial resources of the marriage – now generally "half" of what they were – will be enough for the future life plans like kids' college and retirement.

This article discusses many tips for how to better survive the divorce no matter what stage of the process you are in. Read on for information on how to better handle your financial matters before, during and after the divorce.

### Before the Divorce: Whether you asked for the divorce or not

**1. Develop a Budget:** A comprehensive budget is a bedrock tool for understanding what life after the divorce is going to be like. Make sure to include costs of your new home if you'll be moving, of child care if your children will enter daycare or spend more time there than they did previously. Also ensure you include new expenses such as healthcare costs.

**2. Set aside money in savings:** All too often one spouse cuts the other one off from funds, many times earlier than the recipient spouse might have expected. It may or may not be legal for the spouse to do this, but either way, it will involve some time to get it undone. Along those lines, you will need to pay for legal costs of the divorce. Even if your divorce is amicable and you don't hire attorneys, there are still costs to file the divorce, for which you may be expected to pay a portion. Also make sure you have funds set aside for living costs. Once you have your budget, try to set aside at least 3 months' budget needs. If you don't have the money to do so, make plans now for how you'll pay those expenses. Life is going to happen, and with life comes expenses. You will either need the income or the savings in order to pay for it.

**3. Begin arrangements for employment or another source of income:** Unless you feel

certain that you will receive enough income to live on from an income arrangement with your spouse, time is of the essence to make arrangements for having enough income to meet your expenses. If you are already working and make enough to meet your budget, things may be fine. But if you have a budget shortfall, do not presently work, or know that you will not get enough alimony or child support to cover all of your needs, the more time you have to find a job, the better. It may be necessary to get additional education or skills training in order to be gainfully employed. Such training will cost money and take time, all of which may have to occur before you can begin receiving income. Income arrangements from a spouse are not a guarantee in court cases – spousal support is a very gray matter – so it’s important to plan how to be self-supporting.

**4. Start making a life plan:** Unless you’ve only been married a short period of time, divorce usually causes one’s whole life outlook to change. While it is important to allow yourself the time emotionally to heal, life does go on and you must find ways to get by day to day. Making a life plan for what occupational activities you enjoy, what things in life hold purpose for you, and how you want to look back on your life in 10 or 20 years may help you to get back on track for living a life that is fulfilling or meaningful to you.

#### During the Divorce

**5. Minimize expenditures as much as possible:** Divorce is often expensive. Unfortunately, so are deposits on new places to live, furniture, health insurance, and many other new expenses you may not be used to. Until your financial life gets stabilized, conserve your financial resources as much as possible. Avoid unnecessary shopping, eating out, and entertainment. Don’t buy big ticket items unless they are absolutely necessary. This is not to say you cannot have any fun while divorcing. Unfortunately, though, I haven’t met a client yet who had a money tree in their back yard that helped them to always ensure they had enough money no matter what. Because of that, it’s important to hold onto what you have as much as you can.

**6. Understand all impacts of assets you request, to include taxes, income, and required holding periods:** This topic could be the basis of an entire article in and of itself. Without making it such, it is important to realize that every asset you take in the marital property division has a set of rules and ramifications that come with it. For example, if you take the marital home, realize that there may be a tax consequence in the future if you sell it. What that tax consequence is depends on what you paid for the home, whether or not you have a gain on the sale, how long you’ve owned it, and whether you ever used the home for business purposes. Retirement accounts and investment assets are similar, with various tax rules and holding requirements. Some retirement accounts can be accessed for funds before retirement, and some cannot. Analyzing all of these issues before taking that asset in the divorce can help you avoid unwanted and possibly expensive ramifications which typically cannot be undone once the divorce is final.

