Divorce: A Guide to Keeping Your Money and Your Sanity

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Financial Reality of Divorce

To paraphrase Mary Kay Blakely's famous quote, divorce is the financial equivalent of a triple coronary bypass. In addition to the psychological stress and physical upheaval of separating a shared life into two independent ones, the question of money is present front and center in every divorce case. That makes for an explosive recipe indeed, and the financial consequences of divorce can be dire.

Consider these sobering statistics from recent studies and surveys.

1. A 2014 study by Securian Financial Group indicates that 51% of divorced individuals describe their post-divorce financial situation as being worse than when they were married[1].
2. A *Family in America* study observes that divorced individuals are more likely to file to bankruptcy than married couples[2].
3. The same *Family in America* study found that 1 in 5 women are pushed into poverty because of a divorce, 1 in 3 mothers within children at home will lose the family home as a result of a divorce, 3 out of 4 divorced mothers do not received full child support payment[2].

The financial hit of marital separation can be particularly hard on the couples who make the decision to part ways in their 50's or beyond. This phenomenon has grown over the last decades and even has its own name: "grey divorce". Research shows that late-life divorce effectively throws baby boomers back into the disadvantaged singles category, which causes their personal financial status to deteriorate at just the wrong time – around retirement.

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[1] Growing Apart: The Financial Impact of Divorce After a Long Marriage by Securian Financial Group, 2014
[2] Counting the Cost of Divorce by David G. Schramm, Ph.D. http://familyinamerica.org/journals/fall-2009/counting-cost-divorce-what-those-who-know-better-rarely-acknowledge/#.WJ3Vm_krI2x

> ***"Individuals who go through gray divorce are considerably economically disadvantaged, and they are a growing demographic group."***
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> - Marital Biography, Social Security and Poverty study, Bowling Green State University

Combine the technical complexity of dividing financial assets like pension plans and stock options with the fact that few couples going through divorce have the knowledge and the cool head to make good strategic decisions with money, and you begin to understand why bringing a financial professional into the divorce conversation is no longer just "optional". Our practice has seen dozens of clients go through divorce. In this newsletter, we share some common mistakes to help avoid and practical strategies that will help you emerge from the divorce process on solid financial ground.

"Looking Back at My Divorce, I Wish I Had Known…"

The very first problem that divorcing couples encounter is that there is no such thing as a "Get Ready for a Divorce" class. **Most people have little to no experience managing complex financial decisions. They become quickly overwhelmed by the volume, technical intricacy and far-reaching (often irreversible) consequences of the decisions they have to make.** Many learn about common pitfalls and mistakes from personal experience. While that is an effective path for learning a lesson that sticks, it is also financially taxing.

Engaging a qualified divorce attorney is an important first step in avoiding the most common mistakes. Many couples begin the divorce process with a faulty perception that their situation is straightforward and simple: nothing that cannot be resolved when two reasonable people sit down at a kitchen table with a calculator. Reality is often very different! An experienced attorney will help you understand your rights and responsibilities, advocate for your best interests, and help to create the foundation that will affect your financial stability for years to come. In choosing an attorney, the best place to begin is by getting recommendations. Public resources like the American Academy of Matrimonial Lawyers and Best Lawyer in America can also generate good options.

Our experience helping clients during and after the divorce indicates three common areas of financial regrets realized after the agreements have been signed.

1. "I wish I had better understood the impact of dividing up different types of assets?"

Going into the divorce, many people mistakenly believe that the family home is the couple's biggest asset. In reality, retirement assets (pension plan, 401k, IRA and other accounts) may well add up to a more significant value. If this asset is overlooked or not divided properly, a sizable opportunity for creating financial stability is missed.

A related issue that many divorcing couples often miss is making sure that the surviving spouse is entitled to a portion of the deceased spouse's retirement benefits. As a result, a sudden death can derail the surviving spouse's income stream.

1. "I wish I had insisted on a life insurance policy on my ex-spouse!"

