

3 First Steps to Dealing with Finances and Divorce

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Going through a divorce is never easy. The emotional, financial and mental stress can often feel overwhelming. Unfortunately, when you are going through a divorce, you may not always be in the right frame of mind to properly address the financial implications of your decisions. Let's take a look at three common areas that need to be thought through as you traverse this transition.

1. The Basics

Divorce is a big change, especially in your wallet. Many times you're going from two incomes to one, and this can greatly affect your monthly finances. To get started take an inventory of all the expenses you will need to cover. Don't forget to also look at health insurance premiums and deductibles, after-school activities, child care, phone bills and security deposits. How will these expenses change? Who will be responsible for covering these costs? Inventory all the money going out. Getting accurate on all your expenses and obligations will help you define what income you need coming in to cover these costs.

2. Income..the long and short of it

Once you have gotten clarity on your expenses, it is time to look at your income sources. Income may be coming in from a variety of places such as your job, alimony, child support or earnings from other assets. Keep in mind that alimony and child support often have an end date. If this is the case, you will need to develop a plan to cover your expenses when this income source ends. If you need to get a better job to make more money, consider taking the time that alimony is being paid to go back to school or expand your skill set. One of the biggest mistakes you can make is learning to live off alimony and child support only to find you have no plan B for when they end. Also, make sure you are discussing with your tax professional about the tax implications associated with receiving child support and alimony. Alimony is taxable income, while child support is not. Also, don't forget that you need to protect this income. That might include making sure you are covered in the event of a disability. And if alimony or child support is being paid, what would happen if that payor died? Protecting that income stream is equally important. And don't forget to structure it properly. The more you know, the better you can prepare.

3. Details, details, details

Don't forget to update all of your documents. Who are your beneficiaries on your IRA? Insurance Policies? Annuities? Trusts? What about your employer qualified plan? What does your will look like? Have you thought about power of attorney? Taking a look at all the little details such as beneficiaries, ownership arrangements, and even tax withholding could really impact your financial situation. You must change the beneficiary on each of these documents. Just changing your will isn't enough. By rewriting your will and changing your beneficiaries on all important documents you'll make sure that your assets are distributed as you wished. The key is to have a team of experts who specialize in working with divorcees. There are nuances that may not be on the radar of a typical adviser. You will want to find a person with this type of expertise and make sure their aware of the particulars involved in your state and with your individual circumstances. Your success will often depend on your team. Find a good one.

This can all seem very overwhelming, but you can do it. You'll be happier in the end.

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