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For Your Life

When Divorce Happens

New York Life
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What’s inside

When Divorce Happens

Divorce can impact your life immensely. No one can ever be fully prepared to deal with the feelings of grief, anger, and sadness that follow—and few are prepared to face life alone once again. If you have children, the situation gets even more complicated and you may have to consider the prospect of them being brought up in a single-parent household.

The realization of being single again can be emotionally draining. The last thing you want to do is think about your finances, but it's an important issue that you can't afford to overlook. Money often becomes a point of contention in the battle between you and your spouse, and your own financial situation can be thrown into disarray.

We have provided information that can help you with concerns you may face after your divorce.

Managing a Divorce

More than a million times each year in this country, couples call it quits.[1] The price can be high. Emotionally, divorce turns lives topsy turvy, as the lives of everyone involved—wife, husband, children, other family members, even friends—can change dramatically. Even in the most amicable of break-ups, it is not uncommon for the wounds to take years to heal.

On top of the emotional distress that can accompany the end of a marriage, finances are often disrupted. If you have just gone through a divorce, there are some important issues you need to address. Unfortunately, it is not uncommon for at least one ex-spouse to delay or ignore taking action, either because of the emotional pain involved or possibly the desire to retain some tie with his or her ex-spouse.

To protect yourself and begin building financial security for the future, you should do the following:

- **Revise your will.** Relationships and responsibilities have changed. Your will usually determines how your estate is to be distributed at your death. Review it immediately to make sure it reflects your new situation and objectives so that, in the event of your death, your assets can go to the people you designate. Talk to your attorney about your options.

1. National Vital Statistics, August 2010.

- **Sever all unnecessary financial ties with your ex-spouse.** Your divorce decree may mandate child support, alimony, or life insurance on one of your lives for the benefit of the other, or for your children. Other than these requirements, it is generally a good idea to disentangle yourself financially to reduce your liability. Start by contacting lenders and making sure all joint credit cards have been canceled and new ones have been issued in your name only. Otherwise, in many states, your liability for your ex-spouse's bills will continue.
- **Update your retirement plan beneficiary designations.** As with life insurance, survivor benefits will be paid to the person you named in your retirement plans. Even if you obtain title to the funds as part of the divorce, this does not automatically change the beneficiary. Since the beneficiary is almost always a spouse, review your named plan beneficiary to make sure it reflects the changes in your life. Talk to your financial professional for help, or contact your retirement plan administrators directly.
- **Review your overall retirement situation.** Divorce can scramble your retirement nest egg, separating you from assets that may have taken years to accumulate. If you hope to retire on schedule, you may want to start "power saving," or accelerating the amount of income you put aside. If you are not already doing so, this may also be a good time to start making maximum contributions to your employer-sponsored 401(k) plan and your own IRA. You may want to consider supplementing these with annuities.
- **Review your life insurance.** Ownership (if not addressed as part of the divorce) and beneficiary designations should be carefully reviewed on any existing coverage. Beneficiaries cannot be changed by your will, so you should complete a change-of-beneficiary form with the insurance company. It is common for people to neglect this task; then, decades later, the "wrong" spouse receives life insurance proceeds at the insured's death. That's why it's better to address the issue now.

Divorce creates new relationships and new responsibilities, as well as uncertainties for the future. Taking the above steps will help reduce some of that uncertainty, at least in your financial life.

Finances of Divorce

Case-in-point: During their 18 years of marriage, Susie and Bruce had built a comfortable, stable life. Through hard work, they had achieved the "American Dream:" a four-bedroom home in a suburban community with safe, quality schools and a growing nest egg that included a college fund for the children and enough discretionary cash left over to vacation several times a year.

Then they divorced. By the time the dust settled after two years of legal struggles, the house was gone, as were most other assets. Bruce lived in a busy apartment complex, with noisy neighbors; Susie, at age 40, declared bankruptcy and moved back in with her mother. Their two teenage daughters drift restlessly between their parents' homes and the homes of friends, having abandoned earlier plans for college.

As this example shows, divorce can be a financial disaster. When a couple decides to divorce, it is often for personal reasons, but the issues can quickly shift to money, resulting in fights even in so-called amicable break-ups. Divorce is expensive, as many of the more than one million couples who divorce each year will tell you.

It need not be that way. Few people will ever find the divorce process fun. Nonetheless, it need not turn your life into a financial wasteland.

High-conflict divorces, in which large assets are involved, can push the price through the roof, says Laura Johnson, family law consultant and author of *Divorce Strategy: Tactics for a Civil Financial Divorce* (Broken Heart Publishing, 1998). According to Johnson, the final price tag can come to more than $200,000. Worse, the conflict can go on for years. Ms. Johnson's book provides more information on stemming the cost of divorce.[2]

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2. The viewpoints and opinions expressed in this book are solely those of the author, and may not necessarily be endorsed by MainStay Investments, or its affiliates.

