

Financial Planning for Divorce: Making the Most of a Bad Situation



Their marriage may be over, but before parting ways, divorcing couples should take steps to ensure their finances do not meet a similar fate.



Health and Wellness

The decisions people make during the divorce process will have major and lifelong financial implications for each spouse and their children. It is vital that couples start thinking through those decisions early in the process, said Wendy W. Spencer, a Certified Divorce Financial Analyst (CDFA) and family law mediator who runs Spencer Capital Strategies in Arvada, Colo. Divorcing couples “need to get real about their financial situation, to think through the details and the what-ifs,” she explains.

With so much at stake, and given the complexities that come into play in many divorces, consulting a financial adviser who specializes in divorce issues can help avert some of the financial hardship and hard feelings that often accompany the dissolution of a marriage. To find one, search the Financial Planning Association’s national database at www.FPAnet.org/PlannerSearch/PlannerSearch.aspx. Additionally, you may want to have your financial planner who is an expert on divorce matters work collaboratively with your family law attorney and/or tax professionals. To learn more important steps to take during the divorce process visit www.FPAnet.org/LifeCrisis/GettingaDivorce/.

With or without a specialist’s help, here are a few of the planning steps that experts such as Spencer recommend divorcing couples take:

Develop a spending or cash-flow plan. Each spouse needs to establish a plan for handling their finances once the divorce is final with full appreciation of the “new normal”.

Compile a complete financial picture including all assets and liabilities on the couple’s balance sheet. Include real estate holdings, insurance policies, stock, bank accounts and retirement portfolios. When analyzing assets keep in mind some assets such as real estate have significant expenses and do not produce income. “This way you can make smart judgments about how to divide things,” said Spencer. “The court is going to require you to gather all your financial information anyway.”

Be flexible and ready to make financial trade-offs: Such as child support or spousal support, to dissolve the family business or keep it, and to keep or sell the house. Additionally, a couple must decide how to divide the debt burden. Handling of issues like these will have a major financial impact both short term and long term which is one more reason to enlist the help of a specialist.

Weigh the tax ramifications of divorce-related decisions. This is one area where a specialist can really help. From how spousal support and child support payments are treated to how retirement plans are divided and beyond, said Spencer, “the tax code is full of weird little nuances that create big problems if they are not handled the right way.”

Consider contingences. Plan thoroughly for the what-ifs: What if we cannot sell the house or refinance the mortgage? What if one of us loses our job or must file for bankruptcy? Be sure the divorce settlement agreement accounts for those kinds of uncertainties with “If...then...” steps.

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