Financial Planning for Divorced Women

The steps toward a post-divorce action plan.

Provided by Resonate, Inc.

A divorce is one of the most stressful circumstances a woman can experience. It can leave you feeling as if some things are beyond your control. Do not let that feeling interfere with your effort to maintain control over your financial life.

Financial planning after a divorce is not radically different than financial planning before a divorce. The basic principles are the same. The big difference comes down to how you start – or rather, how you start over.

What appears to be an "equal" divorce settlement may not be an equitable one. An effort to divide assets 50/50 may seem fair and just, but the really important part is how you are financially positioned for the future. If you earn much less than your former spouse earned, and, if you are left with little retirement savings, then, arguably, you are not emerging from the divorce on equal financial ground.

Your financial goals can change markedly after a divorce, so can your financial needs and priorities. How do you begin to address all this?

As a first step, find a financial professional experienced in divorce financial planning. He or she has the skills to assess a divorcing couple's finances comprehensively. He or she can use software to forecast the potential short-term and long-term financial outcomes of a settlement. In addition, that professional can help spouses develop spending and cash management strategies and consider the tax implications of a split.

It is best to think about your financial situation – your income, your expenses, the needs of your children – before you divorce or as you divorce, not afterward. Remember that child support can increase along with income levels. If alimony will be involved, keep in mind that it does not last forever and that taxes will eat into it – $10,000 of monthly alimony, for example, will actually become $6,500-7,000 a month after taxes.[1]

If you have been away from the workforce, more education may be a good investment. It does not necessarily need to be a new degree, but, if your industry has changed in the years since you have been away from it, skills training or reacquainting yourself with certain aspects of the field may help you compete in the job market. (Access to an employer-sponsored retirement plan might become a deciding factor for you in a job search.)

Insurance may become even more important post-divorce. You may have had health insurance as a consequence of your spouse's employment. A new job may be a gateway toward new coverage. Long-term care insurance is expensive; disability insurance, less so. Both are worth looking into, in case you become ill or disabled.

A woman's retirement is usually more expensive than a man's. Today, a 45-year-old woman can expect to live to age 86. That implies a need for 20-25 years of retirement income. You may even live longer: in the 2010 Census, 83% percent of Americans older than 100 were female.[2,3]

With your spouse's financial resources absent, you must review your own retirement income sources (projected Social Security benefits, any future pensions, potential inflows from your retirement assets) and the way you invest. In doing so, you can see what moves you may want to consider to try and realize the kind of lifestyle you would like to have in retirement.

Update your beneficiaries & consider a trust for asset transfer. People often forget to change beneficiary designations on their life insurance policy and bank, investment and retirement accounts after a divorce. If these go unchanged, your ex-husband may stand to inherit a large portion of your assets. Also, estate tax laws give certain breaks to married couples that are unavailable to singles. A trust may give you an avenue to pass along more of your assets to your heirs rather than the IRS, and may prove critical if you have special needs children.

Finally, there may come a time when you consider marrying again. That will also have financial effects. If you were married longer than 10 years, you may be collecting or entitled to 50% of your ex-husband's Social Security benefit. If you remarry, you will no longer have that right. While you will become entitled to your new husband's benefit, you must know if your new husband's benefit will be lower or higher, and how that will affect your retirement. In addition to blended families, remarriage can also lead to blended assets and blended income.[4]

While it is all in your hands, partnering with a financial professional can help you move on to the next phase of your life with a solid plan for your financial future.

We welcome you to contact us for a complementary conversation.

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