Considering Divorce? Financial Preparation is Key

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Divorce is never something you plan on, but we must face the facts that around 50% of marriages in the US end in divorce. For many women, as well as men, the financial consequences of divorce can be devastating. While the emotional turmoil that separation and divorce bring is bad enough, not being aware of the financial pitfalls that await you in navigating the divorce minefield can make a bad situation worse, not just for the short term, but through retirement. Thus, it is important to go into separation or divorce with your eyes open and with solid advice.

In this article, we will review how you can prepare yourself financially for possible separation or divorce. Future articles will review what your options are when facing divorce and what you need to be aware of when negotiating your financial settlement.

Be aware of your financial situation. Ignorance in divorce can be expensive. Imagine a situation in which one of the parties had over 60 investment accounts spread around the world, unknown to the spouse. The professional fees for the investigative work to find and report on these can be high. Educate yourself by reviewing investment and bank statements, qualified retirement plan and pension information, tax returns, insurance policies, credit cards, loans, and mortgages. If you don't already, attend meetings with your financial advisor, accountant and attorney so you know what is going on. Be actively involved in your family's finances. Ask questions about unfamiliar transactions. Be aware of money being transferred out of joint accounts. Don't be one of those who say, "my spouse dealt with all the family finances – I just don't know our situation."

Create a realistic estimate of your living expenses. Don't assume that your standard of living will remain the same.   You need to be able to answer these questions:

1. What will my average monthly living expenses be if I am separated or divorced?
2. What will my sources of income be?
3. How will I save for major expenses in the future and for retirement?

If you do not know where to start with these, a Certified Divorce Financial Analyst or other qualified financial advisor can help you with these assessments.

Keep a bank account in your name. If you and your spouse keep most of your financial assets jointly, consider setting up a checking or savings account in your name only. Thus, in case of divorce, you have some ready cash for household expenses during the negotiation and adjustment period.

Do not take on new financial obligations or debts. If you suspect that a divorce or separation is forthcoming, do not make major purchases that will increase your debt levels.   As a result of the financial settlement, you may have to pay off the debts by liquidating assets, such as your house.

Establish your own credit rating. If you do not have a credit card in your own name, you will want to get one or two, use them and pay them off each month. This will start to establish your independent credit rating. Once you are on your own, it may be more difficult for you to get credit if you have always obtained credit jointly.

Be wary of the advice of family and friends. Everyone knows someone who has gone through divorce, and family and friends want to be helpful and give advice. However, few of these are trained professionals who are aware of the law and financial issues as they pertain to divorce, or the consequences of their advice. By working with a Certified Divorce Financial Analyst, divorce mediator, and/or family law attorney early in the process, you are more likely to make sound decisions that will see you through the process more successfully.

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