



When Divorce Happens Common Financial Mistakes to Avoid

AMERICAN PRIVATE WEALTH

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The Truth About Divorce

- Susie and Bruce married for 18 years
- Comfortable, stable life.
- Four-bedroom home in a suburban community with safe, quality schools.
- Growing nest egg that included a college fund for the children; and enough discretionary cash left over to vacation several times a year.



The Truth About Divorce

Then they divorced

The Truth About Divorce

After two years of legal struggles,

- The house and other assets were gone.
- Bruce lived in a busy apartment complex, with noisy neighbors and a three-by-six foot balcony.
- Susie, age 40, declared bankruptcy and moved back in with her mother.
- Their two teenage daughters drift restlessly between Mom's and Dad's and the homes of friends, having abandoned earlier plans for college.



The Truth About Divorce

Divorce is expensive

- Issues quickly shift to money
- Some cases can go on for years

Average Cost of Divorce*:	
Do It Yourself	\$50 - \$250
Mediation	\$3,000 - \$5,000
Litigation	\$8,000 - \$130,000

At \$28 Billion dollars a Year, divorce has become an industry*

* DivorceMagazine.com, December 2010.

What to Do When Divorce Happens

- Avoid Common Financial Mistakes
- Move Forward – Protecting Your Assets
- Take Control – Estate Planning for the single parent

Avoid Common Financial Mistakes

Know the Liquidity of Your Assets

- **Li-quit-i-ty** - *n.* The ability to convert an asset to cash quickly. Also known as "marketability".
- 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 (Retirement plans, brokerage accounts, cash equivalents)

Consider the Impact of Having 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?

Ensure you have the proper balance of liquid and illiquid assets

Avoid Common Financial Mistakes

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.

