

## Your Divorce Matters

### How you can improve the financial results of your settlement

Divorcing individuals spend thousands of dollars each year in legal fees while negotiating their divorce agreement. Many times, the end result is that one or the other spouse is left impoverished or at least not able to maintain the same standard of living they had prior to the divorce. According to Divorce Magazine, in the year 2000, 45% of divorced women reported a drop in their standard of living.

You can improve the chances of starting your new life on sound financial footing if you look beyond the settlement and analyze the impact your decisions will have on your finances in the short and long-term future. For example, the decision of who will own and occupy the family home certainly has an emotional impact, especially where you have children in school. But what if the spouse who takes possession cannot afford the house, *as a home*? Beyond the mortgage, there are many expenses including utilities, gardening, repairs, association fees, and general maintenance. Maybe the house could be held jointly for a number of years and sold once the children have moved beyond the divorce process themselves. What is the income tax effect of the decision? How will the ownership affect the occupying spouse's ability to fulfill other family needs such as automobile expenses, food, healthcare co-pays, school expenses, etc.? There may be other alternatives that could help both spouses financially and at the same time, keep the children "on solid ground." The long-term financial results of these transactions need to be analyzed and compared during the divorce process.

In the situation where one spouse has worked at home while the other started and maintained a career, there are "career assets" that can be the most significant assets of the marriage. In addition to salary, there can be a substantial pension or retirement plan. What about stock options, bonuses, and health, life, and disability insurance? Each of these can have a profound impact on how the marital property should be divided and the amount of maintenance (alimony) that is *needed* by the work-at-home spouse.

The table below shows some of the major financial aspects of a divorce settlement and the factors to consider when making your decisions:

	Inflation	Investment Rate of Return	Income Taxes	Special Legal	Cash Flow
<b>Alimony</b>	✓		✓		
<b>Child Support</b>			✓	✓	
<b>Pensions</b>	✓	✓	✓	✓	✓
<b>IRAs</b>	✓	✓	✓		✓
<b>Sale of Residence</b>	✓		✓	✓	
<b>Asset Division</b>		✓	✓		✓

**Inflation**-Expenses will not remain the same over the next 5 to 10 year time period. It is important that the income you receive matches at least the rate of inflation.

**Investment Rate of Return**-Assets will grow at different rates of return and have higher or lower financial risk. How much return do you need? How much risk can you take?

**Income Taxes**-Virtually all the financial choices you will make will be affected by income taxes. Can you withdraw the money from a retirement plan without penalty? If the house is sold, will you have to pay income taxes? Will the monthly income you receive be taxable?

**Special Legal**-Once the Divorce Agreement is finalized, there is sometimes additional paperwork that has to be completed before you can take possession of the asset.

**Cash Flow**-Employers may not be able to distribute pensions in a lump sum. IRAs cannot be withdrawn without penalty (under most conditions) prior to age 59½. This is important to know prior to the final settlement, especially if you need the cash to maintain your standard of living.

In many circumstances, there are crucial steps that *must* be taken in anticipation of a settlement. An example of this is where your spouse will be responsible for paying child support and alimony. Instead of waiting for the final settlement, you should protect this anticipated stream of income by taking out a life insurance policy on your spouse so that you and your family will be protected. You should be the owner and beneficiary of the policy.

Divorce can be emotionally and financially devastating. You can reduce some of the stress associated with the process by gaining an understanding of the financial issues of your divorce, and asking advisors to provide a detailed analysis of financial result of your settlement.