

**The** **FINANCIAL IMPACT**  
**of Divorce ...**  
**a.k.a. 'I Do'**  
**but Wish 'I DIDN'T'**



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**D**ivorce is a difficult situation, whether you are the one serving the papers or the one on the receiving end. The reality is that a lifetime dream is coming to an end, and the entire process is usually a messy junction of emotional, social, and economic upheaval.

In my experience, the economic, or financial, implications are usually not given the priority they deserve, which results in one spouse, usually the woman, ending up with an outcome and lifestyle much different than what she was accustomed to during her married years.

Certainly the tables can be turned, and it may be the man that leads a life of lesser means, but as a society, it is usually the woman that sacrifices career for caregiving and thus comes to a divorce with fewer assets now and for retirement.<sup>1</sup>

The challenge in a divorce settlement is to make sure that the assets you realize at the end of the process provide sufficient income now and in your later years. Making ends meet in the short run does not answer the larger question of how you manage your needs once you reach retirement.

If your career is limited in terms of

advancement potential, salary, and benefits, the gap between what you can save and what you could have saved if still married will, more than likely, grow significantly.

Of course the division of marital property is center stage. One very frequently asked question is whether or not the house should be retained as the “family home” for the wife and children. The answer to that is “it depends.”

Many times, the home is one of the most expensive pieces of marital property, both in terms of the value and the upkeep. Taxes, maintenance, insurance, and other costs all make that holding a potentially expensive proposition. If you need assets that provide immediate cash flow, the house will not provide that liquidity.

Or, if your salary and the divorce settlement do not provide the needed income for supporting the home, it may not be in your best interest to keep that on your side of the ledger. At the very least, embrace flexibility of options as you progress through the proceedings.<sup>2</sup>

Another frequently asked question centers around which assets are more attractive, and again the answer is that “it

depends.” Retirement assets are sometimes difficult to divide if they are a part of a defined benefit (pension) arrangement.

Also, many times those assets are not available until your ex-spouse begins his retirement. Keep in mind also that retirement assets usually have not been taxed, so the bottom line is going to be reduced by taxes when withdrawals are made.

As for other types of assets, investments such as stocks and bonds may have imbedded capital gains. Savings bonds and annuities may have imbedded taxes as those proceeds are realized as ordinary income.

Making sure that you work with both a financial advisor and a tax advisor is critical during this process to be certain you are considering all possible outcomes related to the division of the marital assets.<sup>3</sup>

Income discussions as a part of the divorce-settlement process are crucial. Alimony is handled differently than child support in terms of tax implications for both the payor and payee.

Also, the timing of when income from these two sources ends also becomes an important tax-planning item. If alimony

stops within a short period of time after a child becomes an age of majority, such as 18 or 21, the IRS may see those payments as child support, not alimony, and may retroactively tax the income differently.<sup>4</sup>

Insurance policies are another area of importance because many times the promised assets and/or income are dependent upon the continued good health of the ex-spouse. In these instances, a long-term disability policy or life insurance policy may be wise. Ownership of the policy is a very important topic to consider because it is the owner who controls the designation of the beneficiary.

Also, it is the owner who gets the notices that premiums are due. Many times, the ex-spouse will want to be the owner of the life insurance policy on the life of the ex-spouse to ensure that she remains the beneficiary and that the premiums are paid on a timely basis.

If you do find yourself facing divorce, however, here are three critical steps to take to help ensure the outcome will be as positive as possible:

1. Enlist the services of a competent financial advisor, specifically one trained in divorce and financial planning.

2. Enlist the services of competent legal counsel that you feel will work with you and on your behalf. Do not share attorneys with your spouse; each should be represented by separate counsel.

3. Do not shortchange your chances of a fair settlement by giving up along the way. It takes a lot of energy to do the legwork, many times requiring you to educate yourself as to what is in your best interest.

Once the process is over and the assets and income determined, realize that the outcome may very well define your lifestyle

and those of other family members. It is in your best interest to keep your focus on your long-term financial security, even though having that strength of conviction may be difficult given the emotional upheaval and social changes that accompany the process.

The end result will be a new normal, but you will more than likely be better able to handle the changes if you have received a settlement that provides for your well-being.

<sup>1</sup> 2006 and 2007 Oppenheimer Study "Women and Investing"

<sup>2,3,4</sup> The Institute for Divorce Financial Analysts, 2004

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