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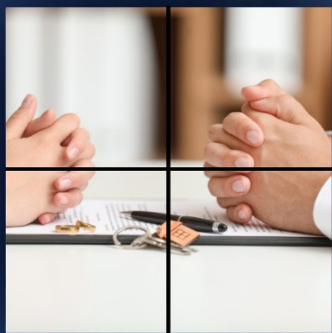

MONEY *notes*

The 'Not So Happily Ever After' Financial Plan:

How to protect your financial future during a divorce

*"Hope for the best; but prepare for the worst." Nobody enters a marriage with the expectation that it will fail. Yet it's a difficult truth that more than one-in-three marriages (**34%**) will ultimately end in divorce.*[1]

When should I hire a lawyer? Does one of us need to get a new financial advisor because we currently share the same one now? How might the ownership of a family business be impacted? How should we manage custody of any minor children? Who will cover current, and future, education expenses for the children? Who will get the house? Who will get ownership of any family pets? How will our current assets be divided? Will I be able to cover all my expenses during and after the divorce?

In addition to all these practical matters, the end of a marriage can be an incredibly emotional time, but important financial decisions DO have to be made, and in most cases, once your divorce decree is signed, it's final and not subject to renegotiation.

Some of the more common financial mistakes made in a divorce are due to a lack of understanding or analysis of your short- and long-term needs, goals and tax situation. The best approach is to educate yourself and to engage the right professionals early on. Don't delay getting advice—the sooner you learn the ins and outs of your situation, the better off you will be.

Where should you begin? Even if you are confident of an amicable and uncontested divorce, make sure you are working closely with your team, so you don't unknowingly relinquish any important legal rights or find yourself disadvantaged by the proposed division of marital property. Tracking current expenses and estimating future expenses will help formulate a post-divorce budget, which is critical when the decision is made on how assets will be split. The following considerations are designed to assist you in beginning these conversations – highlighting areas you will need to focus on and address as part of unwinding your joint assets and beginning to build your individual plan:

*So-called 'grey divorce' is on the rise, with a **46%** divorce rate among couples aged 55 to 64 (the highest rate of any age group).*[2]

Inventory your assets and liabilities

As soon as you feel as though divorce may be on the horizon, start taking inventory of all the assets you and your spouse own. Not only will this help your attorney in negotiating a settlement, it creates a paper trail of assets on the off chance your spouse tries to hide property. This list should include:

- Checking, savings and money market account balances
- Safe deposit box contents
- Taxable brokerage accounts
- Retirement accounts (e.g., 401(k), IRAs, pensions, annuities, profit sharing plans)
- Medical savings accounts
- Real estate holdings
- Personal property (e.g., autos, boats, jewelry, art, precious metals, collectibles)
- Business interests and incentives (e.g., stock options)
- Life Insurance Policies
- Prior Tax Returns

Next to your asset inventory, make a list of all the outstanding debts and obligations that you and your spouse are jointly or individually responsible for, including your:

- Mortgage balance
- Home equity loans or lines of credit
- Credit card debt
- Student loans
- Auto loans
- Liens

Review important documents and coverages

If you happen to have a *prenuptial agreement*, you will want your attorney to carefully review it and advise as to any aspects of the agreement that may warrant a court challenge. Remember that if either party failed to make a full financial disclosure, did not have an opportunity to engage an independent attorney to review and propose amendments to the agreement before signing, or simply is deemed to have been unfairly burdened by the prenup at the time it was signed (or at the time of divorce), the agreement may be considered unenforceable or subject to revision.

Additionally, if you and your children are covered under your spouse's *employer health plan*, you will need to either switch over to your own employer's plan (if you are working) or opt to continue your existing coverage for up to 36 months after the divorce under COBRA. If you decide to COBRA, make sure to contact your ex-spouse's Human Resources department once your divorce is finalized.

As with any change in your personal circumstances, you will also want to spend time with your attorney reviewing your *estate planning documents*. You may need to make changes to both your will and revocable trust, as well as your durable power of attorney and health care directives – so you can appoint someone other than your ex-spouse to act on your behalf.

Update accounts, beneficiary designations and titling

If you and your spouse maintain joint bank and brokerage accounts where you pool income, pay bills and save for the future, you will probably want to freeze or close those accounts (depending on the tax ramifications) and replace them with separate individual accounts going forward.