Capital Gains

- Investment
- Real Estate
- Other Property

Income Taxes

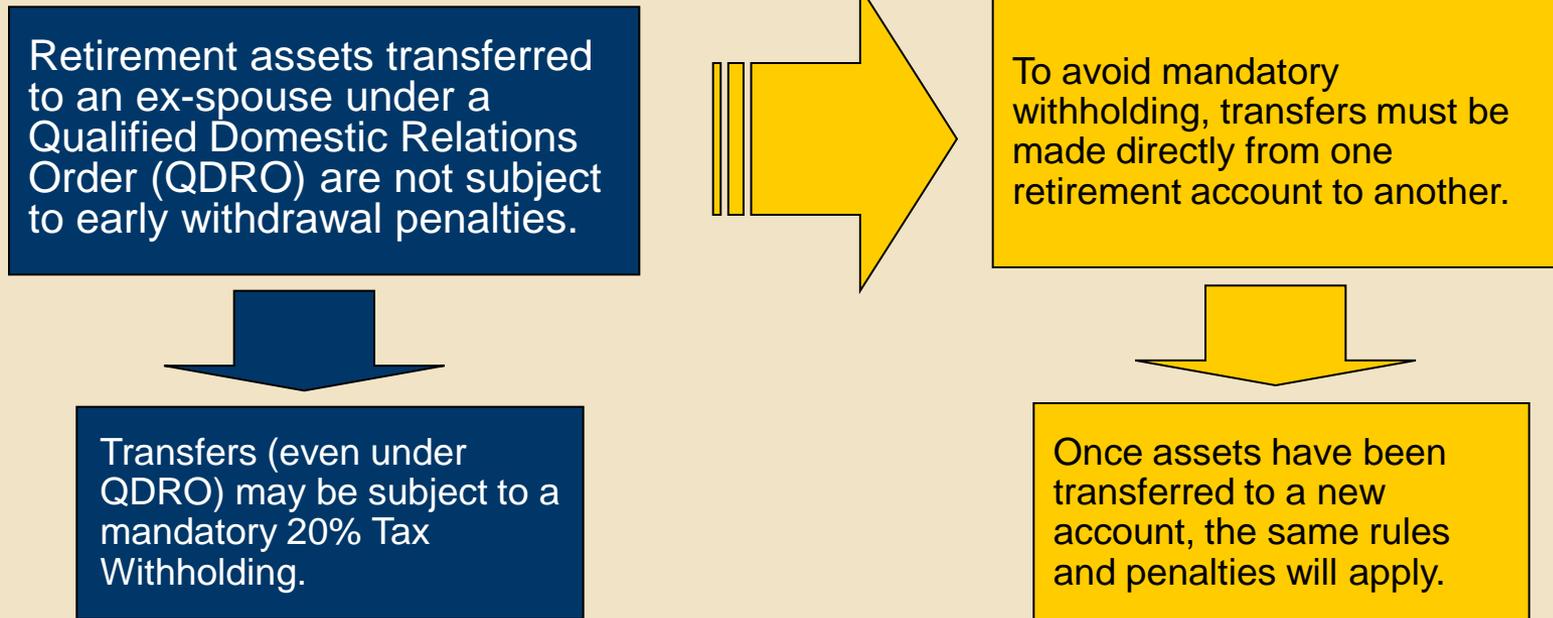
- Alimony

Know the impact taxes can have on your settlement

Avoid Common Financial Mistakes

Understanding the Rules of Retirement Plans

If large part of the settlement involves retirement assets, be aware of the tax ramifications and potential penalties involved



Know the rules before you transfer or withdraw retirement plan assets

Note: IRAs are not considered to be retirement plans and are not governed by QDRO or subject to the same rules as retirement plans.

Avoid Common Financial Mistakes

Identify Hidden Assets

- Once divorce is initiated, some parties may try to preserve their assets
- Make sure you get what you are entitled to

Consider the following resources to help identify your marital assets

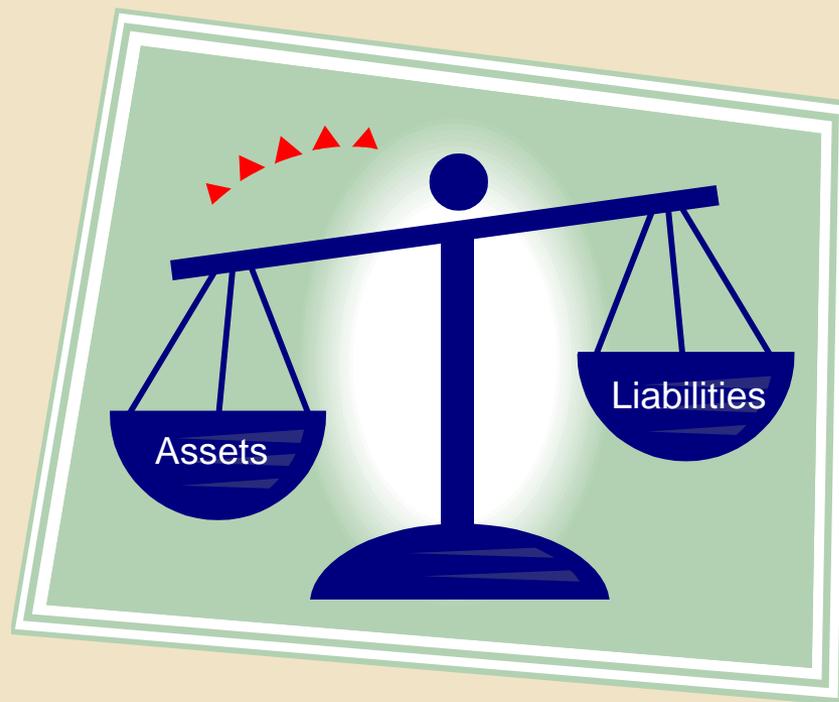
- **Tax Returns** (go back at least 5 years, look for inconsistencies in income, the presence of trusts, partnerships, and real estate holdings)
- **Checking Account** (review statements and cancelled checks for the past few years, look for purchases of investment or property)
- **Savings Account** (can reveal unusual deposits or withdrawals in amounts or periods that could point to hidden assets)
- **Brokerage Statements** (Make sure all of your investments and proceeds from your investments are accounted for)

Conduct an inventory of all your marital assets

Avoid Common Financial Mistakes

Develop a Budget

- Conducting the analysis ahead of time will help you determine if you can maintain your current lifestyle.
- If not, you have established a good case to request more assets, alimony, or child support
- Keeping a home for the sake of your kids is a noble gesture, unless you can't afford the maintenance and are forced to sell and move.



