Managing the Financial Implications of Divorce

With the ever-changing landscape of taxes, it is growing increasingly difficult to understand how legislation affects clients and could possibly impact their financial future. As a leader in the financial services industry for the past 30 years, we get it. That's why HD Vest Financial Services® is constantly seeking ways to share the latest knowledge we acquire with you. We've created the Taxes & Investments: Timely and Timeless Strategies Series to share timely information and provide our Advisors and their clients with practical information and ideas they can build on.

Divorce is a very difficult and emotional time in an individual's life. Each year, 3.4% of married Americans experience a divorce[1] and it takes a toll on everyone involved, both emotionally and financially. Even when both parties intend for an amicable split, it is important to make sure they are doing everything they can to protect their own financial future.

Untangling a lifetime's worth of financial decisions takes time and a game plan. There are a few things an individual can do to prepare for an impending divorce:

1. **Know State Divorce Laws —** Education of state divorce laws is a critical step in the divorce process. Not all states treat property ownership or liability ownership the same during marriage and divorce. Consult with a trusted attorney to review applicable state laws.

2. **Run a Credit Report —** Running a credit report is a great place to start when working through the financial aspects of a divorce. This will let an individual know what debts may be outstanding in their name that they may not be aware of. Checking one's credit report before a divorce will identify if one spouse has affected the other's personal credit profile. Responsibility for any joint accounts must be established and resolved as part of the divorce settlement.

3. **Inventory Household Items and Family Possessions —** Tally all financial assets so that individuals know where they are and what they're really worth. Because both spouses will need to list all of their assets, forgotten pensions or stock-trading accounts that spouses may never have mentioned also need to be disclosed before the negotiations begin. Also, if the couple has been married for 10 years, one spouse may be able to apply for Social Security benefits based on their ex-spouse's income.

   Gather the most current financial statements for all accounts including all debts. Examples of assets include: checking/savings accounts, brokerage accounts, pensions, Social Security statements, retirement accounts (both individual and work), businesses ownership percentage, land ownership percentage, annual income, life insurance cash values, annuities, car payments, mortgage, credit cards, etc. Also make a list of all family assets and possessions, i.e. jewelry, cars, art, furs, etc.

4. **Have Assets Appraised —** It is important to have assets appraised, especially joint assets. This will help simplify the process of splitting assets between both parties. It will also put a monetary value on assets that might have more sentimental value to one party than the other.

5. **Open Accounts in an Individual Name —** If an individual does not have an account set up in only their name, they should consider setting one up. Accounts to have in a single name: a checking account, a savings account, a brokerage account (if applicable), and a credit card.

6. **Create a Pre- and Post-Divorce Budget —** Work with a trusted financial professional to create a pre- and post-divorce budget. The last thing an individual needs during the process of divorce is a financial surprise. Make sure to include such items as childcare, housing, utilities, car payments, etc. Some of these expenses will change during a separation or after the divorce is finalized. For example, health insurance may be a new line item in a budget if an individual is covered by their spouse's work plan.

Once the divorce has been finalized, there are several things to do to make sure your financial house is in order.

1. **Run Another Credit Report —** Once the divorce is finalized it is important to run another credit report. It often takes time for the credit bureaus to update the information they have on file. It may be necessary to send them additional information to expedite the process.

2. **Review Beneficiaries —** Reviewing listed beneficiaries is critical post-divorce. Many people list their spouse as their primary beneficiary, and this could be a problem once a divorce is finalized. Typically it is not the intent of the owner to leave assets to an ex-spouse, but it happens every day. Unless the divorce settlement specifies who the beneficiary of the accounts must be, make sure to review/change the beneficiary on life insurance policies, retirement plans, IRAs, transfer on death accounts, annuities, and any other account with a listed beneficiary.

3. **Review Wills and Trusts —** After a major life event like a divorce it is important to review any drafted wills or trusts. Once a divorce is finalized, unless something is specified in the divorce decree, most people wish to remove their ex-spouse from all aspects of their wills and their trusts. A review of the trustees of an established trust should also be completed as it may be uncomfortable to have ex-in-laws listed in trusts, or as the listed care provider for any young children should the parent pass away.

4. **Establish a Trust for Young Children —** If there is no established trust pre-divorce, it is advisable to establish one post trust for any minor children and list the new trust as beneficiary to all financial accounts. In many cases children are the new beneficiaries of a divorced parent's assets. Because minors cannot control their own assets, it is prudent to list a trustee that can manage their inherited funds until they come of age. If a trust is not created and a trustee is not listed, it is possible that an ex-spouse may be put in charge of the minor's assets. As always, consult your trusted attorney and financial advisor for the best strategy for you.

5. **Review Budget —** Once the divorce is finalized, it is a good idea to review any budget that was created pre-divorce. Because expenses may change and individuals have a relatively certain idea of cash flow after divorce, it is a good idea to make sure a budget is updated with current numbers and still works for any established needs.

Divorce is never an easy thing to go through in life. Every divorce is a unique situation with unique needs and the suggestions above are not all encompassing. With the help of a trusted HD Vest Advisor, individuals can make smart decisions about their assets and create a plan for the future.

[1]Center for Disease Control, National Survey of Family Growth