# When divorce happens

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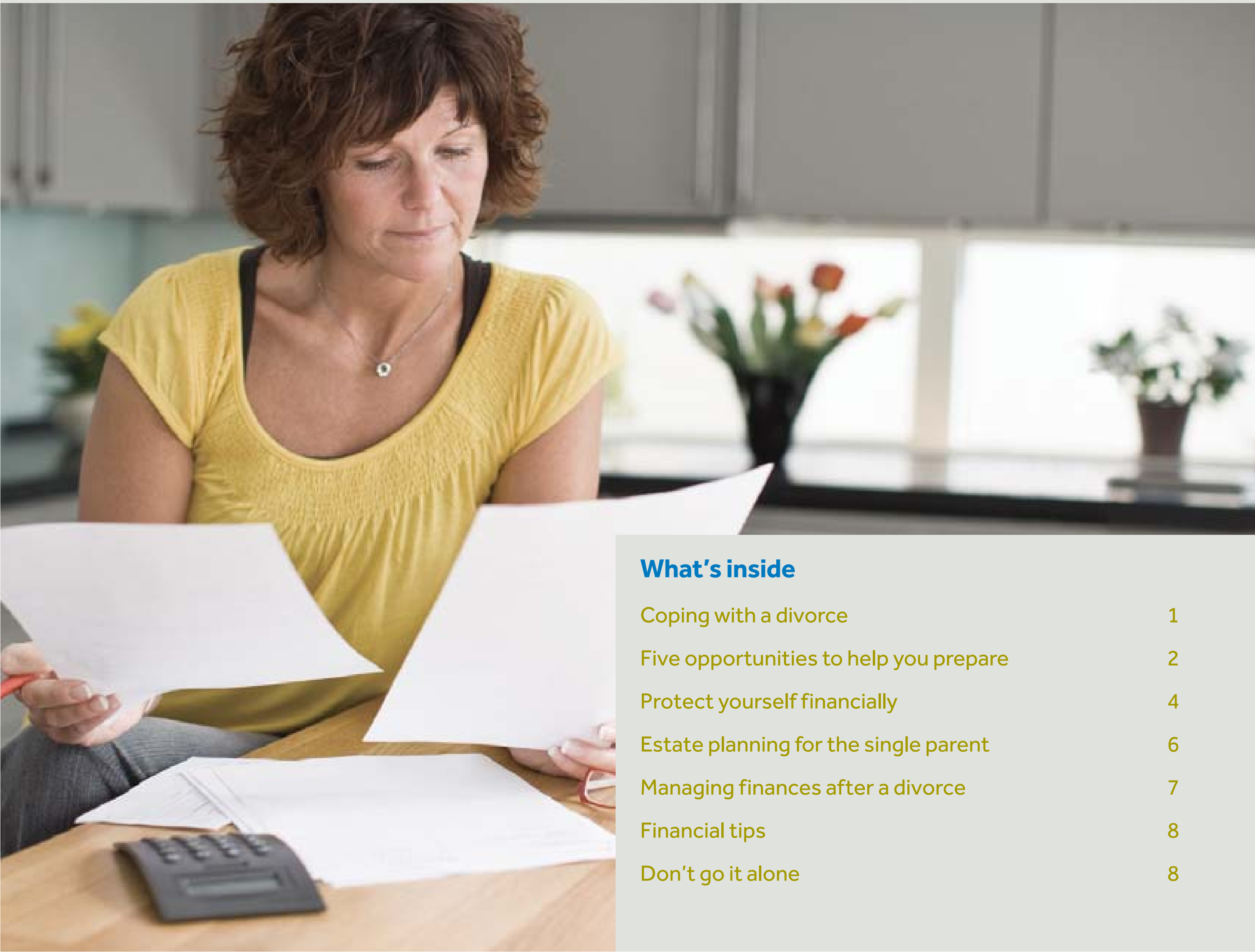
# It's not easy, but it will get better.