Identify Hidden Assets

Make sure you get what you're entitled to. Make an inventory of all marital assets. To help list the assets, look at the following resources:

- **Tax returns**—go back at least five years, look for inconsistencies in income, trusts, partnerships, and real estate holdings.
- **Checking accounts**—review statements and cancelled checks for the past few years and look for purchases of investments or property.
- **Savings accounts**—can reveal unusual deposits or withdrawals used to purchase assets that may have been kept hidden.
- **Brokerage statements**—make sure all investments and proceeds from investments are accounted for.

Find a Balance Between Liquid and Illiquid Assets

Always seek to balance liquid and illiquid assets in a divorce settlement (liquidity is the ability to convert an asset to cash quickly). Many times in divorce settlements, one party may receive mostly illiquid assets (home, car, etc.) while the other party may receive a bulk of the settlement in liquid assets (e.g., retirement plans, brokerage accounts, and cash equivalents).

Consider the impact of receiving mostly illiquid assets:

- How will you pay your bills/taxes?
- What type of cash flow can you rely on?
- How long will it take you to convert illiquid assets into cash?
- Do you have enough cash for emergencies?
- Will you need to borrow money to make ends meet?

Develop a Budget

Before you agree to a settlement, make sure you have calculated your future budget, including housing, expenses, insurance, taxes, child care and regular bills. A budget can help establish a solid case for requesting more alimony or child care payments.

Don’t Overlook Debt and Credit Rating Issues

Creditors want to be paid back. Each person listed on a credit card account is still responsible to pay the debt back even though there may be an agreement that the debt be paid off by one spouse. Make it a priority to pay off all joint accounts first and then establish your own credit by opening new accounts in your name. Get copies (at least annually) of your credit report and watch it carefully. Be sure to pay off balances as quickly as possible. Building a good credit rating will help ensure a stronger financial foundation for the years ahead.

Consider the Impact of Taxes

Taxes can often be a very costly part of your settlement and can have a dramatic effect if not addressed adequately. Seek out professional help to address any tax issues associated with capital gains on investments, real estate, or other property or income taxes on alimony payments.

Understand Retirement Plan Rules for Qualified Domestic Relations Orders (QDROs)

Inevitably, the issue of retirement plan assets will come up. Knowing the IRS rules before you settle these assets can help you avoid costly penalties. For example, a QDRO transfers retirement assets to an ex-spouse after a divorce is final. These types of transfers are not subject to early withdrawal penalties; however, transfers must be made directly from one account to the other to avoid a 20% withholding tax on the amount transferred. Once assets have been transferred to a new account, the same IRS rules and penalties will apply to the new account.

Estate Planning for the Single Parent

The single-parent family is a fact of life today. According to 2009 figures provided by the U.S. Census Bureau, of the 74.5 million children under age 18 in the United States, 29.1% (21.7 million) live with one parent.

These single-parent households are economically unique, especially when it comes to protecting dependents from financial uncertainties. That is because, unless there is an absent parent providing support, economic security hinges on the custodial parent's income. This creates an at-risk situation. The reason: the death of the custodial parent will almost certainly lead to the end of the existing family unit.

If you are a single parent, your premature death could have consequences for your children in several ways beyond the emotional loss of a parent. An untrustworthy third party could administer their inheritance if they are minors. Your assets could be put in trust and managed by a court-appointed administrator whose fees would be taken from your estate. Other family members could become entangled in court battles over custody, guardianship, and financial control.

To protect your children, you should consider the following:

- **Make sure your will is updated.** Otherwise, everything involving your estate and your children's financial future may be decided by a probate judge.
- **Select a guardian for minor children and do so with great care.** Select someone who is capable and willing to take on the tremendous responsibility of raising your children if anything should happen to you. Make sure guardians understand that this is not a ceremonial honor (such as becoming a godparent), but the acceptance of a legal responsibility. Talk to your attorney about drafting a guardianship document and making it part of your will.

- **Leave written instructions regarding everything from how you want your children raised (religious preferences, college plans, etc.) to how you want your assets managed and used to benefit and protect your children.** These will serve as guidelines to help those who assume the responsibility of raising your children. Put these instructions in your will.
- **Make sure your children's future needs are funded.** That is why it is important to maintain a strong insurance and investment program. Mutual funds, life insurance, and college savings plans can provide the funds to raise your children and help fund their education. In fact, life insurance may be required to insure the value of alimony payments, child support, or other financial needs. Do not name minor children as beneficiaries. Instead, consider using a trust.
- **Make trust arrangements.** Pick a trusted advisor as trustee so your assets are managed according to your wishes for your children's benefit. Talk to your attorney about the details.

GUARANTEED INCOME[3] | PROVEN WEALTH-BUILDING TOOLS | MUTUAL FUNDS[4]

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