Many divorce agreements include a provision for continued payments to one of the spouses – yet fail to consider what will happen to that income stream if the paying spouse were to pass on. A life insurance policy that pays a death benefit to the surviving spouse can assure financial stability, but divorcing couples often don't think about this contingency until it is too late.

2. "I wish I had understood what would happen to my income if and when I remarry!"

An income stream from a former spouse can come in a variety of forms: alimony, child support and retirement benefits. Rules and specifics vary by state, but in the event of a subsequent marriage, the supported ex-spouse can lose the alimony. Payment may also decrease if the supported ex-spouse is living with someone else, or has an increase in income from other sources.

The common thread through all of these regrets is clear: sound advice based on a holistic analysis of your financial circumstances can save you thousands of dollars and many unpleasant surprises down the line. Unfortunately, only 18% of Securian survey respondents worked with a financial planner before the divorce[3]. It is no wonder divorcing couples make mistakes and find themselves on shaky financial ground as soon as the agreement is signed!

Top 5 Money Mistakes Made During a Divorce

Too many people don't seek professional financial advice until the divorce is final. Clients who come to us in this situation are usually worried about their financial future. "Did I get enough?" and "What should I do with the assets?" are questions that we often hear in first meetings with recently divorced clients. While the real answer is complex and dependent upon many variables, there are 5 common money mistakes that we uncover in those post-divorce conversations.

Mistake # 1: Not enough focus on cash and liquidity

All too often, we see clients make property division choices that are driven by emotions. For example, one spouse may insist on keeping the family home, especially when there are minor children and the custodial parent wants to avoid uprooting them. In reality, if the spouse who remains in the can't maintain it, it won't serve the family's long-term interests.

This common mistake can be avoided by getting a financial professional involved early. Financial planners can help clients shape the divorce agreement by looking at each asset objectively and encouraging choices that best fit individual circumstances. In situations where the agreement is already finalized, a careful review by an experienced financial advisor can still add tremendous value.

Side note: *Cary Cheifetz, Esq., Ceconi & Cheifetz, LLC*

"The most common mistake I see is a single-minded focus on keeping the marital residence. Clients are emotionally attached to their homes and fail to recognize when those homes

[3] Growing Apart: The Financial Impact of Divorce After a Long Marriage by Securian Financial Group, 2014

become illiquid assets. For many of my clients, renting or downsizing their living spaces makes a lot of financial sense. It can free up their liquid assets to be available in the event of an emergency, or it can form a basis for a new nest egg to invest for retirement."

Mistake # 2: Under-estimating living expenses

An insight we often hear from financial planners is that most people are terrible at estimating their living expenses during a divorce. They tend to focus on expense categories that they are most worried about,for example, healthcare and prescription medication costs in case of a chronic health issue, while completely overlooking other expense categories, such as clothing, haircuts, etc.

Side note: *Karen Fine, CPA of Fine Accountess LLC*

"The most common mistake I see is "opinion shopping" from people who have no ability or knowledge to offer sound financial advice, but who satisfy an emotional need of the client. That could be a desire for familiarity, need for approval, or a drive to manage uncertainty by collecting as many opinions as possible. I have seen clients follow poor advice given out by the least reliable sources, in some cases even the ex-spouse, because they mistakenly believe he has always made perfect financial decisions!"

We recommend that our clients work with an experienced financial planner to identify all relevant categories of living expenses. An analysis of historical spending patterns is a great starting point. However, preparing an accurate expense projection is more involved than simply taking the family's historical expenses and cutting them in half! This is particularly true of children's expenses, which tend to shift with age.

Mistake # 3: Confusion around taxes

Every divorce decision must be made with tax consequences in mind. Because of the complexities of the tax code and the family's financial situation, this is often an impossible burden to place on someone who is not a tax specialist. For example, when dividing investments, one must be aware of cost basis because it will determine the capital gains upon the sale of those investments. Retirement assets such as IRAs, 401(k)s, and other qualified accounts are usually pre-tax, meaning that withdrawals from them are entirely taxable. When assets are divided up, it's important to understand how that tax liability will affect the spending power associated with the asset. Similarly, not every "tax-free" investment is a good choice for everyone.