Before you agree to a settlement, make sure you have calculated your future budget.

Avoid Common Financial Mistakes

Don't Overlook Debt and Credit Rating Issues

- Creditors want to be paid
- Each person is liable for the full amount of debt until the debt balance is paid off

To avoid future problems:

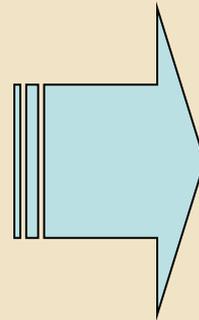
- Obtain a copy of your credit report
- Be sure to pay off debt and close all joint accounts prior to the divorce settlement
- Open new accounts in your own name
- Include provisions in your settlement which outline your responsibilities with regard to any future debt payments, penalties, interest, or taxes that may materialize.

Pay off your marital debt and establish your own credit

Avoid Common Financial Mistakes

Maintain Control Over Insurance Policies

- Life Insurance Policies may be required in a divorce settlement to insure the value of alimony payments, child support, or some other financial need.



- If you are the person for whom the policy is obtained, it is critical that you are named either the owner or irrevocable beneficiary.
- If you are not named properly, your ex-spouse can stop making premium payments, and you would never know until you try to enforce the policy, only to find out it no longer exists.

Protect your interest and maintain control

Move Forward

Protecting Your Assets

✓ **Revise your Will.**

- A Will determines how your estate is to be distributed at your death
- Review immediately to ensure it reflects your new situation and objectives
- Speak with an attorney

✓ **Sever unnecessary ties with ex-spouse.**

- Divorce decrees mandate child support, alimony, or life insurance on one of your lives for the benefit of the other or for your children.
- Remain cordial, but disentangle yourself financially to reduce your liability.

Move Forward

Protecting Your Assets

- ✓ **Update retirement plan beneficiary designations.**
 - Survivor benefits will be paid to the person named in your qualified and nonqualified plans.
 - Obtaining title to the funds as part of the divorce does not automatically change the beneficiary.
 - Review named plan beneficiaries to make sure it reflects the changes in your life.
 - Talk to your financial professional for help or contact retirement plan administrators directly.

Move Forward

Protecting Your Assets

✓ **Review overall retirement situation.**

- Start “power saving,” or accelerating the amount of income put aside.
- Begin making maximum contributions to employer sponsored 401(k) plan and an IRA.
- Consider supplementing retirement savings with annuities.

✓ **Review life insurance ownership**

- Beneficiaries cannot be changed by a Will.
- Review beneficiary designations on existing coverage.
- Complete a change-of-beneficiary form.

Take Control

Estate Planning for the Single Parent

- Of the 74.1 million children under age 18 in the United States, 26% (19.4 million) live with one parent.¹
- Economic security hinges on the custodial parent's income
- Premature death has many consequences.
 - Third party could administer the inheritance
 - Assets could be put in trust and managed by a court-appointed administrator.
 - Other family members could sue for custody, guardianship and financial control.

1. U.S. Census Bureau, America's Families and Living Arrangements 2009.

Take Control

Estate Planning for the Single Parent

- ✓ Update your Will.
- ✓ Select a guardian for minor children.
- ✓ Leave written instructions.
 - how children should be raised (religious preferences, college plans, etc.)
 - how assets are managed and used to benefit and protect children.
- ✓ Fund children's future needs.
 - Mutual funds, life insurance, and college savings plans
 - Do not name minor children as beneficiaries.
 - Consider using a trust.
- ✓ Make trust arrangements.
 - Pick a trusted person/advisor as trustee.
 - Talk to an attorney about the details.

Thank You

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