11 Financial Mistakes to Avoid in Your Divorce Settlement

Introduction

While a divorce changes your marital status, it does not change who you are or what you are capable of. Your value is not defined by what your spouse says about you. That truth can be hard to remember when you are deep in the valleys of the divorce process.

Our goal with this white paper is to help women walking through the divorce process prepare themselves personally and financially for their future as a single woman. **Our team has developed a niche serving 60+ single female clients in the greater Houston area – many of which were previously married.** Because of our extensive experience serving single women, we have complied a list of the top mistakes to avoid:

1) **Not arming yourself with information**.
You need a clear understanding of what your assets and liabilities are. If you have let your spouse handle the finances during your marriage, you need to take the time to understand what you own and what you might owe. Understanding where you stand financially as a married couple will help you figure out where you will stand after the divorce.

   This will involve creating a personal balance sheet. Gather all documents that list your assets and liabilities. This balance sheet is an important piece of the puzzle to determine the financial worth of your marriage.

   You will also want to look at your income tax returns for the past 3 years. These returns will report your annual marital income and delineate the type of income (salary, bonus, investment income, rental property, partnership income, etc.). If you use an accountant to prepare your tax returns, make an appointment to review your latest returns since tax returns are complex and can be hard to understand to the untrained eye.

   Request The Price Group's complimentary guide which will help organize and summarize the assets & liabilities that your family has accumulated.

2) **Not thinking long-term.**
What do you want life to look like 5 or 10 years down the road? Is maintaining your current lifestyle the priority, or are you more focused on feeling secure? Those decisions will be helpful as you rank your priorities and determine which assets to negotiate for during the divorce process.

Often women make the mistake of fighting for the house due to the sentimental value. Unfortunately, it is not uncommon for the wife to realize post-divorce that the house is too expensive to maintain. If you decide to sell the house after the divorce, there could be capital gains tax and there are expenses related to the real estate transaction.

Mistakes are also common related to the division of investment accounts. Different assets may have similar values but different cost basis associated with them (i.e. selling the investments could result in a higher income tax bill).

3) **Not hitting the pause button on big expenses.**
In the early days of a divorce, it can be difficult to just keep things together. Because of this, some look to a luxury purchase or an elaborate experience to mask the pain. While expensive things or elaborate experiences are not inherently bad, this is not an appropriate time for these expenses.

It can be tempting to buy a new car, buy a new home, take an expensive vacation, or even move to a different city but your temporary happiness will be short-lived, and you'll have to face the consequences of any unwise choices. By resisting the urge to make impulsive choices, you can minimize the impact to your financial situation.

4) **Not hiring competent professionals and not asking good questions.**
Regardless of your financial situation, you should speak to legal and financial professionals to get the best guidance through the divorce process. Pick the divorce attorney who will act as your advocate and a financial advisor who has a niche serving single women.

Divorce planning is a negotiated process and you need to understand there are numerous complexities to consider. Do not use the same financial advisor that your husband uses for the sake of convenience. We have shared a few valuable questions to ask while interviewing financial advisors:

- Are you a generalist or do you have a niche? How many single female clients do you currently serve?
- Do you act as a fiduciary?
- Does your team offer comprehensive and holistic wealth planning?
- What certifications and credentials do you and your team have?

You can download our '10 Questions to Ask Your Financial Advisor' guide on our website.

5) **Not calculating your worth as a stay-at-home mom.**
Even though a stay-at-home mom does not have vocational income, she still adds tremendous value! List every activity that saves the household money like grocery shopping, child care,

cooking, transportation of children, laundry, cleaning the house, care for an elderly parent, etc. Then calculate the cost to hire someone outside of the family to do each task. Since this estimate would be an after-tax number, calculate the pre-tax income needed to cover all of these after-tax expenses. Make sure to factor in Social Security tax as well as Medicare tax.

