

Surviving Divorce: How to Protect Yourself

When you divorce, you not only dissolve a marriage, you also dissolve a financial connection. For those who have not had much experience in money matters, the financial aspects of ending a marriage can be overwhelming. The following advice can help you protect your financial future.

If you were married for at least 10 years and don't remarry, you may qualify for Social Security benefits based on your ex-spouse's lifetime earnings when you reach retirement age. This is true even if your former spouse has remarried or has not yet retired.

AVOIDING TAX TRAPS

There is a huge tax distinction between alimony and child support. Child support payments are tax-free to the recipient and non-deductible to the person who pays them. The person receiving alimony, however, must report it as taxable income, while the person paying can deduct the amounts. Be aware that the rules for structuring alimony payments to qualify as a deduction can be challenging.

You also should be aware that taxes play an important role in dividing assets, particularly if those assets have appreciated in value. When you sell an appreciated asset, you pay capital gains tax on the increase realized since the asset was purchased jointly, not from the time you received it as a result of a property settlement. That makes appreciated assets worth less than an equal amount of cash or non-appreciated assets. To protect yourself, use net-of-tax figures in arriving at your property settlement.

PROTECTING YOUR CREDIT

Waste no time in notifying your credit card issuers in writing of your impending divorce. Ask them to freeze your account and inform them that you will not be responsible for any new debt. If you don't already have a credit card in your name alone, apply for one now. Don't overlook the importance of closing a home equity line of credit or margin account that may be approved but not in current use. An equity line of credit that is left open can expose you

DIVVYING UP THE ASSETS

The laws governing the division of property in a divorce vary depending on the state of residence. Community property states (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin) split the property accumulated during a marriage equally between the two parties. In most other states, "equitable distribution" is the basic method. This means the court decides how to separate the couple's assets based on criteria such as need, earnings potential, financial contribution to the marriage and custody of children.

HANDLING ASSETS HELD JOINTLY

As soon as you know you are divorcing, direct your bank to freeze your joint accounts so that both signatures are required for any withdrawals. Better yet, split the balances in your joint bank accounts and open an individual account with your share. Similarly, you should advise your stockbroker in writing to require the written approval of both parties for all transactions.

PLANNING FOR RETIREMENT BENEFITS AND SOCIAL SECURITY

You may be entitled to a portion of any retirement benefits earned by your spouse during your marriage. To arrange for this, you will need a lawyer to petition a state court for a qualified domestic relations order (QDRO) that makes you a plan beneficiary. Consult with your CPA to determine the best method for receiving the proceeds.

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to the possibility of losing your home should your spouse abuse it, while an open margin account makes it possible for your ex to borrow against your joint brokerage account to buy investments. Keep tabs on your credit history by periodically requesting a copy of your credit report from a credit bureau. If you run into financial problems during your divorce, keep in mind that you have the right to put a letter detailing extenuating circumstances in your report. Lenders may be more lenient toward granting you credit if they know the reason for any prior payment problems.

BUDGETING FOR THE FUTURE

Once you're divorced, you'll learn that there's truth to the adage that two can live as cheaply as one. To prepare for the financial realities ahead, create a budget. Determine your income from all sources to calculate just how much money you have to live on each month. Then list all your expenses and decide which categories you expect will increase and where you might be able to cut back.

SECURING YOUR FINANCIAL FUTURE

If you have children, be sure your settlement agreement includes a provision for your ex-spouse to carry life insurance for the children. To ensure the policy stays in force, you can require proof of coverage from the insurance company. Finally, don't forget to change the beneficiary on your own life insurance policies and retirement accounts and revise your will.

