
Divorce and your finances

A guide to help you get through divorce and move on



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Before uncoupling

If you are contemplating divorce, discuss with your attorney what steps you should take to prepare. Here are some potential steps to consider.

Step one: Gather financial documents

The task of gathering papers helps organize your thoughts and devise a strategy for moving forward. Begin the process as it may take you a couple of months to complete.

Where do I look for these financial documents?

Consider looking at places where you keep important papers in the house and your safe-deposit box. Consider statements from insurance companies, credit card companies, banks, investment firms, and mutual fund companies.

Turn to your employer for work-related documents, such as what you currently have in your 401(k) or pension account. Ask your accountant, attorney, and financial advisors for copies of any financial information they might have, such as prior tax returns or documents on ownership of property.

What should I do with the financial documents?

Make copies of your documents. Then date them and put them in a safe place.

What should I look for?

Bank accounts. Gather bank account (checking, savings, or both) information. Check monthly statements, print out any available info from an ATM, or print out reports if the accounts are online.

Life insurance policies. Look for policies that are personally purchased and those provided by your employer. Request a printout from the insurance company, your investment firm, or employer to find out each policy's cash value.

Anything connected to your home. Monthly mortgage statements tell how much equity you have in your home and how much you still owe. If you have a home equity loan on your home, you'll want to document them as well.

Financial records on recreational property. Cottages, boats, motor homes, and time-shares are part of your assets. If you own them outright, make note of that. If you have a mortgage or loan outstanding on them, document how much equity you have and what you still owe



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Automobiles and motorcycles. If you own these outright, make note of that. If you have an outstanding loan, get a recent statement from the lending institution to determine how much equity you have and how much you still owe.

Antiques, collectibles, jewelry, precious metals, important furniture. Make a list of everything of value that you own and where it's located. Some homeowners' insurance policies have assets listed if special coverage has been purchased.

Retirement accounts. The two of you might have a multitude of retirement accounts, which may be distributed over a wide range of investment vehicles through various entities.

Gather information on 401(k)s, IRAs, and rollover IRAs, SEP-IRAs, 403(b)s, and 457 plans (the most common retirement accounts). You can also obtain your Social Security benefit statement online from ssa.gov.

Investment accounts. Make a list and gather information on all investment accounts.

Company and military savings and pension plans. If one of you works for a company with savings and/or pension plans, record what type of plan it is and how much has accumulated. Make a note of any military pensions.

Investment real estate. Make note of any investment real estate you and your spouse own and document how much the investment earns or loses annually.

Business interests. Collect financial details on any business either of you owns or has invested in.

Trust funds. While separate property trusts may be excluded from divorce negotiations, they will very likely be discussed. Make a note of any trusts you and your spouse have.

Loans you've made. Personal loans can represent a substantial asset. Make note of any outstanding loans made by you or your spouse.

Money you owe. Make a list of all the money you and your spouse owe and attach it to any documentation of that debt.

Your last two years' tax returns. If you haven't been actively involved in the family investing, tax returns can help you track down your holdings since interest and dividends have been reported on them.



Step two: Help protect financial documents

Get a copy of your credit report (it might be listed under your name and your spouse's). Review it thoroughly to verify the information is correct. If it is correct, it will tell you if your spouse (and/or you) is delinquent in any areas on any account. If you think there's anything unusual going on, ask your spouse about it and notify your lawyer.

In addition to hiring an attorney, you might want to hire a wealth management professional to address monetary and investment issues and an accountant to help with tax issues.

Step three: Search for assets

Consider overlooked items, which may include real estate holdings, limited partnerships, and long-held stocks, mutual funds, or bonds. There may also be work-related assets that can include bonuses, perks, tips, commissions, royalties, and expense reimbursements. Do you or your spouse have any deferred salary increases, stock options, uncollected bonuses or commissions, or accumulated vacation pay? Be sure to inventory these items.

If you need to sell stock, close bank accounts, or take substantial money from a joint account to maintain the family lifestyle, document the money or asset you've taken is accounted for, dated, and labeled what it was used for.

Step four: Look at your expenses for the past year

Note what you've spent on:

- **Housing.** Mortgage payments, repairs, etc.
- **Major purchases.** Furniture, art and antiques, appliances, etc.
- **Food.** Groceries, school and work lunches, etc.
- **Clothing.** Purchases for you and your children, cleaning costs, special sporting equipment like scuba gear or skis, etc.
- **Transportation.** All the costs associated with cars, taxi and bus fares, trains, and any other commuting expenses, etc.