The breakdown of a marriage can be stressful, and it can challenge you on a very personal level. Whatever the situation, you can never be fully prepared to deal with the feelings of grief, anger, and sadness that follow. A divorce can disrupt your home and bring uncertainty to your financial future. Recovering from a divorce is difficult, but it's important to remind yourself that you can, and will, move on. This guide will provide some tips to help you manage the process and move ahead to a brighter financial future.



**What's inside**

# Coping with a divorce

Going through a separation can be difficult, no matter the reason, because it represents loss. Not just the loss of a relationship, but also the loss of shared dreams and commitments. The process can turn your world—and the world of everyone involved—upside down, but there are ways to help you chart a new course for your life.

### Understand that your feelings are normal

You may feel sad, angry, frustrated, or exhausted. Maybe, you are anxious about the future. Whether or not this is a new situation for you, these feelings may be intense. Accept that they are normal, and will lessen over time.

### Share your feelings

Isolating yourself may feel like the right thing to do, but this can raise your stress level even further. Seek the company of trusted friends and family and consider joining a support group to share your feelings with others in a similar situation.

### Take care of yourself

Be good to yourself emotionally and physically. Take time to exercise, eat well, and relax. Stick to your normal routine as best as you can and avoid rushing to make major changes to any life plans.

### Be flexible

If you have children, it's important to maintain family traditions. Instead of avoiding activities, take the opportunity to adjust them to fit your new life and fuel new family traditions.

### Think positive

Be patient with yourself. Moving forward with reasonable expectations will help to make your transition easier.

Avoid conflict, if you can. Legal fees are typically the biggest divorce-related cost. If your separation is not a civil process, there can be a lot of back-and-forth, at a significant cost. Try to see each other's points of view and arrive at an agreeable solution, as it will be in everyone's best interest in the long run.

## Helpful Hint...

It's generally a good idea to eliminate unnecessary financial ties sooner rather than later. Cancel joint accounts and, where possible, open individual ones.

# Five opportunities to help you prepare

While no divorce is easy, there are ways to help you during this process. Preparing for a divorce before it happens can reduce some of the stress that you'll likely face while it's happening. Planning ahead helps you get organized, make sound decisions, and start preparing for your life after a divorce.

### 1. Seek professional assistance

Divorce is a complicated process, so it's important to consult with an experienced professional. Consider the services of a mediator to help guide joint conversations, or an attorney that's right for your specific situation. Some attorneys only work with people who are initiating a divorce, and some only work with people on the receiving end.

Remember, whomever you select will be responsible for guiding you through a difficult time, so they should be trustworthy and make you feel comfortable.

### 2. Gather your important paperwork

The amount of information required for a divorce can seem overwhelming. Therefore, it's important to gather and organize your critical documents early in the process. Before you can divide your marital possessions, you'll need to establish your household's net worth. Compile a record of names, account numbers, addresses, and phone numbers for all of your assets and debts.

**Common financial documents to locate and copy:**

- Pay stubs, or anything that documents your income
- Bank accounts, including checking, savings, or money market accounts
- Loan documents, including both personal loans and mortgages
- Credit card statements
- Mutual fund and brokerage account statements
- Retirement plan statements, including employer-sponsored and individual plans
- Property titles
- Insurance policies
- Annuity contracts
- Tax returns

### 3. Create financial distance

It's generally a good idea to eliminate unnecessary financial ties sooner rather than later. For example, close joint accounts early in the process. Any outstanding joint debt will be divided as part of a divorce settlement, so you could find yourself responsible for an unexpected, large expense. Open separate checking accounts, cancel joint credit cards, and issue new ones in your name only.

### 4. Bring your taxes up-to-date

Make sure that your federal, state, and local taxes are paid. Unpaid taxes can become a hassle once the divorce is finalized, causing you to start your new life with a tax lien. If you suspect that previous taxes had not been properly reported, consider filing amended tax returns as "married filing separately."