The bottom line here is that divorcing or recently divorced couples need to get professional advice from a specialist. That is the only way to help them make decisions grounded in fact, not guesses and hopes.

Side note: *Robert Rosen of Rosen Law Firm*

"The most common mistake I see people make is failing to treat a divorce case like a business decision. It is after all the biggest financial decision of a person's life."

Mistake # 4: Making poor lifestyle decisions

Divorce is an emotional roller-coaster that does not end when the papers are signed. In working with divorced individuals, we often witness an impulse to make lifestyle choices that can compromise their financial security for years to come. Some buy a brand new BMW because they feel they deserve it after a messy court fight. Others opt into lavish vacations and luxury purchases out of the desire to maintain or enhance the pre-divorce lifestyle. It's important to be realistic about resources and expenses, and to plan for long-term financial wellbeing.

Side note: *Garrett Hurley of BRIX Wealth Management*

"In my experience, many of the poor lifestyle choices made after the divorce come from not having a sound financial plan that resonates with personal goals and values. As individuals recover from the emotional hurt of the separation, it is critical that they begin to map out their path to financial stability. Our clients have found that by establishing clear goals and objectives, they are able to make good strategic decisions."

Mistake # 5: Making hasty decisions with long-term financial consequences

From buying unnecessary insurance policies to rushing into a home refinancing without adequate due diligence, divorced individuals can cave under the perceived pressure that they must make a decision right now. In reality, there is only a handful of decisions that have true urgency. It is often best to defer all other big decisions until the major stresses of the divorce process have eased and the family has had some time to adjust to their new financial reality.

Side note: *Ernest Rosen of BRIX Wealth Management*

"We often recommend that our clients use something we call the "18-month decision lockbox". We encourage them to defer major decisions such as moving, launching a new career, starting a business, or taking an early retirement until they can be confident that their ultimate choice is determined by logic and facts, not raw emotions. Here is my rule of thumb: if you can afford to, delay any decisions that are irreversible or reversible only at a great cost to you."

Having seen these mistakes and more, we can assure our clients that many financial missteps in a divorce situation can be avoided when they work with a trusted and experienced financial planner.

Choosing the right financial planner for you: best practices

All too often, the choice of financial planner is a matter of luck. We see divorced individuals hire an advisor who just happens to be in the right place at the right time. People spend more time choosing their next car or planning their next vacation than researching financial planners! That is an alarming trend, because thoughtful analysis-based financial advice given at the vulnerable time of divorce has the potential to create a solid foundation for your financial well-being. Granted, day-dreaming about sandy beaches and Corvettes is more fun than interviewing financial planners, but your financial future deserves an investment of time and attention.

Side note: *Karen Fine, CPA of Fine Accountess LLC*

"I have found that people are not themselves for about 18 months during and after a divorce. People often delay the step of hiring the financial professional, thinking that they are saving money in the process. In reality, they may be eliminating their own options by waiting too long. The delay can result in a worse financial outcome that was entirely avoidable."

Let's start with some facts: there are over 300,000 financial advisors in the United States[4]. FINRA, the regulatory body that's responsible for brokers and brokerage firms, reports 635,000 brokers in the most recent count[5]. Even if you narrow that list down to your geographical area, a Google search will likely bring up dozens of names with a variety of credentials. How do you choose the right one?

While there is no one advisor that is right for everyone, we can offer you a blueprint for thinking through your decision. By following these steps, you can be sure to ask the important questions, weigh the factors that matter most for your circumstances, and hire the professional who will support you as you find solid ground after your divorce.

Step 1: Understand the difference between different types of financial advice.

"Suitability means selling a suit that fits you. Fiduciary duty means it actually has to look good on you, too." –Michael Kitces

Financial professionals follow different standards of care. For example, when acting as a broker, the professional is required to follow a *suitability standard* and only recommend a product if it suits your financial needs given your current goals, age and income level.

