Financial Planning After Divorce

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Divorce is a difficult process – even under the best of conditions. The most pressing issue is to complete the separation from the former spouse. Change passwords – everywhere. Don't leave financial, email or social media accounts open to abuse by someone who may be feeling aggrieved. The next step is to adjust the financial plans to reflect the new reality.

Risk Management

Start with immediate risks. Life insurance for one or both spouses is often negotiated as part of the divorce settlement. However, there may be needs beyond those provided by court order. In conjunction with the budgeting process, plan for the contingency that the opposing spouse dies or becomes disabled during the settlement period. If you are receiving alimony and/or child support, life and disability insurance are the primary vehicles to replace income when the paying spouse is unable. A custodial parent should also have insurance to protect the children.

Take advantage of COBRA programs for health insurance, if available, during the early period of divorce to prevent a lapse in coverage. Considerations for later in life include the prospect of planning for assisted living. Where couples once looked ahead to senior years with mutual aid, they should now consider long-term care insurance as a means for caring for themselves when the need arises.

Investments

One often overlooked result of divorce is the need for spouses to manage savings and investment accounts alone – often for the first time. It doesn't have to be complicated. Divide up assets into timeframes based on their purpose. Most people will want to invest as much of their available assets as is reasonable to maintain future spending value against the effects of inflation. Below are some tips for dealing with savings and investment accounts. Investment decisions should be made with assistance from a competent investment professional.

Short-term funds are for immediate needs. These are the emergency funds. They are not meant to grow, just be available. These funds should be invested in cash instruments that are easily liquidated when needed. For a head of household, the emergency funds should equal six to 12 months of expenses.

Intermediate assets are for pre-retirement needs … houses, cars, education, etc. Depending on the length of the investment time period, these assets should be invested conservatively to build wealth over time. The usual timeframe for these financial goals is five to 20 When a goal is closer than five years, the investment thesis changes to preservation to ensure availability when required.

Long-term assets are primarily for the sunset years in retirement. These should be the most aggressively invested of the assets, but not more aggressive than is comfortable for the individual investor. If you can't sleep at night over concern for your savings, you are invested wrong for your tolerance. Bear in mind that inflation won't stop eroding spending power in retirement – there will always need to be some growth component to these long-term assets.

Tax Planning

Tax filing status is determined as of the last day of the year so a divorce finalized Dec. 31 causes causes the spouses to be treated as divorced for the entire year. For most people, that can invalidate prior tax arrangements. Understanding the tax implications of initial preferences regarding child custody and property settlement may alter or influence these decisions.

Retirement Planning

Current law provides encouragement for the lower-earning spouse through Social Security. At the time your former spouse is entitled to receive Social Security benefits – if you had been married for 10 years before the divorce was final and you are 62 or older and not currently married – then you are eligible to collect a spousal benefit based on your former spouse's earnings. This does not affect the benefit available to the former spouse.

While going through the divorce process, consider hidden assets such as pensions in the settlement process. These are usually available as a rollover to individual retirement accounts or as a future lifetime benefit. Both are beneficial.

Estate Planning

The estate plan will also change significantly. Go through retirement accounts, insurance policies and other contracts with designated beneficiaries to update beneficiary lists, as able. Review the will and other estate documents to ensure the former spouse isn't still named as a personal representative, successor trustee, beneficiary or attorney-in-fact. Make sure you name people you can trust as attorneys-in-fact, health care surrogates, and trustees. Bear in mind that some states automatically invalidate existing wills when a divorce is final. If you die in this situation, your assets will pass in accordance with intestate provisions.

Consult Financial Professionals

No one person is an expert at every financial discipline. Divorcing spouses should consult with competent financial professionals for their tax, legal and financial planning needs. Every situation is unique and this article can only scratch the surface.

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