6 Steps to Protecting Your Wealth During Divorce

A divorce is one of the most difficult transitions you can go through. When you add uncertainty about money, that transition can get even more stressful. Here are six steps to help keep your finances intact during—and after—a divorce:

Step 1. Assess your finances and make a budget
As divorce proceedings get underway, take stock of your finances. Start by reviewing your income, retirement accounts, investment portfolio, and insurance policies. Next, make a budget that reflects your income and projected monthly expenses. Include both your personal debts and debts you share with your soon-to-be ex-spouse. Make sure to factor in expenses such as finding new housing or buying a car on a single income. Identify gaps in your budget where you come up short and see where you can make cuts to cover the difference.

Step 2. Target shared debts first
Debt on joint accounts can be problematic. Whatever your divorce agreement says, creditors will continue to consider both of you liable for the shared debt.[1] Keeping those accounts open may pose problems later if your former spouse falls behind on payments. Paying off those debts pre-divorce can help avoid those issues.

Step 3. Divide assets thoughtfully
You and your former spouse may agree about dividing shared assets equally. But if you're trying to protect your finances, there's more to consider than the relative size of each party's share—namely, tax implications and liquidity needs.

If the two of you will be in different income brackets post-divorce, consider the tax implications of holding on to various shared assets. For example, some retirement funds are after-tax accounts, meaning taxes were paid on contributions, and eligible withdrawals will be tax-free. Others are pre-tax accounts, meaning you will owe taxes on withdrawals. For assets that come

[1] Source: Consumer Financial Protection Bureau: https://www.consumerfinance.gov/ask-cfpb/i-am-divorced-and-getting-calls-about-a-debt-that-is-no-longer-my-responsibility-under-the-divorce-decree-or-property-settlement-agreement-can-a-debt-collector-try-to-collect-this-debt-from-me-en-1413/

with tax obligations, the higher-earning spouse will likely take the greater tax hit from keeping them. On the other hand, the lower-earning spouse may have a harder time paying the taxes. Weigh factors like these carefully.

You may also find that you and your ex have different liquidity needs. If you own a house together, for example, carefully consider liquidity when deciding whether either of you will keep it. If one of you needs access to the equity tied up in the house, it may make sense to sell it. Alternatively, you could decide one person will get the house while the other takes a larger share of liquid assets.

Step 4. Review your retirement goals
The costs and financial changes that come with divorce can set back your retirement plan. Check to see how the terms of your divorce may alter your path toward your retirement goals. For instance, you may find that pushing retirement back by a few years gives you more financial flexibility. Also, consider upping your contributions to retirement plans such as 401(k)s and IRAs. If you're age 50 or older, the IRS allows you to make additional "catch up" contributions to save even more toward retirement.[2]

Step 5. Revise your will and other documents
In general, a divorce won't automatically remove a former spouse as the primary beneficiary of your estate and other assets.[3] Designate new beneficiaries for your estate, life insurance, annuities, and retirement accounts. Depending on your state's laws, you may have to wait until the divorce is finalized to make these changes. You will also likely need to make changes to your health care proxy and financial power of attorney.

Step 6. Make a Plan B
If your divorce agreement states your former spouse must make alimony or child support payments to you, prepare for the possibility that they will fail to pay or pay late. Keep money in an emergency fund to cover expenses, such as childcare, in the event your ex-spouse fails to pay. Also, ask your lawyer about ways to guard against nonpayment in the divorce agreement.

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[2] Source: Internal Revenue Service: https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-catch-up-contributions
[3] Source: CNBC: https://www.cnbc.com/2018/04/16/out-of-date-beneficiary-designations-are-a-common-and-costly-mistake.html