- **Entertainment.** Dinners out, movie and theater tickets, country club or sports club dues, hobbies, and recreation fees and costs
- **Vacations.** Costs associated with travel
- **Medical and dental.** Insurance premiums, co-pays, prescription and nonprescription drugs, special tests, and treatment.
- **School expenses.** Before-school or after-school care, college costs, books and supplies, religious instruction, tutoring, and uniforms
- **Gifts and charitable contributions.** Wedding, birthday, and holiday gifts and any charitable contributions (be sure to note which are tax-deductible)
- **Insurance.** Life, homeowner's or tenant's, disability, and travel
- **Special expenses.** Child or parental support, professional memberships or fees, and accounting, legal, brokerage, or financial advisor fees
- **Taxes.** Federal, state, and city
- **Miscellaneous.** Personal expenses such as hair stylists or toiletries, subscriptions, cable, or pet expenses

Don't overlook the expenses that are supplemented by an employee and deducted from a paycheck.

Step five: Review all your accounts, individual and joint

Review your credit card, bank, and investment statements and bring any unusual activity to your lawyer's attention.

Once you and your spouse know that you're going to separate, check with your attorney to find out whether you should notify financial institutions.

Your attorney will also advise you whether to close some joint accounts or leave accounts open temporarily to pay for household expenses until the terms of a settlement are decided upon.

Negotiating financial settlements

How much will you need — now and later?

Thinking short-term

Determining how much you really need financially may require some estimating. Determine what expenses might be next year for you as a single person, especially if you're supporting children. You'll have similar household expenses, either in the place you're living now or in a new home. Your childcare expenses may increase if you have to rely on more paid help. You might not get the benefit of lower car insurance that you get when two or more cars are insured at the same address or the tax benefits of filing jointly.

If you had two incomes, consider the impact of this change. While the spouse with custody of the children may get spousal and/or child support, that may not equal a second income. If there was only one income, the spouse who wasn't working may need to return to work.

Thinking beyond today

The following should be assessed in preparation for your negotiations:

Each spouse's income. Both child and spousal support are often calculated on each partner's income and earning capacity.

Your net worth. Determine your net worth as a couple and individually. If assets have to be evaluated or assessed (such as a home, fine painting, or expensive collection), consider how to do that and whom to hire to make the determination.

Securities. What stocks, bonds, and mutual funds do you own jointly and individually? How should they be divided or used in the negotiations? Does selling them make sense at this point?

Real estate. Your home and any other real property you own are part of your net worth as a couple.

Retirement benefits. Don't forget retirement funds. Are you going to split the retirement plans or trade them for another asset?

Military benefits. Some military benefits that may be lost in the divorce are housing and subsistence allowances, medical and dental insurance, and childcare on military installations.



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Military pensions. Military pensions and divorce are governed by a myriad set of rules, so it's important for active or retired military people, their spouses, and their advisors to be familiar with the Uniformed Services Former Spouses' Protection Act.

Alimony or spousal support. The higher-earning spouse typically pays regular monthly or annual alimony to the lower-earning one. Alimony usually ends when the spouse receiving it remarries.

Child support. Given the weight of a parent's obligation to children, child support is expected to be paid to the custodial parent for the care and benefit of the children, especially if the custodial parent earns less than the other parent. In some higher-income families, additional incidental expenses are paid for a period of years — perhaps indefinitely. These could include such things as medical insurance or mortgage and car payments.

Debt. Whatever debt you and your spouse accumulated during marriage is considered joint — even if you weren't responsible for it.

Taxes. They will play into your divorce settlement decisions. In most cases, lump-sum settlements are not considered taxable income to the recipient.

Social Security. To receive Social Security benefits based on your ex-spouse's earnings, you must have been married at least 10 years and not have remarried. You're eligible when you both reach age 62, even if your ex-spouse has remarried or hasn't yet retired and begun to receive benefits. Your benefit is based on half of your ex-spouse's age-66 benefit. You can receive benefits based on your own earnings record, if they are higher — but you're not entitled to both. (If you remarry, you generally cannot collect benefits on your former spouse's record unless your later marriage ends, whether by death, divorce, or annulment.)

Insurance. You may want to change the beneficiary on your life insurance policies. If you have children, you might need additional life insurance naming them as beneficiaries. If you don't have any dependents, you might choose to drop your life insurance.

Health and medical coverage. This is especially important, and both spouses will have to make arrangements for it. It becomes especially crucial if you are the one being dropped from your spouse's policy.

Thinking ahead

Keep in mind the powerful effect of inflation. Even at a relatively low long-term average of approximately 3% a year, inflation would reduce your purchasing power over time. At that rate, in 10 years, \$1,000 will buy just \$744 of what it could buy today.

When making financial decisions: What to consider

Keep your overriding interests and goals in the forefront of your thinking when you consider various settlement proposals.

Here are some important financial questions to ask yourself

What are the maintenance costs or fees associated with keeping certain valuable assets? Can you keep up the considerable annual payments for a vacation home, a country club membership, or a boat, for example? Or would it be better for you to swap one of those for an asset that doesn't require annual upkeep?

What's an asset's potential appreciation value? Compare other assets, such as your home versus your share in the family business versus your retirement funds. How do you and your advisors think they'll fare in the years ahead?