**7. Determine your Health insurance plan:** While having health insurance is not mandatory in our country today, it may be one of the most important insurance coverage you consider. Serious health issues can be catastrophic to your financial situation without

insurance protection. Unfortunately, once a health issue occurs it may be too late to ever get insurance coverage to assist with it. If you are employed and health benefits are available to you, check into those if you are not already covered by them. If you are covered under your spouse's plan, it will be necessary for you to find new coverage, or elect the COBRA option (required under federal law by employers who employ more than 20 workers). Once divorced you cannot remain on your spouse's plan, and even if you do for a while, perhaps thinking the insurance company will not notice, be aware that should you experience a significant medical event, the insurance company would not be required to pay if you were not entitled to spousal coverage. COBRA coverage is available for 36 months maximum, and at a cost of up to 102% of what the employer pays for that care. Often, individuals find COBRA insurance coverage to be expensive. You may want to consider an individual health policy if you are in good health. If you do not qualify, your only alternative may be to find an employer with a group health insurance plan which will cover you.

**8. Alimony or child support protection through life insurance:** Whatever alimony or child support award you receive, make sure to secure it through life insurance on your ex-spouse. Especially if those monthly awards are a primary source of income for your household, unexpected loss of the income may be financially devastating. This coverage must be put in place before the divorce is final, otherwise the insurance company will likely not allow you to apply as the owner. This is an important area to address in the divorce negotiations, as who will pay for it, how long the coverage must be kept, and how much coverage is needed may all have to be negotiated. If your spouse is uninsurable and there is no existing life insurance plan to provide this coverage, alternate arrangements may need to be made.

#### After the Divorce: Financial and estate cleanup

**9. Real estate title and debt refinancing:** If a marital home or other real estate property is to be retitled, be certain to complete this action in a timely manner. Until title is changed, that asset may be subject to your ex-spouse's creditors or other claims. If a decree orders a property to be quit claimed to one spouse, ensure that any mortgage note against it is also refinanced. Generally lenders will not retitle a note. From their perspective, they presently have two individuals who promise the note will get paid; retitling would cause them to only have one. Instead, you must determine if the lender will refinance the note to one individual. This most likely will involve new closing costs, and perhaps a new rate or monthly payment. Quit claim deed of a property without changing the note leaves the spouse who gives up the property responsible for the debt without owning the asset - a situation no one wants to be in.

**10. Retirement Accounts – complete QDRO's and Letters of Instruction:** As somewhat of an inverse of the point on real estate above, until a Qualified Domestic Relations Order (QDRO) or Letter of Instruction pertaining to a retirement account is complete, the recipient spouse has no real claims on the money. It is important to complete these items in a timely manner to avoid payout of the funds at the ex-spouse's death, disability, employment termination or retirement. If the employer pays out the

funds and the recipient spouse's claim isn't yet on file, the only way to get back the recipient's share is to go back to court. Since one never knows when one of these life events like termination or death might occur, it is important to complete them as quickly as possible.

**11. Update Beneficiary designations:** Once the divorce is over, make sure to check all retirement accounts, IRA's, insurance policies, and annuities to update beneficiary designations. Chances are you may not want to leave that money to your ex-spouse for their consumption. Yet, without updating the beneficiary designation, that's the exact right that they will have. Regardless of children or a new future spouse, whoever is named as your beneficiary is the individual who will get the funds, so be sure it is the person you want to have receive them. Generally courts cannot undo the "wrong" beneficiary receiving the assets, because the beneficiary designation is not a part of the probate process at death.

**12. Re-title joint assets and accounts such as credit cards, bank accounts, memberships:** Everything in life that you did together must come undone. Create the list of all joint items such as credit cards, bank accounts, gym memberships, etcetera, and either re-title those accounts to individual name or close the accounts. Some accounts may not allow for re-titling. The institution may tell you that you must reapply for a single account. This is especially true for any account where credit is involved. Banks and investment institutions will often require new paperwork and new account numbers for account changes so that there is a paper trail associated with the movement of assets. While these items may be tedious, they are important to the safety of your money and assets, which are not truly secure until they are in your name alone.

**13. Revisit your Will, Power of Attorney, or other estate planning:** After a divorce most estate planning work becomes invalidated since you likely no longer want to leave anything to your ex-spouse. State law may automatically disqualify the documents that name an ex-spouse simply because the documents name someone for entitlements they no longer have. Particularly if you have minor children, be sure to revisit your Will and elections for who will be appointed to care for your children and any financial assets on their behalf. Updating these documents will ensure that, in the event of your unexpected incapacity or death, your children and your assets are cared for by who you want in the manner that you want, preserving your wishes and legacy.

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