

Divorce in Haste - Repent in Reduced Circumstances

Ten mistakes to avoid in divorce preparation

You have decided that you want a divorce and you want it now. It's a very emotional time: nerve endings are frayed and patience is wearing thin. When faced with seemingly daunting choices and decisions all you can think of is, "I just want it over with, I want it to stop hurting, now!"

Your willingness to sacrifice in order to move forward quickly does no one any good. Rushing divorce proceedings is like putting a band-aid on a serious wound, the bandage would cover it up for a while but the serious scar it hides will be with you for the rest of your life.

FINANCIAL PLANNING TAKES A BACK SEAT TO THE WEDDING CAKE

People spend months; even years planning their wedding details but barely give a thought to their finances beyond the nuptials. They put off dealing with money because it makes them feel uncomfortable.

WHAT YOU DON'T KNOW CAN HURT YOU

"People often overlook the things that are so important to help make informed choices once they decide that divorce is inevitable," says Certified Divorce Financial Analyst Denisa Tova, one of the partners in the Divorce Resource Centre of Colorado. "Taking care of fairly simple things right away can save you a lot of financial heartache later," she continues.

SOME THINGS YOU CAN DO RIGHT NOW:

- **Gather financial documents**, such as copies of bank statements, investment account statements, retirement account statements and tax returns.
- **Order a credit report from all three agencies right away.** This gives you a good picture of how debt is titled and what accounts need to be closed.
- **Determine if you can afford to keep your home.** A simple test is to find out if you can qualify on your own by pulling a credit report to measure your debt to income ratio.

TEN MISTAKES PEOPLE MAKE WHILE PREPARING TO DIVORCE:

1. **Focusing on one issue** – Instead beaming in on one single thing, such as keeping the marital residence at all costs, try to be a big picture person.
2. **Using historical spending data to determine the post divorce budget** – Forward thinking financial planning pays attention to things such as health insurance, quarterly estimated IRS payments and extracurricular activities for children such as ballet and soccer.
3. **Making financial decisions based on emotions** – Make sure that your desire to make it go away does not cause you to settle for less.
4. **Not considering the tax ramifications** – A dollar of cash or home equity is NOT equal to a dollar of retirement assets. Use caution when trading assets with differing tax characteristics.
5. **Assuming that a 50 – 50 split is the right way to go** – What appears to be a win-win situation in the short term could actually be a lose-lose situation for all concerned down the road.
6. **Having inadequate life and disability insurance** – Having proper coverage means that the receiver is protected against the premature demise or disability of the support payer.
7. **Looking to the soon to be ex spouse to determine how to split assets** – Even in a collaborative divorce, it's important to be a part of the decision making process – in other words, trust but verify.
8. **Underestimating the value of retirement plans** – Not all retirement plans are created equal. Divorce time is the only opportunity you will have to determine the value of your assets. Hiring a specialist to value retirement assets can pay off in a big way in the future.
9. **Failing to look at post divorce tax ramifications and cash flow** - Don't be short sighted: what appears to be an equitable division of property at divorce time can turn out to be grossly inequitable due to tax consequences when assets are liquidated in the future to meet cash flow needs.

10. **Not having a QDRO (qualified domestic relations order) in place** – In order to ensure that the non-participate receives the retirement benefits awarded them in the divorce, it's important to have a QRDO properly drafted and executed in a timely fashion.

When divorce is inevitable, it's important to do your financial homework. If necessary, seek professional help from a divorce financial analyst who can help you avoid the financial pitfalls so common when emotions affect decision-making.

Denisa Tova, CFP®, CDFA™, ChFC, CLU provides divorce financial expertise to divorcing individuals. She is a Certified Financial Planner® practitioner, Certified Divorce Financial Analyst™, and a managing partner of Divorce Resource Centre of Colorado, LLC. www.drcofcolorado.com.