

Effects of Divorce Linger Long After the Ink on the Decree Dries

How often have you thought that if you had a crystal ball and could look into the future, you would have done things differently? This applies to the process of divorce too.

What looked fair at the time of divorce may appear totally different in the cold harsh light of post divorce reality. Perhaps your eyes were clouded by emotion, or by focusing on one object "at all costs" and not looking at the big picture, including the short and long-term financial effects of decisions you made at the time of your divorce.

Not all assets are created equal

What appears to be equal at the time of the divorce may not seem so in the future. "Not all assets are alike," says Deb Johnson, a partner in the Divorce Resource Centre of Colorado, "Sometimes a dollar may not always be worth a dollar. For instance, a dollar in a savings account is worth a dollar, but a dollar of retirement assets is really only worth about .70 cents, depending on how much unrealized tax is embedded in the asset." She knows this first hand. As a Certified Divorce Financial Analyst™ and Mediator, she has worked with many divorcing couples to help them avoid the pitfalls of inequitable distribution.

Because of the income difference between spouses, even getting the same amount of assets can be a challenge down the road. "The lower earner may find it necessary to tap into liquid and retirement assets earlier than planned," states Johnson. "For example, a woman in her early fifties might have to liquidate retirement assets simply to maintain a moderate standard of living," she continues.

To keep or not to keep the marital abode

Another thing that needs to be addressed is the issue of selling or keeping the marital residence. Generally it is the woman who is very tied to the marital residence. Most likely she has raised the family there, decorated it, has close ties with the neighbors and feels insecure at the thought of selling it. She may think it's important to keep the house at all costs.

"Because the residence is an illiquid asset, it can't pay the bills or buy the food, which could render the owner 'house poor'," Johnson comments. "To avoid this, it's important to explore both short term and long term scenarios to determine the impact of selling the residence."

A penchant for pensions

Just as the woman is usually the one emotionally invested in keeping the residence, men tend to be tied to their pension and want to keep it at all costs. When this happens, they calculate the present value of a pension, and then give the other spouse an asset of equal value.

Johnson cites the example of a client, a pilot for a major airline, who decided to keep his pension that was worth 700 thousand and gave his spouse the other retirement assets of comparable value. "An unforeseen consequence of this was that recent turbulence in the airline industry caused his pension to be cut in half. He assumed the risk of the pension and lost," Johnson said.

The importance of the QDRO

The QDRO (qualified domestic relations order) must be included in a divorce agreement when dealing with pension funds. The QDRO is vitally important because it establishes your soon-to-be-ex-spouse's legal right to receive a designated percentage of your qualified plan account balance or benefit payments.

When a qualified retirement plan is divided in divorce, a legal document has to be drafted, signed by a judge and executed by the plan administrator **immediately after** the divorce decree is entered.

If not, if the plan participant dies, the ex spouse may not get what is awarded as part of the divorce.

Turbulence caused by the ripple effect

It's extremely important for couples to understand the ripple effect caused by their financial decisions. A divorce financial analyst can dramatically illustrate this effect by producing short and long-term scenarios of what can happen. The financial professional can help the couple separate emotion from the divorce process to help them make informed decisions. "It's important to make the best decisions during the divorce process," states Johnson, "Once it's a done deal, it's virtually impossible to reverse a decision after the fact without going to a great deal of time and expense," she concludes.

What to do now to avoid regret later

- Gather the right team of professionals, such as an attorney who specializes in family law and a financial professional to help with tax issues
- Avoid making emotional decisions
- Have a child specialist if children are involved

Make no mistake, going through a divorce costs money. But view the cost of a divorce as an investment in the future of the family.

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