### 5. Maintain or establish good credit

Divorce can impact your credit. While you're preparing for a divorce, it's a good idea to obtain a copy of your credit score. During the process, try not to build any additional debt and make an effort to pay down any existing debt. If you don't currently have a credit record of your own, apply for a credit card in your name only to help you establish one. Doing so while you're still married can help you qualify for major purchases—like a house or car—after you divorce.

Recovering from a divorce is difficult, but it's important to remind yourself that you can, and will, move on.

You may be considering a home as a marital asset to be divided. But, a home is not always the best asset to gain from a financial perspective. Houses come with a lot of fixed expenses, like mortgage balances, taxes, insurance, maintenance, and utilities.

# Protect yourself financially

When a couple decides to divorce, it's often for personal reasons. But, issues can quickly shift to money, resulting in fights—even in what may have started as a relatively amicable break-up. Divorce is expensive, but it doesn't have to jeopardize your financial future.

## Find a balance between liquid and illiquid assets

It's common in divorce settlements for one spouse to receive mostly illiquid assets— like a home or car—while the other receives mostly liquid assets— like retirement plans, brokerage accounts, and cash equivalents. However, it's important to balance the distribution of liquid and illiquid assets.

Before agreeing to a settlement, understand the financial impact of receiving mostly illiquid assets. Consider the following:

- Do you have a reliable, regular cash flow?
- Do you have enough cash for emergencies?
- Will you need to borrow money to make ends meet?
- Will you struggle while converting illiquid assets to cash?
- Will you be able to pay your bills and taxes?

## Document your cash flow

Before you agree to a settlement, make sure that you've developed your future budget. Consider the costs associated with housing, bills, insurance, child care, and taxes. A written budget can help you understand your current expenses and make informed decisions about what it will take to manage and maintain certain aspects of your new life.

In addition to your own source of income, alimony and child support may be available to help cover your expenses after your divorce.

Alimony is the legal requirement for one spouse to provide financial assistance to the other. There are a number of factors that determine the amount, but the most important ones are the length of the marriage and your comparable incomes. If your income is significantly below that of your former spouse, it is likely that you will receive alimony for whatever time period is determined by the court. Alimony is taxable to the spouse who receives it and tax deductible for the spouse who pays it.

Child support is the legal requirement to provide financial assistance for the care of your children. This is separate from alimony, and is often awarded to the parent with the greater portion of custody. Generally, child support payments are required until a child reaches the age of 18. Child support is not taxable to the spouse who receives it.

### Determine the value of your retirement accounts

Aside from a home, retirement accounts may be the largest asset divided in a divorce. Therefore, it is critical to understand their before- and after-tax values.

Avoid the tax penalties that come from withdrawing money from your retirement account. When possible, it is much better to divide retirement assets in a way that keeps the money in a tax-deferred retirement account.

Consult your accountant, tax attorney, or other financial professional for guidance before you make any decisions.

### Think about the after-tax value of assets

Taxes can be a very costly part of your settlement and can have a dramatic impact if not properly addressed. List any assets you are negotiating with your spouse, like your home, other real estate, or investments. For each asset, consider the real after-tax value if it was turned into cash before or after the divorce. Your accountant, tax attorney, or other financial professional can help you to look at your assets and outline options to achieve the best possible tax scenarios.

## Did you know...

A QDRO—Qualified Domestic Relations Order—transfers retirement assets to an ex-spouse after a divorce is final. While these types of transfers are not subject to early withdrawal penalties, it is essential that they are made directly from one account to another to avoid a 20% withholding tax on the amount transferred.

# Estate planning for the single parent

As a single parent, estate planning becomes even more important than when you were married. Your premature death could impact your children beyond emotional grief, especially if you don't have a legal and financial plan in place to protect them. To make sure that your family is taken care of the way that you would like, proper estate planning is critical.

### Update your will

A will is essential to help divide your assets as you wish. If you don't have a will in place, a court will decide how your assets will be divided. It's a good idea to review your will when major life events occur to make sure that it reflects what's most important to you.