In other situations, such as acting as an investment adviser representative providing financial planning services, a professional is held to a *fiduciary standard of care*, also known as "the client's best interest" when providing the financial plan. In this case, the advisor has a greater responsibility to the client, and that responsibility includes disclosing any possible conflicts of interest.

A professional may also be held to different standards at different times, depending on what role he or she is playing.

The distinction matters. It's important to understand what standard of care your advisor is required to adhere to, and take that into account in your decision making process.

Step 2: Consider payment terms and professional licenses.

A *broker* is usually paid a commission, which is a percentage of the amount you have invested in the recommended product. An *advisor* typically receives a fee that is calculated as a percentage of assets he is managing on your behalf. Then there are fee-based *financial planners* who will analyze your financial circumstances and create a financial plan to address your goals. The fee could be fixed, flat, or hourly.

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[4] Cerulli Associates http://www.thinkadvisor.com/2015/11/23/us-advisor-population-grows-but-succession-cliff-l

[5] FINRA statistics http://www.finra.org/newsroom/statistics

The best choice for you will depend on your circumstances, but you must begin with understanding how the professional you are interviewing will be paid. If there are commissions of any kind to the professional or a related party, you must be made aware of that.

Side note: *Cary Cheifetz, Esq., Ceconi & Cheifetz, LLC*

"I encourage clients who have been through a divorce or another stressful life transition to choose the financial planner who is a good fit for their situation. That means a combination of the planner's knowledge, track record and level of service."

Another thought is that planners with specialized divorce designations or considerable experience in the area of divorce can save you time and money. The alphabet soup of certifications after an advisor's or a planner's last name can be long and complex. Be sure to ask about those designations and focus on the ones that matter most to you.

Step 3: Remember that a holistic and goals-based approach is best.

The best financial decisions are made with the complete strategic context of your life in mind. This is particularly critical for individuals who have gone through a difficult transition like a divorce or a death of a spouse. All too often, those who have just been through a personal loss are inundated by calls and visits from pushy salespeople looking to sell them a product and get a commission. The short-term of the decision does not serve a desire for long-term financial stability.

In our experience, the only way to be sure you make decisions that will support your financial security and life goals is to begin with your goals in mind. If a financial professional is more interested in selling you a proprietary product than in understanding the totality of your life goals, lifestyle choices and financial resources, look elsewhere.

Side note: *Ernest Rosen of BRIX Wealth Management*

"We have recently introduced a **Vision Blueprint** process for our clients undergoing a life transition. The idea is borrowed from our work with executives and business owners. The **Vision Blueprint** is a step-by-step process that helps clients establish their lifestyle and financial goals over a rolling timeframe. Our clients have found that the process assists them in clearly framing what's most important to them, and explains how their financial choices can boost or hinder their progress towards goals."

Your Next Steps to Keep Your Money And Your Sanity After a Divorce

A divorce is an emotional and financial roller coaster that clearly divides your life into the phases "before" and "after" the event. This can be a terrifying time as many of our clients are deeply stressed about what will happen to their assets and financial stability. In order to emerge from the process on solid financial ground, you must begin by educating yourself on the risks and opportunities of divorce. Learn more about the financial and emotional aspects of this difficult life transition by working with a team of professionals who will support you as you move into the next phase of your life.

Side note: *Garrett Hurley of BRIX Wealth Management*

“Making any financial decisions without the in-depth planning process is like sailing across the world without a map. The time and effort spent building a foundation and crafting a roadmap ensures that our clients are moving towards the goals and objectives that matter most to them. They also provide a benchmark for making future financial decisions in integrity and alignment with their plan.”

The best way to accomplish that is by hiring a financial planner and co-creating a comprehensive financial plan that will address your resources and needs in a disciplined and systematic manner.

If you are going through a divorce or have recently lost a spouse, we encourage you to call a specialist with deep expertise in creating financial clarity and helping clients find solid financial ground. At BRIX Wealth Management, our team will guide you through a simple planning process to help you make good strategic decisions with money, even after a messy and emotionally difficult divorce. Call us at (212)578-2048 or email us to xxx@brixwealth.com to get started.

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