Published in the Dec 2006 issue of the Professional Building Review

Financial Recovery After the Divorce

By Denisa Tova, CFP®, CDFA™, ChFC, CLU
Certified Financial Planner® Practitioner
Certified Divorce Financial Analyst™

Pat yourself on the back – you have finally done it! The worst of the emotional roller coaster is over. Your new life begins.

Although that may be true, there are some loose financial ends that need to be tied. The settlement that you acquired can lead to a false sense of security. Statistics indicate that this is the time when most financial mistakes are made, especially if you sat back comfortably in the passenger seat when it came to managing the financial household in your previous relationship. Now is the time to learn good money management principles. That means keeping accurate records, paying bills on time, and sticking to your long-term financial plan.

Review Your Goals. Perhaps you want to go back to school or change your career. Whatever the goals are, it is important to categorize them as short term and long term, and then determine the amounts of money needed to fulfill these objectives.

Gather Important Documents. Keep a copy of your final decree in a safe place. Gather information and documents related to the assets you received as part of your divorce settlement. You may need to refer to them when you sell the assets, to calculate any gains and to determine any tax liability. Obtain the records for your home, investments, cars, and appliances.
.
Revise Your Budget. I am not talking about that fancy little spreadsheet that you quickly scan once a year. In order for the budget to be effective it has to be realistic. Otherwise, you will follow it impulsively like a fad diet. It can help with transitioning into a new lifestyle. The newly added expenses, such as mortgage or rent, spousal maintenance or child support can seem overwhelming. Here are a few tips to create a little breathing room in your budget.

Divide your expenses into mandatory and discretionary. The mandatory are those that you cannot eliminate or reduce (housing, utilities, debt, etc.) and the discretionary items can be at least reduced, if not completely left out. I am not advocating a can of tuna or bowl of Ramen noodles for lunch every day but planning ahead and preparing a menu for the entire week before you go grocery shopping can stretch the dollar. See if you can do without those Starbucks Lattes and lunches in the restaurants, and pack your own lunch to work.

If you have a creative gene in your body, no one will notice if you buy secondhand furniture and spruce it up a little.

Don't ignore the mileage sticker on your windshield and tune up your car to squeeze out the best gas mileage.

Have a discussion with your children about conserving water and electricity.

Consider Renting. Keep things simple for a while. Let someone else worry about the maintenance and upkeep. Take your time to scout out areas to buy a home in the future. First, get a feel for the new budget and new financial responsibilities.

When you are considering an apartment, assess your living needs: number of rooms, location, distance from shopping and public transportation, and price and facilities.

Do not forget renter's insurance. It is a necessity. Your landlord has insurance only on the building. You are responsible for insuring your belongings in the event of fire or theft. Get renter's insurance as soon as you move into your apartment.

Prepare a Financial Plan.

Start an emergency fund to cushion unexpected expenses. Select a savings or money market account with a decent interest rate to give your savings a little boost. Consider getting an overdraft protection to protect your savings against the unexpected.

Address your retirement goals as well as the college education in your plan. Start an investment plan to reach these goals. It should be simple to understand and the investments should be consistent. Even $25 per month adds up over time.

Update your will. Update the beneficiary designations on your life insurance, IRAs, and retirement plans. If you do not take care of this, those benefits will pass to whomever you have listed on the beneficiary form, even if you have updated your will. Don't forget about important estate planning documents, such as Living Will and powers of attorney for your finances and health care, in the event that you are incapacitated.

Manage your debt. Put together a plan to pay off your debt. Use on-line calculators to find out how long it might take to pay off credit cards and other loans. Be diligent and continue to apply a payment from a paid off card balance toward the next card balance. Order a copy of your credit report several months after the divorce. Review all the information to make sure it is correct. Dispute any errors you find.

Review your insurance needs. Research your health insurance options. Under COBRA, you may be eligible for coverage under your ex-spouse's medical plan for up to three years after the divorce. It may, however, be less expensive to buy individual health coverage.

Assess your life and disability coverage needs. If you're now the sole provider of your children, you'll want to increase your life insurance. Life insurance can help protect their futures if you're not there.

On the other hand, if you're now single and have no children, you may want to review your life insurance needs and change beneficiaries on current policies.

Consider purchasing long term care insurance if you are 50 or older. The younger you are when you buy it, the less expensive it will be over your lifetime. Long-term care is the assistance given to an individual who is unable to care for himself or herself due to a prolonged illness or disability. The six basic activities of daily living are bathing, continence, dressing, eating, transferring and toileting. Another factor that may qualify an individual for long-term care is cognitive impairment.

Personal finances can become very complicated during a divorce. Emotions further complicate decision-making. That is why a financial professional can help you sift through the maze of financial concepts and help you craft a financial roadmap.

Send questions or comments to Denisa Tova, CFP®, CDFA™, ChFC, CLU at
denisa@drcofcolorado.com or call (719) 520-5446.
Denisa 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