### Decide who should care for your children

This is a task that should be done with great care. Select someone who is capable of such an undertaking and make sure they are comfortable with this responsibility. Are they in good health? Can they handle the time commitment? This is a legal duty, not a ceremonial one, like becoming a godparent. Once you've made your choice, work with your attorney to draft a guardianship document and make it part of your will. It's equally important to determine who you don't want to care for your children and communicate your reasons to your attorney.

### Fund your children's future needs

Your goal should be to provide for your children's stability without putting a financial strain on their guardian. Consider the cost of education, clothing, food, entertainment, and health care. Then, start a rainy day fund to help cover those costs. Once you have some money set aside, work with a financial professional to understand investment options that will help you meet your goals.

### Make trust arrangements

Especially if your children are minors, establish a trust and choose a trustee, so your assets are managed for the benefit of your children.

### Establish a plan

Leave written instructions about everything. How do you want your children raised? Do you have religious preferences? Are there specific college plans? Consider how you want your assets managed and used to protect your children. These instructions will serve as guidelines to help ensure your children are cared for according to your wishes. Work with your attorney to file these instructions with your will.

# Managing finances after a divorce

For many, managing money may be a new responsibility. Perhaps, one spouse always handled the financial aspects of the household, so establishing goals, creating budgets, balancing finances, and saving for retirement and a child's college education can be challenging. Like every new experience, there may be things you need to learn and become comfortable with. Don't be afraid to ask for help.

### Review and revise your goals

Write down and review your financial goals. What do you want your future to look like? You may need to revise your goals to fit your new life. This may mean cutting back on discretionary spending, reducing your debt, adding a few years to your retirement timeline, or establishing an investment strategy.

### Take control of your career

In most divorces, both spouses will need to have jobs once they are on their own. If you currently don't have a job, start looking for work now to minimize the time spent without income. A common trigger for bankruptcies after a divorce is the time it takes to find a job. Your former spouse may be willing to provide some financial support during this time, but that may not always be the case.

### Revise your will

Your relationships and responsibilities have changed, so it is important to review your will to be sure it reflects your new situation and that your assets will transfer to the people who are important to you now.

### Reduce debt and increase savings

Eliminating debt and building savings are vital to financial security. Take the steps to pay off debt and avoid incurring more. Also, try to allocate a percentage of your income as an investment in your future. It's also a good idea to create an emergency fund that can help pay for any unexpected expenses.

### Take charge of your retirement situation

Divorce can scramble your retirement nest egg and separate you from assets that may have taken years for you both to accumulate. If you hope to retire on schedule, you may need to increase the amount of money you put aside. If you are not already doing so, this may be a good time to maximize contributions to your employer-sponsored retirement plan or open your own IRA.

Check and update beneficiary designations for your retirement plans and life insurance. Your will cannot update any beneficiaries you may have listed on these accounts, so you may need to complete an official beneficiary designation change form.

## Financial tips

- **Develop and stick to a budget.** Learn to live within your means, balance your checkbook, cut costs, and pay your bills on time.
- **Take charge.** Acquire new financial knowledge and skills, educate yourself, and become familiar with the financial basics.
- **Avoid knee-jerk financial decisions.** Take the time to understand and evaluate your options.
- **Stay insured.** Keep health insurance in effect and maintain adequate amounts of life and disability insurance.

## Don't go it alone

During a divorce, choosing a qualified and compassionate family attorney can be one of the most comforting decisions you can make. In addition to legal advice and support, you may also need financial guidance. Seek the assistance of a financial professional to help you clarify your financial situation and outline your options as you start your new life.

## Additional resources

### Consumer Reporting Bureaus

Equifax
P.O. Box 740241
Atlanta, GA 30374-0241
800-525-6285
equifax.com

Experian
475 Anton Blvd.
Costa Mesa, CA 92626
888-EXPERIAN (397-3742)
experian.com

TransUnion
Fraud Victim Assistance Division
P.O. Box 6790
Fullerton, CA 92834-6790
800-680-7289
transunion.com

### Legal Help

The American Bar Association
800-285-2221
americanbar.org

### Mediators

American Arbitration Association
800-778-7879
adr.org

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