What are the tax implications of selling or transferring assets? What if you agree to trade off assets and you take the house while your spouse takes the stock portfolio? They might have vastly different consequences when they are sold, even if they wind up of equal value. For example, the house may or may not be subject to taxes down the road because individuals who have owned and lived in the property as their primary residence for two out of the last five years, are allowed up to \$250,000 (couples up to \$500,000) in tax-free capital gains when they sell their home. There are lots of issues surrounding taxes, such as the tax bracket the spouse will be in at the time of the sale and what the asset might be worth after future taxes are taken into consideration.

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How do you think child support should be dealt with as the children get older and more expensive to raise? Should special provisions for future alimony and support payments be added? Do you want to include in the agreement an automatic cost-of-living increase or a provision that reviews your spouse's income in a few years? A provision like this would be to make certain that alimony and support payments are providing the same percentage of financial support as they were when the initial agreement was made. (Keep in mind, of course, that the amount the recipient gets might be decreased as well as increased.)

What happens if alimony and/or child support are the only or main sources of income for one spouse? Will the supported spouse be able to get a mortgage if he or she wants to buy a residence? And what if the supporting spouse dies? How will obligations be covered? Will there be enough life insurance?

Business and divorce

Complications abound when couples own a business together or most of their assets are tied up in a family or closely held business.

The final settlement

No matter how you've reached the final settlement, you'll need to have a firm idea of what you're going to end up with for the near and long term. This financial knowledge will guide you as you plan for your new life. The separation agreement or divorce decree will outline most of the financial elements.



Life as a newly divorced person

Taking stock of and investing in a new life

Taking your first steps

If you haven't been actively involved in your family's finances before now, it may be overwhelming to know where to start to manage them on your own after divorce. Here are some simple steps to consider.

Pay monthly bills automatically. On most regular utility and service bills — phone, cable, electricity, and gas company, you can have the company charge your account automatically.

Pay bills online. Most banks and financial institutions offer automatic online transfers from your account for monthly bills and to make incidental payments to other creditors.

Develop your own routines. For example, you may decide to pay bills twice a month. Another excellent routine to establish is to “save off the top.” That means instead of waiting until the end of the month to see how much you have left to put away, you take a set amount off the top of your paycheck, alimony, or any other income stream and put it into a savings account.

Keep records. If there's a dispute over support payments made or received, records provide potentially important documentation. Also keep records of expenditures relating to home improvements since they may play an important part in decreasing your taxes when you decide to sell your home.

Update your documents. Review the beneficiaries on all your retirement accounts, life insurance, including your health care directives. You'll also have to consider your current estate plan, including your will. Consider your own bank accounts and investment accounts.

Figure out what it will take to make you feel financially secure. Is it a well-paying job, additional education, income-producing investments, reduction of debt, the establishment of college savings for your children, balancing short-term needs with long-term goals, investments from your divorce settlement, or bringing expenditures in-line with income?

If you are uncertain how to begin, speak to your financial advisor or a career counselor.

Planning ahead. As you plan your new life, stay in touch with your financial advisor. He or she can help you develop investment strategies to work toward your most important goals.



More help

From Wells Fargo Wealth & Investment Management

When you are considering divorce, your Wells Fargo financial professional can:

- Assist you in obtaining records and statements of all the assets you have with us, detailing purchase dates and prices, current market values, and more
- Work with and coordinate the efforts of your team of advisors

When you're in the midst of negotiations, we can:

- Provide financial information, suggestions, and experience
- Ask the questions you might not be able to ask yourself, such as "If your ex loses his/her job, are you still okay with not working?"
- Model a way of looking at financial information that's pragmatic

When you're launching life as a newly single person, we can help you:

- Consolidate your holdings
- Change beneficiary designations on insurance and retirement plans
- Develop a plan to help you move forward
- Develop an investment strategy that may help meet your cash-flow needs
- Readjust and rethink your finances at key junctures in your life

Government assistance site

ssa.gov. Specific questions about Social Security and divorce are answered here, but the site deals mainly with retirement and survivor and disability benefits.





The financial language of divorce

Because most people don't go through divorce more than once, the terms are as foreign as the process. Here is a list of the most common:

Age of majority. The age when a child legally becomes an adult in your state.

Community property/marital property/family assets. All the assets and debts that have been acquired during the marriage, regardless of whose name the assets or debts are in.

Interim or temporary agreement. Exactly what the name implies. You agree with your spouse on specific issues for a limited period, usually until you can work out the outstanding issues in the divorce.

QDRO (pronounced "quadro"). Short for "Qualified Domestic Relations Order." In cases where a spouse's qualified retirement plan is governed by the Employee Retirement Income Security Act (ERISA), a QDRO needs to be drawn up by an attorney or QDRO specialist to allow the non-employee spouse to become an alternate payee.

Separation agreement. A legally binding contract that details the terms and conditions of the separation that both spouses have agreed to. It is often incorporated into the divorce decree.

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