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If I could do it all over again...
Financial Lessons Learned from Divorce
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The uniqueness inherent in every divorce case is often overshadowed by the presence of common elements. The laws that govern the process are the same within a certain jurisdiction. A significant number of cases involve issues of child custody, splitting of assets, and income arrangements. Even the circumstances that led to the dissolution of the marriage tend to fall within a handful of “categories.” However, for those getting divorced, their case is the only case. The decisions that are made during the divorce process significantly impact their future. It has often been said that couples have one chance to do it right. And although there are special circumstances that allow revisions to the original agreement, these are rare.

Poor planning prior to divorce is one of the most common financial mistakes. Decisions that are made in a vengeful environment, or by spouses who fail to follow professional advice, could have devastating long-term ramifications. One of the most significant challenges during this legal, financial, and emotional process is remaining rational and practical. Rather than who gets what, the question should be, what makes the most sense?

Some of the most common financial blunders in divorce can be avoided with proper planning and a desire to make the best of what is. This approach, undoubtedly, requires the willingness to put aside negative emotions and focus on the task at hand. The legal, financial, and counseling professionals assisting during the divorce play an important role in facilitating a positive outcome. Their impact on the lives of their clients extends way beyond the term of the proceedings.

Fair but not Equal

When it comes to splitting assets most spouses want their fair share. In most cases, the husband wants the retirement assets while the wife wants the house. What many fail to recognize is that not all assets are equal. The tax implications* when selling certain assets can be significant. Other assets are real money pits. They could require a significant amount of funds to maintain. As expenses increase they are often not met by increasing income, causing a deterioration of the financial situation.

The Marital Home

Going from one household to two might require selling the family home and downsizing to a smaller one. The notion of “keeping up appearances” at the expense of a comfortable future must be carefully examined and the facts presented to the client. The presence of school-age

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children tends to exacerbate this issue. When the finances are limited, selling the house at the time of divorce could improve cash flow and free up dollars to be saved for the future. Ultimately, children tend to adjust to their new environment and the reduced financial stress in the household makes up for the inconvenience of moving.

The Nest Egg

When retirement assets are to be divided between husband and wife, and as long as they are subject to rules set under the Employee Retirement Income Security Act (ERISA), a qualified domestic-relations order (QDRO) is required. The plan sponsors will not divide the retirement accounts as indicated in the divorce decree unless the appropriate paperwork is provided. One of the most common mistakes regarding the splitting of qualified assets is in the failure to get the proper paperwork in place. This causes delays that might lead to unnecessary aggravation. When proper documents are filed, the receiving spouse can take his or her share of the assets and roll it into another tax-deferred account without incurring penalties or income taxes on these funds.

Protecting the Income Stream

Another common mistake that could result from lack of planning is not protecting the alimony and/or child support payments through the use of a life insurance policy. In the event that the paying spouse dies prematurely, these payments will stop unless provisions have been made. It is advisable that a life insurance policy be obtained on the paying spouse prior to the divorce. The owner of the policy should be the receiving spouse in order to protect from unwanted changes of ownership and/or beneficiaries of the policy. The amount of insurance must be calculated to provide for the scheduled alimony and child support payments as well as anticipated future expenses (e.g. college tuition.)

Lifestyle Decisions

Most people must reduce their standard of living following divorce. A detailed budget that is based on projected income and estimated expenses will facilitate adjusting to the new lifestyle. Special consideration must be given to protecting the family with adequate health insurance. In addition, if retirement dollars are not sufficient to ensure a comfortable retirement, a portion of the income must be saved for the future.

In summary...

while the emotional and financial costs of divorce are undisputed, they can be mitigated by proper wealth management. As professional advisors to our clients, we seek to empower them with the knowledge they need to make good decisions. We also add value to their lives by encouraging them to take the necessary steps that will reduce areas of vulnerability and increase their options and choices for the future.

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