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FIFTEEN CRITICAL FINANCIAL MISTAKES IN DIVORCE©

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Taking Control vs. Losing Control

Sometimes one party starts planning a divorce long before they voice their intentions. If you have a marriage where you do not have full access to accounts and the family's financial information on a consistent basis, you may be at a financial disadvantage. If you suspect that your spouse is planning a divorce, ***make copies of all important financial records*** such as account statements (savings, investments, debts, properties, business, tax returns) ***and data that relates to your marital life style*** (checking accounts, charge card statements, memberships). If you believe that your spouse may liquidate or retitle marital assets, notify the account holder in writing and seek a legal remedy quickly.

Track cash in joint checking, brokerage accounts or cash value of life insurance. If assets are taken, legal and forensic accounting fees could become excessive. Get tax return copies here: http://www.irs.gov/Individuals/Get-Transcript. Get free credit reports here: https://www.annualcreditreport.com/index.action

Accepting an Asset in Trade that you do not Understand and Cannot Control

Employee stock options are a ***commonly misunderstood asset***. Do not accept these in trade if you are the non-employee spouse, or you do not understand them. If these are traded to the non-employee spouse, you must rely on your ex-spouse to notify you of value, important execution dates, tax impact, taxes paid, and transfer of proceeds.

Imagining a "TV" Version of a Courtroom Experience

In real courtrooms, little resembles the TV version. Courts are busy, underfunded, and crowded. Consider that except in extremely egregious cases, divorce settlements are determined by equitable distribution laws and courts ***will not*** punish your ex-spouse financially for being a bad person. High divorce costs mean less money for your future. Treat divorce as one of the most important financial transactions in a lifetime. If assets are moderate, joint custody is workable and your spouse is agreeable to a fair settlement, mediation or even ***kitchen table*** negotiations can save thousands of dollars in legal fees, emotional aggravation and provide more flexibility then the adversarial legal process.

Gross? Net? I.R.S. and Tax Must Be Considered

Working with a divorce financial planner to minimize the total taxes you and your ex will pay during separation and after divorce leaves more to split. We have new tax laws and there is impact on divorce negotiations. But the real issue is following the numbers to see what the financial impact is ***after*** taxes.

Need vs Ability to Pay

This is not the time to feign frugality to produce your initial budget for temporary maintenance (Pendente Lite). Showing correct and complete spending is critical to defending need. If you would be the person paying, it is important to understand your own expenses in addition to income sources.

Not all Dollars are Created Equal

A dollar traded from a 401k is not equal to an IRA or a dollar from home equity. There is plenty to examine – ability to get cash, avoiding penalties, cost of dividing an account (QDROs), and waiting time.

Failure to Use Computer Models to Evaluate Settlement Proposals

Your divorce financial planner will be agnostic as to what you agree to – their job is to show you the financial impact of what you're considering. You certainly want to know how you how you will pay your bills and on what financial foundation you'll go forward. There are many inter dependent factors you must consider including assets, incomes, budgets, maintenance and child support, taxes, retirement plans, investments and educational expenses. ***Specialized divorce computer models*** produce comprehensive and realistic analyses of your post-divorce lifestyle for both parties. Because this is done with documentation, it can be very compelling in negotiations, mediation, arbitration or if need be, court.

Emotions and Negotiations Do Not Mix

Your home, your money, the art you bought together on an anniversary trip, these assets can be emotional to discuss in divorce negotiations. The fact is ***many parties cannot afford the house*** and give a low priority to retirement planning. The carrying cost of a home is a major cash expense (mortgage payments, taxes, repairs, heat and electricity) where you are either mowing the lawn or paying someone else to do so. Before you insist on keeping the home, take a look at local rentals and do "house math".

Using Paid Professionals Unwisely

For the uninitiated, it is easy to run up high legal, financial and therapeutic bills in divorce. Custody arrangements are a primary source of endless back and forth between parties except they keep including professionals in every spat. Consider a tried and true negotiation tactic – put together your ideas in writing, have them reviewed by legal/financial, then ask the other party to agree or put a counter across the table. Do not use a lawyer as a therapist, a financial planner as a lawyer, etc.

Utilize the right qualified professionals for the work needed and save big money and heartache.

Beware of Settlement Offers That Look Too Good or That Take Away Future Options

Both spouses and children must make compromises in their life styles post divorce. A settlement that does not give one spouse enough money to live on is likely to go into default in the future. Be fair, but verify the numbers. Get payments up front whenever possible even if you get less in total. Secure all payments with assets and insurance. Did your divorce financial planner run a model ***with lump sum alimony or property settlement payments*** to avoid being financially tied to each other after settlement?

Consider the Long Term Impact of Inflation and Compound Interest

When inflation is present or rising, the effects on everything from groceries and gas to tuition and medical costs, can be dramatic. The ***rule of 72*** is a simple way to judge the impact of inflation. If the inflation rate is 3%, the rule of 72 shows that prices will double in 24 years (72/3=24). College costs at 5% inflation will double in 14.5 years (72/5=14.5). Compound interest (also time value of money) is not easily replaced – trading a savings bond for cash means you've just lost years of ***compound interest*** and if you intend to replace those bonds, you'll be doing it with future inflated dollars.

Not Understanding Social Security Options

If a couple is married for 10 years or longer, a spouse is entitled to receive half of the other spouse's social security at retirement. ***Her ex-husband's social security payments are unaffected***. Is your marriage 9 years old but not 10? Waiting just 6 months longer will increase a spouse's retirement options with no reduction in the other spouse's payments. Check www.ssa.gov for rules.

Forgetting to Update Estate Documents

There can be real fatigue after completing a divorce but there are important and time sensitive items to make sure get done. Many people ***forget to change the beneficiaries*** on their life insurance policies, IRA's or forget to update their Will and Advanced Medical Directive. The result is that their ex-spouse ends up inheriting their estate which they really wanted to leave to their children, new partner or favorite charity.

Failure to Adequately Insure the Divorce Settlement

Premature death or disability of your ex-spouse can result in loss of spousal support, child support, and college tuition or property settlement. Life and disability insurance can guarantee your payments and your family's security. Make sure your living expense projections include the cost of purchasing individual health insurance or a ***gap in insurance*** from post work to Medicare.

Failure to Develop a Post-Divorce Financial Plan

Basic math shows us that ***two households cost more to operate than one***, and income gets stretched between them. Creating a life you love is dependent on managing all resources well after divorce. Studies show that everyone dips financially for 2-5 years (sometimes permanently) afterwards and the difference whether it's a short or longer period is usually behavior based. ***Financial planning*** is essential for people to see how they can enjoy their wealth and pay for the things most important to them.

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Certified Divorce Financial Analyst™ (CDFA™)

The CDFA™ designation certifies that the recipient is trained to provide financial information and assistance to people going through a divorce. They evaluate the tax implications of dividing property and the financial impact of various settlement options for dividing marital property (including pensions) and child and spousal support payments. CDFA™ practitioners must pass a four-part Certification Examination that tests their understanding and knowledge of the financial aspects of divorce. In addition, the practitioner must demonstrate the practical application of this knowledge in the divorce process, they must have a minimum of two years' experience and agree to abide by a strict code of professional conduct.