7 STEPS TO *Financial Planning* For Divorcees

Upon getting married, no one imagines that they're going to end up divorced down the road. Still, the American Psychological Association estimates that between 40 to 50 percent of marriages in the U.S. end in divorce. As such, it never hurts to plan accordingly — especially when it comes to your finances.

Whether you're in the process of going through a divorce right now, are considering divorce, or are even thinking a divorce will never happen to you, it's a good idea to have a financial plan in place. This way, you can enjoy the peace of mind in knowing that you are well protected, and that your quality of life won't be threatened by a divorce.

Divorce is a very emotional event in anybody's life, so it is best to avoid making rash decisions and letting those emotions get the best of you.

Below, we outline **seven key steps to take** when creating a financial plan in the event of divorce, and show how you can reduce your risk for financial loss by considering your future needs.

400 North Ponce de Leon Boulevard
Saint Augustine, Florida 32084

Phone: (888) 876-7605
www.firstcoastadvisors.com

1. Gather Necessary Documentation

One of the first things you can do to save yourself from hassle and frustration down the road is to gather your financial documents and keep them in a safe place that your spouse (or ex-spouse) doesn't have access to. This could be a friend's house, a safety deposit box or anything in-between. Documents you'll need include bank statements, credit card statements and the like. You're going to need these documents for creating your financial plan, so obtain them as soon as possible.

2. Know Your Legal Rights

Many divorcees make the mistake of not fully understanding their legal rights throughout the process; especially how these rights pertain to marital assets, retirement plans, and what “appropriate compensation” means. Because each state's laws can vary greatly on these subjects, the process can be quite confusing. That's why it is so helpful to have a dedicated and experienced divorce attorney on your side throughout every step of the process—somebody who will be aware of your state laws and who will fight to protect your interests.

3. Assess Your Credit Report

Next, it's time to see where you stand in terms of your credit. After all, you're going to need it to be financially independent after your divorce. You can obtain a free copy of your credit report through any of the major reporting agencies once per year. We recommend requesting a copy from each of the three major credit reporting bureaus (Experian, Transunion, and Equifax). Be sure to

scrutinize each report, dispute any mistakes and keep a tab on any expenses your spouse may be charging to a joint credit card.

4. Open Accounts in Your Own Name

You don't need to wait until the divorce is finalized to start opening up new financial accounts in your name. This includes a checking account, savings account and credit cards. If possible, try to open up your new accounts at banks different from your previous joint accounts with your spouse.

Remember, even if you're not currently working, you can still claim your joint income when applying for a credit card in your own name. Just be sure that you're careful to avoid accumulating debt that you won't be able to pay off down the road.

5. Watch for Hidden Assets

You'll need to keep a watchful eye out for any hidden assets or unreported income that your spouse may not have told you about — even if you think your spouse could never be the type of person to withhold such information from you. Specifically, watch out for any property your spouse may have unloaded onto family or friends during the divorce, money kept hidden in safe deposit boxes, and under-reporting income or over-reporting expenses on a tax return.

It's especially important to be careful about this if you are planning on filing a joint tax return this year, as the IRS will hold you accountable for any dishonesty on your spouse's part.

6. Understand Your Cash Flow

It is very important to get an accurate understanding of what you can expect from your post-divorce cash flow. You'll need to figure how much money will be coming in versus what will be going out -- expenses versus income. By having a clear picture of what your cash flow will be following your divorce, you can get a better idea of not only how you'll need to budget your finances, but what your spousal support or alimony needs may be as well. After all, your financial situation is sure to change following your divorce; you may be going from a two-income lifestyle to just one. Even if you were the "bread winner" in the marriage, so to speak, you may now have child support and/or alimony payments to consider.

That leads into the final step: getting help with your financial planning.

7. Get a Financial Plan In Place

An experienced divorce attorney can help you through the legal process, but there are other professionals you should consider hiring to assist specifically with your finances. A financial planner can help put you on track to "start over" financially after your divorce.

When looking to hire a financial planner to assist with your divorce-related finances, be sure to schedule a consultation where you can get to know the financial planner and ask questions in order to find the individual that's right for your needs. You need a financial planner who understands the laws specific to your state, like equitable distribution.

Equitable Distribution

For instance, Florida has what's called an Equitable Distribution Law, which essentially treats marriages as both a social and economical partnership. Unless the asset was purchased by one spouse before the marriage, most assets (including property) will be divided up in a way that's considered equitable. In most cases, this means dividing things up equally.

However, note that not all assets and property fall under Equitable Distribution, as is the case with "separate property" (anything that was purchased by one spouse prior to the marriage or passed on as a gift or inheritance). Essentially all other property is considered marital, and is divided up either through an agreement by the divorcing spouses or with help from a mediator or judge.

Retirement Plans

Understanding how retirement plans are divided in a divorce is also important. In many cases, retirement funds will be divided 50/50, but there are other factors that can influence the distribution as well. These include:

- How long the marriage lasted
- Debts owed by each spouse
- Economic circumstances of each party
- Spousal contributions to the marriage

Ultimately, a Qualified Domestic Relations Order (QDRO) must also be filled out in order to ensure the agreed-upon retirement division is paid out.

Appropriate Compensation for Dependents

When tax season rolls around, it's not uncommon for divorced parents of a child to disagree about which parent should be entitled to any tax exemptions or credits related to having the child. In most cases, the best course of action is for each party to consult with a tax professional and determine which parent would enjoy the greatest financial advantage by claiming the child on the tax return. From there, appropriate compensation may also be decided, in which the tax benefits related to the child are split between both parents.

Life Insurance Policies

Understand that it can be wise to have a life insurance policy taken out on your ex-spouse, even after the divorce is settled. Why? Because, in the event that something happens to your spouse, a life insurance policy can help to ensure that you're still able to recover your full settlement. This can help to cover child support, alimony, and other payments that you're entitled to, according to the legal terms of your divorce.

If you had an existing life insurance policy on your spouse while you were married, simply speak with your insurance agent about revising the terms of your policy. Keep in mind, however, that you'll ultimately need to have your ex-spouse's permission to do this.

Continuing Income Based on Lifestyle

You'll also want to be aware of your state's specific laws regarding alimony or spousal maintenance; if you're eligible to receive this, it can be helpful in ensuring that you can continue to live the lifestyle you're used to - even after

the divorce. In Florida, when determining any applicable alimony payments, most judges will factor in the standard of living the couple established during the marriage. Whenever possible and reasonable, alimony payments awarded will be enough to ensure that both parties can continue with a similar quality of lifestyle as was enjoyed during the marriage. In situations where this isn't financially possible (and this is very common), then the judge will work to ensure that both parties share a similar financial burden. In some cases, temporary alimony may be granted during the divorce process.

Moving Forward: Next Steps

Not many people can say they came out of a divorce with no emotional or financial damage. But, if you can prepare yourself for divorce, by keeping personal information documents close, knowing your individual credit score, open bank accounts in your own name and have an understanding what your financial situation could be after divorcing, you may be one of the lucky ones to come out of this kind of messy situation ahead of the game and prepared for your future. A divorce doesn't have to stop you from living the life you want.

For more information about financial planning before, during or after a divorce, or to talk to a financial advisor, contact First Coast Wealth Advisors today.

400 North Ponce de Leon Boulevard
Saint Augustine, Florida 32084
Phone: (888) 876-7605
www.firstcoastadvisors.com