



# 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

<b>Average Cost of Divorce*:</b>	
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

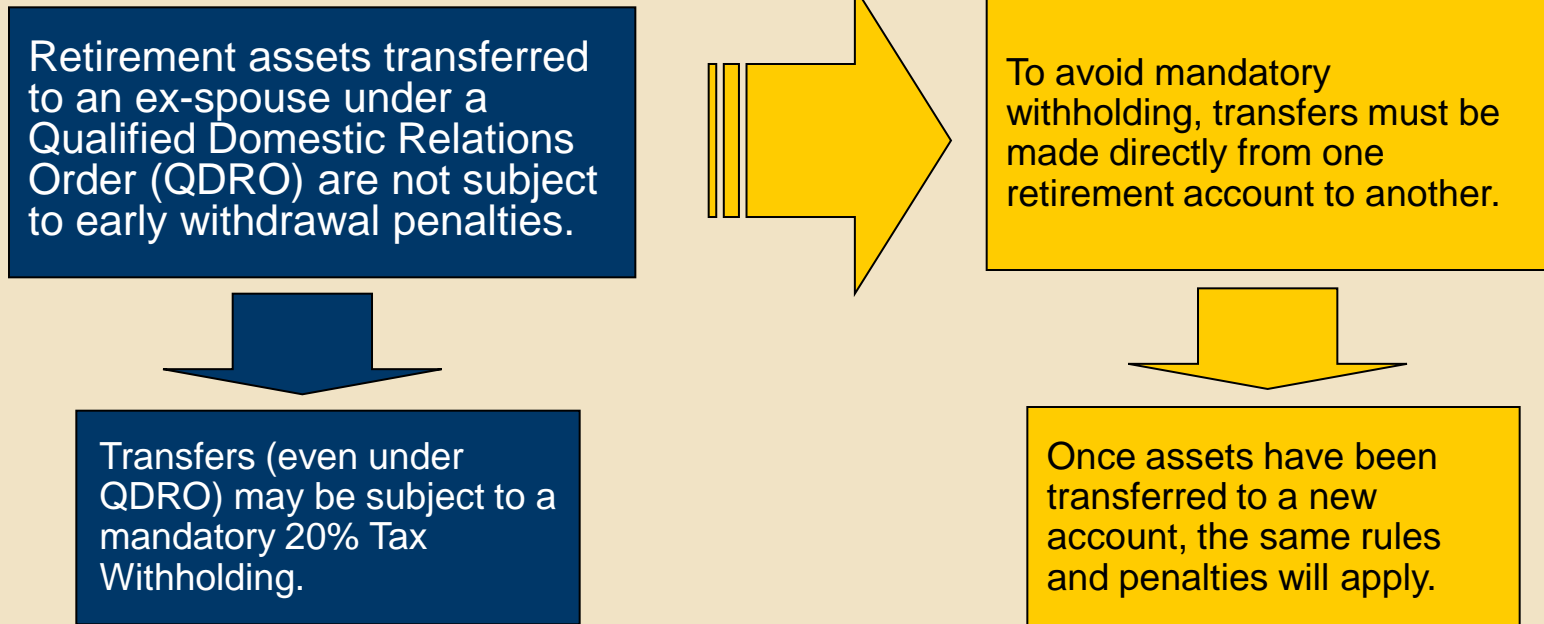
**Know the impact taxes can have on your settlement**



# 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

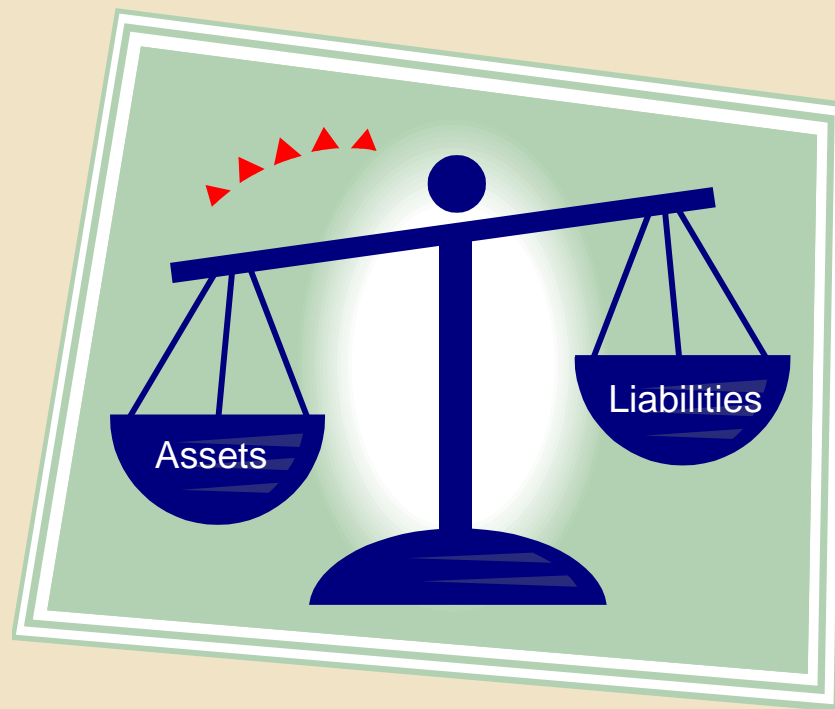
- **Tax Returns** (go back at least 5 years, look for inconsistencies in income, the presence of trusts, partnerships, and real estate holdings)
- **Checking Account** (review statements and cancelled checks for the past few years, look for purchases of investment or property)
- **Savings Account** (can 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:

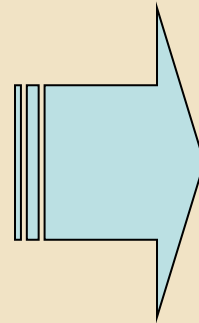
- Obtain a copy of your credit report
- Be sure to pay off debt and close all joint accounts prior to the divorce settlement
- Open new accounts in your own name
- Include provisions in your settlement which outline your responsibilities with regard to any future debt payments, penalties, interest, or 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.<sup>1</sup>
- 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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