6) **Not studying your spending habits.**
Construct a monthly budget and don't forget annual expenses like insurance and property taxes. Chances are you'll be the caregiver for the children so it is very important to have a realistic idea of what the basic household expenses have been. How many of those expenses are fixed, as opposed to discretionary? Are they yours, his, or the kids'? It's important to be as specific as possible.

You will also need to do some homework regarding where you want to live, and detail anticipated monthly expenses. See how the numbers work out and determine if you will need monthly child support or help with education expenses. If you have to go back to work and had a prior career, you can ask for that additional money in the settlement agreement for education and retraining purposes.

Request The Price Group's complimentary guide which will help list, categorize and itemize your estimated expenses.

7) **Not splitting assets and liabilities by amount and type.**
Dividing property during a divorce can be very difficult especially if there are significant assets. In addition, there are often more complex assets (i.e. deferred compensation, stock options, closely held business, pension plan, etc.) that can make the process more complicated. Assets should never be dividend simply on their current dollar value. Since Texas is a community property state, it is very important for you to understand the difference between separate property and community property.

In many cases women try to keep the home for the benefit of the children, but that might not be the best solution. Often the house is the biggest asset but it doesn't produce any income and it has ongoing expenses to maintain. If the divorce agreement has the house and mortgage going to you and the other assets go to your husband, then the only income you will have is child support plus any income from investments granted to you.

In some cases it's better to sell the house and then partition the assets and debts evenly by amount and type. Then you can rent or buy a house within your budget and have investment assets that can be used for income.

8) **Not having account titles and beneficiaries changed.**
For those assets and debts you are going to transfer from joint to individual accounts, change the titling of the account before the divorce is final. By doing this, you are not relying on your ex-

spouse to make payments on a debt that is still classified by the creditors as joint. If he stops paying, you will still be liable. Just having a settlement agreement doesn't mean the creditors will automatically shift the liability. From a creditor's perspective, it's better to have two people on the hook for the debt payments.

Remember to change beneficiaries on life insurance policies, retirement plans, IRA's, annuities, etc. A Qualified Domestic Relations Order (QDRO) allows your husband to split his retirement plan assets and transfer your portion tax-free to an IRA in your name.

9) **Not considering your spouse's eligibility for Social Security Benefits.**
If a couple is married for 10 years or longer, a non-working spouse is entitled to a "spousal benefit" on the higher earnings spouse's record. This spousal benefit does not lower nor impact the working spouses Social Security benefit. Understanding what Social Security benefits you are legally obligated to can be crucial when you become eligible for Social Security benefits.

Request The Price Group to analyze your Social Security benefits to help you better understand the benefits you could be entitled to.

10) **Not considering the long-term impact of inflation.**
The rule of 72 is a fascinating topic. This simple calculation can help you determine how long it will take your cost of living to double. Take 72 and divide it by the estimated inflation rate. The answer will tell you how long it will take your cost of living to double. This is an important consideration when factoring the cost of a child's college education. For example, your cost for college will double in 24 years with a 3% inflation rate. At a 6% inflation rate, the cost of college would double in 12 years. As you can see, inflation is an important variable to understand and keep in mind when walking through a divorce.

Request The Price Group's guide to help analyze cost projections for your children's retirement.

11) **Not developing a comprehensive financial plan after the divorce**.
Operating two households will always cost more than one. Because of this, it is imperative that you create a holistic financial plan during the divorce process to make sure you will be on a good path for retirement after the divorce is finalized.

We call our financial plan a *Live Well Plan*. Our *Live Well Plan* encompasses and coordinates ALL areas of your personal finances. The *Live Well Plan* includes cash-flow projections and allows us to test adjustments in real time and predict your retirement readiness – making sure you are in the "green zone."

Request The Price Group's complimentary '9 Step Retirement Readiness Guide' which will help explain the benefits of creating financial plan.

Conclusion

Divorce is a complicated subject and this process will take time, effort and patience. You need to take small steps each day with the ultimate goal of a fair and equitable settlement that will allow you to transition successfully to a new life. **The Price Group has developed a niche in serve single women in the greater Houston area.**

Want to take the first step together? We would love to help.