Also, don't forget that your soon to be ex-spouse may be listed as the primary beneficiary for many of your most valuable assets such as your 401(k), IRA, life insurance policy and any annuity you may own. Take time to sit down with your attorney and update those beneficiary designations as well as review the titling of other major assets including vehicles and properties.

*Collectively, women experience a **45%** post-divorce drop in standard of living compared to just a **21%** drop for men.*[3]

Check your credit report and explore your Social Security options

Most banks and credit card companies offer free periodic access to your credit score and report. Carefully review your report —making sure that all personal information is accurate and checking for any errors that may lower your score. If all your accounts were held jointly with your spouse, make sure to open at least one credit card account that is solely in your name to start strengthening your individual credit. If retirement is on the not too distant horizon, your BLBB advisor can help you research your own individual Social Security benefit and compare it to any ex-spousal benefit you may be eligible for. Assuming your marriage lasted for 10+ years and you don't remarry prior to age 60, you are entitled to a Social Security ex-spousal benefit (up to 50% of your ex's full benefit) based on their work record. You can apply for this benefit as soon as you have been divorced for at least two years and both you and your ex-spouse have reached age 62. And you can claim the benefit regardless of whether your ex-spouse has started collecting their own benefit. It is important to discuss all the possible scenarios specific to your situation with your financial advisor.

Make a plan for larger assets

Depending on the equity you have built up, your home may be your single most valuable asset. Typically, divorcing couples tend to sell the house and split the proceeds. However, you may want to explore buying out your spouse's ownership interest or selling your share to them—keeping in mind that if you retain the house and need to refinance, your monthly payments may dramatically change. But look to your team of advisors for support and guidance, as this can be a complex decision with major tax and liquidity implications.

*More than half **(52%)** of divorced women express regret at not having been more active in making financial decisions while married.*[4]

Given your change in circumstances, you will also want to review your investment portfolio's asset allocation; sitting down with your BLBB advisor to ensure that your current mix of assets is still appropriate. You may now need your portfolio to generate more monthly income. In addition, your personal long-term goals, objectives and risk tolerance may have shifted, requiring a more conservative or more aggressive allocation.

BLBB is a Registered Investment Advisory firm. As such, we have a fiduciary duty that requires us to act in the best interests of each of our individual clients, always prioritizing our clients' financial well-being over our own. If prior to the divorce you both had a positive relationship with your financial advisor, continuing to share an advisor, or a different advisor within the same firm, could save money and streamline the post-divorce financial planning. There is also a benefit of staying with an advisor already familiar with your retirement plan, your household assets and personal goals. This arrangement can also facilitate smooth and efficient management of financial transactions between spouses. However, you are not required to continue to use the same financial advisor as your soon to be ex-spouse and should feel no pressure to do so.

Don't overlook the tax impact

You will need to work with your tax attorney or accountant to figure out how much you will need to pay if you file your taxes separately compared to jointly. If possible, talk about tax filing with your spouse and see if you can reach an agreement about handling taxes. And, if you choose to file separately, discuss who will claim any minor children as dependents. Also, keep in mind that if you file jointly and your spouse misrepresents income or expenses, by signing the return you may be held liable for any back taxes, interest, and penalties. By filing separately, however, you may forfeit the right to certain deductions.

Divorce can be an incredibly stressful and emotionally draining life event (especially if the process is highly contentious). Confusion, anxiety and a temporary lack of focus are completely normal and expected.

The best course of action is to focus on the issues that require your immediate attention – understanding that the decisions you make can have major financial implications for your future. Don't trade away too many long-term options for short-term needs, or rush to reach a settlement in hopes of 'putting things behind you.' That can be a recipe for costly financial mistakes.

Finally, keep in mind that certain more complex assets (such as a family business) will take a great deal more time, planning, and expertise to equitably distribute. But don't wait to seek out advice—the sooner you learn the 'lay of the land' regarding your changed circumstances, the better off you will be. Your BLBB advisor is here to help you every step of the way.

1 "Revealing Divorce Statistics In 2024," Forbes, May 30, 2024
2 "Revealing Divorce Statistics In 2024," Forbes, May 30, 2024
3 "Revealing Divorce Statistics In 2024," Forbes, May 30, 2024
4 "Women, Money & Relationships," Equitable, November 2023

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