FINANCIAL DIVORCE GUIDE

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FAMILY LAW ATTORNEYS

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Serving clients throughout New Jersey

During divorce, organizing your financial documents, making informed cost-benefit decisions, and striving to keep your expenses under control are critical to your long-term financial stability. In this special **Financial Divorce Guide**, you'll find articles, book excerpts, and advice on key financial issues that often emerge during divorce. Together with other resources and experts, use the information here to help you make it through your divorce with your finances intact, and your future secure.

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Financial History Checklist

A helpful checklist to help you organize your files for your lawyer, financial professional, or yourself.

By Diana Shepherd, CDFA™

Whether you're working with a lawyer, a financial professional, or attempting a DIY divorce, you'll need to gather information about your and your spouse's finances. You (or your spouse) probably have files with this information at home or at the office. If your spouse always took care of the financial matters during your marriage, however, then you may have little or no knowledge about these items – or even where to begin looking for them. Even if your spouse paid all the bills online, chances are that statements will still appear in the mail from time to time, so keep an eye out for letters from banks, credit-card and insurance companies, brokerage houses, your real-estate agent or mortgage broker, your local utilities, and the government (municipal as well as federal) regarding taxes paid and owing.

Buy an "accordion" expanding file folder or a portable file box with tabs, and label each tab with the major categories, such as "Bank/Investment Records", "Retirement Plans", or "Tax Returns". If you have a lot of information, buy one folder for each year and use the same labels in the same order for each one.

Here's a checklist to help you organize your files. The bold text will be the labels for your tabs; use only the ones that apply to your situation, and add items as necessary to gain a complete picture. Check off items as you place them in your file folders, and make a note of who will be collecting which piece of missing information. Tackle the items one at a time to prevent yourself from getting overwhelmed – and ask your financial professional for help collecting documents if necessary.

Income/Assets

Tax Returns (last three-to-five years)
- [ ] Husband
- [ ] Wife
- [ ] Joint
    - Personal Tax Returns
    - Partnership/Corporate Tax Returns
    - Any Amended Tax Returns
    - W-2s and 1099s – Last 3 Years

Partnership/Corporate Financial Statements (last three-to-five years)
- [ ] Husband
- [ ] Wife

Payroll Stubs

The three most recent, or from January 1 of current year, whichever is longer. Collect year-to-date pay stubs showing income and deductions if available.

- [ ] Husband
- [ ] Wife

Other Income

Such as unemployment/disability insurance, welfare, pensions, rent received, dividends/interest, trust-fund, personal loans receivable, etc.

- [ ] Husband
- [ ] Wife

Social Security/Old Age Security Statements

- [ ] Husband
- [ ] Wife

Employee Benefits and Incentive Programs

These could include stock-option programs, country-club initiation fees, banked vacation, and sick days. Collect all Employee Benefit and Executive Compensation Booklets and Statements for Husband and Wife, including:

- Benefits Booklets
- Most Recent Statements (three years) for:
- Stock Options
- ESOPs (Employee Stock Ownership Plans)
- Profit-Sharing Plans
- Expense Accounts
- Automobile Allowances/Car Leases/Expenses
- Travel Benefits (if significant):
- Frequent Flyer Miles
- Hotel Points
- Car Rental Points
- Sick Pay/Worker's Compensation
- Annual Bonuses
- Deferred Compensation
- Military/VA Benefits
- Insurance (see below)

Insurance Policies (personal and through work)

- [ ] Husband
- [ ] Wife

Policies and most current statements for:

- Life Insurance
- Disability
- Critical Illness
- Long Term Care
- Health
- Children
- Motor Vehicle(s)
- Homeowner's or Renter's
- Personal Umbrella

Pension Plans (Defined Benefit and Defined Contribution)

- [ ] Husband
- [ ] Wife
  - Summary Plan Description
  - Benefits Booklet
  - Most Recent Statements (three years)
  - Benefits Estimate:
    - At Earliest Retirement Age
    - At Normal Retirement Age
    - At Current Age (If Eligible)
    - Early Retirement Option Elections

Retirement Plans

- [ ] Husband
- [ ] Wife
  - IRA, SEP-IRA, Roth IRA, Keogh, SEP, 401(k), 403B, 457 & Non-Qualified Deferred Compensation Statements
  - RRSP, CPP

Bank/Investment Records

- [ ] Husband
- [ ] Wife

Individual, Joint, Business, Partnership, and Corporate Accounts for the following:

- Checking Accounts: cancelled checks and bank statements for previous 6-12 months.
- Savings/Passbook Account: statements for previous three years. Other Investment Accounts: Securities, Money Markets, Brokerage, CDs, Commodities, Mutual Funds, Annuities, Stocks & Bonds, Tax-Free etc. for Husband and Wife.
- "Special purpose" accounts. These accounts are usually funded by payroll deductions and are set up to fund large and infrequent expenses such as the annual premium on your home or auto insurance, Christmas, and so on. These accounts are easy to forget.

