Unbiased Financial Information Provided by Financial Wisdom.

Divorce and Money

Divorce is one of the most traumatic events that can occur in a person's life, usually only surpassed by the death of a spouse or the loss of a child. The emotional aspects are difficult to handle, and then there are the issues with children and the financial aspects.

The financial aspects that are ultimately finalized by a court ruling usually fall into three categories – alimony, child support and the division of assets. These are big issues and can be complex. The resolution will affect all parties for the rest of their lives, and the assistance of a qualified divorce attorney is essential.

The divorce rules and decision tendencies vary by state and constantly evolve as a result of legislation and changes in society. Generally, levels of child support have been increasing reflecting the rising costs of raising a child and the greater level of post high school education costs. On the other hand, levels of alimony have been decreasing reflecting the growth of two income families.

Here are some of the financial ideas and issues to keep in mind:

1. Financial and other assets. In all cases, you will need to identify the assets that each spouse owns and those owned jointly. Having three personal balance sheets (hers, his and theirs) will probably be necessary. Be sure to include all your financial accounts, cars, real estate, jewelry and household items. As you prepare these statements, you should try to identify the source of the item (purchase, gift or inheritance) and when you acquired it.

2. Financial income. You will need information on wages, investment income and other sources of income. Copies of the past several years' tax returns will come in handy. You should also get copies of credit reports for both spouses.

3. Division of property. Most states use a concept of equitable distribution. Assets that are acquired before marriage or that are inherited usually stay with the person bringing them to the marriage. Assets that are acquired while married are divided. The way those assets are divided is often the most contentious aspect of the divorce process. The courts usually take several factors into account – what was contributed to the purchase, length of marriage and other services provided by each spouse – when making decisions.

4. Responsibility for debts. Generally, you are responsible for your debts and your spouse is responsible for his or hers. However, most states equally divide debt incurred jointly during your marriage. The divorce decree will spell out the actual division of those debts. As a result there are several steps you should take:
    - Create a list of all your debts, including mortgages, auto loans, credit cards, loans from retirement plans, loans payable to relatives and all other loans.

- Build your own credit record while you are married by having credit in your name. While you may share debt on a mortgage, you should have your own credit card.
- Close joint bank and credit card accounts as soon as possible and open individual ones if you do not already have them.
- Pay off any credit card balances as soon as possible, preferably in advance of the final divorce.

5. Key financial documents. Locate and make copies of things like tax returns, insurance policies, retirement plan documents, wills, loan documents, employment contracts, business agreements and investment records.

6. Health insurance. If both spouses are covered under one spouse's plan provided by the employer, be sure that the final agreement spells out how continuation will be provided, if at all. The costs of health care are too high to not consider this issue.

7. Income taxes. Your filing status will change because you can no longer file a return using the "married, filing jointly" rates. If there are children, your divorce decree should identify which party will claim the children as dependents. In addition, if you have been filing jointly, any IRS claims can continue to be against both of you. If there are any outstanding issues with your past tax returns, you should get advice from a qualified tax professional.

8. Retirement plan. If an IRA or one spouse's retirement plan assets are transferred to the other spouse as part of the property division, you should consult with a tax professional to make sure the tax deferral remains in effect.

After the divorce is final, there are some actions you should take:
1. Assess your financial situation and determine what changes may be needed.
2. Make sure your credit cards, bank accounts and investment accounts are in your name only.
3. Check your credit report to make sure it reflects your new marital status and that it is accurate.
4. Change the beneficiary designations on any IRAs, retirement plans, life insurance policies and your will. If you do not have a will, now is a good time to get one.
5. Review your insurance coverage to make sure it is sufficient. It is also a good time to review your deductibles. Higher deductibles may reduce your premiums but subject you to more risk.
6. Review your new income tax situation and take prudent steps to keep your taxes low.
7. Review your investment accounts and strategy. As a single person, your goals and risk tolerance may be different and your investment strategy should reflect those.

Summary

A divorce and its consequences are never easy. Having an understanding of the financial aspects of divorce and your new status as a single person can reduce the stress and help you prepare for the future.