TOP FIVE FINANCIAL MISTAKES: WOMEN & DIVORCE

The odds are 50/50 divorce will happen to you. These are the financial traps to avoid.

by Tricia Molloy

If you are married, think of five of your married girlfriends. Statistically speaking, three of you will end up divorced.

No matter how committed you are to your wedding vows today, the Census Bureau in 2002 says there is a 50/50 chance that you and your husband will choose to part before death. Along with all the emotional issues that divorce brings — anger, feelings of failure, concerns about the children — a myriad of financial considerations also come into play.

Who will end up with the house, investments and other assets? What about alimony and child-support arrangements? How will divorce change your tax status?

"Divorce can be ugly," says Franzelle Pertilla. "I have not seen a pretty one yet." A partner with the management consulting firm the Market-People Group, Pertilla divorced in 2001 after a 12-year marriage. She has no children. "Professional women tend to have a strong network of women they can rely on for advice. However, when it comes to divorce and your finances, every situation is different, and what worked for someone else may be completely wrong for you."

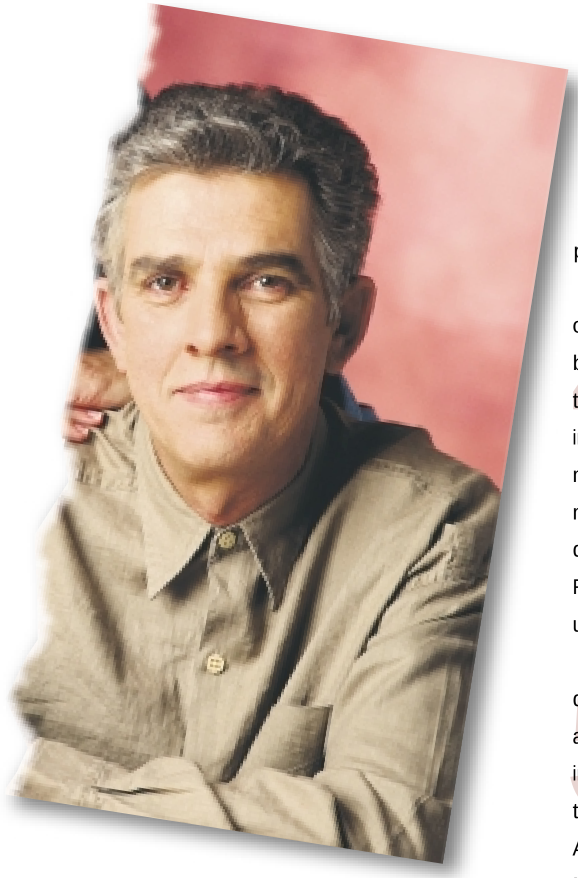
In the heat of the moment, it's easy to act out of fear and resentment and, therefore, make poor financial decisions. The more you know about what you have, what you need and what you are entitled to, the better your divorce settlement will be for both parties. All this takes is a little planning now.

Before you consult a professional adviser, determine your family's net worth. On a sheet of paper, list each asset, its worth and who owns it (you, him or joint). These include cash, investments, retirement funds, property, valuable possessions and businesses. Now consider your liabilities, which include credit cards, home mortgages and other loans. This list and a current file of your financial information (see sidebar) will serve as easy references when assets and liabilities are divided.

Top Five Mistakes to Avoid

Suzanne Durbin, ChFC, and Sherwin Lewis-Nelson of the Divorce Resource Group at GV Financial Advisors are members of the Collaborative Law Center of Atlanta, a group of professional advisers who resolve family conflicts without adversarial techniques or tactics. Durbin and Lewis-Nelson say these are the five common financial mistakes people make when divorcing.

1 Not considering the short- and long-term impact of dividing assets. Gender and emotional attachment often play a role in asset choices. "Women often keep the house and other personal assets that won't necessarily



help their long-term financial security," says Durbin. "They should consider taking the assets that will appreciate, such as retirement accounts."

2 Not accounting for the cost basis when dividing investments. Remember, a percentage of an investment's sales proceeds (the difference between the original investment amount — cost basis — and the sale value) is taxed and will reduce the final amount available. "Different assets with the same value on paper can have vastly different net values once they are sold, unintentionally shortchanging one party," Lewis-Nelson says.

3 Not insuring alimony and child support correctly. Most divorce attorneys will insist that the person paying alimony take out a life insurance policy to ensure payments continue in case of death. In most cases, the payer owns the policy and the spouse is the beneficiary. There is no assurance, however, that the payer will continue to pay the premiums or keep the spouse as the beneficiary. To protect against this, make the alimony recipient the owner and beneficiary of the policy.

4 Not understanding the value of assets. If one party owns a business, have an objective business valuation performed instead of relying on the estimates of the owner. If stock options are involved, have the value determined using the mathematical formula called the Blacke-Sholes method. Other hard-to-value assets include deferred compensation and defined benefit plans. Regardless of ownership, both spouses need to understand their true worth.

5 Not considering the timing. The year the divorce decree is signed is the year each party files as a single taxpayer. By reviewing the tax implications, you can decide whether it saves taxes to sign a decree before or after January 1. Also, are you reaching the 10th anniversary mark? Marriages of 10 years or more entitle both parties to payments equal to half of the other's social security benefits or 100 percent of their own, whichever is greater. Nine years, 11 months and 30 days does not offer the same choice.

Taxing Issues

New tax laws can benefit women who are divorcing. "In the past, the man would claim the children as dependents because he typically was in a higher tax bracket and could benefit more," says Liz Erdman, CPA, CFP and Certified Divorce Planner. "Now, with child tax credits that accompany the exemption [$600 per child this year and going up to $1,000 per child in 2010], women might want to deduct their children on their tax returns."

Other tax-reducing strategies for divorcing women are filing as head of household instead of single and asking for more alimony and less child support. "The government can actually provide additional cash to the woman, while costing the man less because alimony is deductible to the payer and taxable to the recipient, who is usually in a lower tax bracket," Erdman says.

"We had a very traditional marriage and division of chores," says Jenny Bogue, a former attorney who has been a stay-at-home mom. "It was easier for me to abdicate the role of handling the family finances to my husband. When we decided to divorce, I realized how much I didn't know." Having learned from her mistake, Bogue now includes her twin 17-year-old daughters in ongoing budgeting and investment meetings so they can learn practical financial skills. "Before they go off to college, I want them to know how to balance their checkbooks and make smart choices with their money," says Bogue, who hopes to return to a law career soon. "There is freedom in making your own choices. It's a satisfying feeling." ♀

Your financial information file should include:

- Tax returns for the past five years
- Retirement account records for you and your husband
- Employer stock option plans
- Copies of all insurance policies
- Current statements of all bank and brokerage accounts
- Mutual fund statements
- A copy of the deed or lease agreement of your home
- Statements on all outstanding loans, including credit cards and mortgage(s)
- Copies of wills, living wills, trusts and powers of attorney
- Receipts for major purchases
- Copies of birth certificates, marriage licenses and divorce decrees
- Names of all-important contacts: lawyer, accountant, financial adviser, etc.