- [ ] Children's Accounts

Statements for previous three years for the following:

- Savings
- Investment
- College Savings Plans (529 Plans, RESPs)
- Insurance

Cash

Do you keep any cash at home or in a safety-deposit box?

- [ ] Husband
- [ ] Wife

Primary Residence and Other Real Estate

- [ ] Primary Residence
  - Current Appraisal
  - Date of Purchase and Purchase Price
  - Original Mortgage Amount and Current Mortgage

Amount
- Interest Rate/Length of Mortgage
- Monthly Payment Amount
- Second Mortgage Info

☐ All of the above information for all real-estate holdings other than the Primary Residence.

Property/Assets

☐ Listing of all individual, joint, and business non-investment assets such as:
- Cars, vans, trucks, motorcycles, and other motor vehicles
- Airplanes, boats, sea-doos/ski-doos, ATVs, RVs, campers
- Valuable/rare artwork, jewelry, collectibles (coins, medals, stamps, movie memorabilia, etc.), antiques, furs, etc.
- Royalties, patents, copyrights, franchise and license agreements
- Household furnishings: create an itemized list. NOTE: most furnishings will be valued at garage-sale prices, so don't waste time trying to hunt down the receipt for the sofa you bought 20 years ago.

Miscellaneous

☐ Any other invoices, receipts, or documents that support the information contained in either spouse's Financial Statement/Affidavit regarding income and net worth.

Organizing Your Paperwork

During your divorce, you need to develop an organizational system that will work for you – and prevent you from drowning in a sea of paperwork. You'll save time, money, and reduce your stress levels if you can put your hands on a document the moment your lawyer or financial professional asks for it. An accordion folder is a good way to keep everything in one place – and it's portable so your files can travel with you to meetings. You'll want to relabel some of the tabs so they're specific to your situation. For instance:

☐ Documents for my lawyer
☐ Documents from my lawyer
☐ Documents for my financial professional
☐ Documents from my financial professional
☐ Marital Property Inventory and/or Receipts
☐ Non-Marital Property Inventory and/or Receipts
☐ Household Inventory
☐ Household Bills and/or Receipts
☐ Bank Accounts (joint and separate)
☐ Credit Cards (joint and separate)
☐ Debts
☐ Monthly Expenses
☐ Income Statements
☐ Child or Spousal Support (paid or received)
☐ Insurance
☐ To-Do Lists

During divorce, there is simply too much to remember, and too much can fall through the cracks at this stressful time. So start making one or more Divorce To-Do Lists now. You can use computer software to track tasks and appointments, or you can use a diary or appointment book that you'll refer to every day. Make sure to put deadlines on everything: you don't want to keep your lawyer waiting for a document you promised last week because you forgot about it!

Debts and Expenses

Debts/Liabilities

Information regarding all outstanding loans (either bank or private) and debts (e.g., credit and gas cards), including rate, term, monthly payments, and pre-payment penalties.

☐ Loan Statements for Husband and Wife's Joint, Business, Partnership, and Corporate Accounts

☐ Credit Card Statements for Husband and Wife's Joint, Business, Partnership, and Corporate Accounts

☐ Any other invoices, receipts, or documents that support the information contained in either spouse's Financial Statement/Affidavit regarding debts

Living Expenses

☐ Husband
☐ Wife

Collect all bills and invoices for living expenses, including:

Household Expenses
- Rent/Mortgage
- Homeowners/Association Fees, Property Taxes
- Telephone, Cellphone, Pager
- Internet, Cable/Satellite
- Security System
- Electricity, Gas/Fuel Oil/Propane/Wood
- Water/Sewer, Trash Removal
- Lawncare, Tree Pruning, Landscape Maintenance, Snow Removal
- Exterminator
- Home Improvements/Upgrades
- Home Repairs/Maintenance, Housecleaning, Windows/Carpet Cleaning

Food Expenses
- Groceries
- Fast Food, Restaurant Meals

Children's Expenses
- Education: Tuition, Private Tutoring, School Supplies and Meals, Field Trips

- Computer, Cell Phone
- Childcare: Work-Related and Non-Work-Related
- Summer Camps, Sports Fees/Coaching/Equipment, Art Lessons and Supplies, Music Lessons and Instrument(s)
- Hobbies, Toys, Games
- Clothing, Uniforms, Footwear
- Medical, Dentist, Orthodontist, Optometrist/Glasses/Contacts, Prescription Drugs (not covered by insurance)
- Allowances
- Transportation

Medical Expenses (After Insurance – Excludes Children)
- Physicians, Dentist/Orthodontist
- Optometrist/Glasses/Contacts
- Prescription Drugs

Insurance Expenses
- Life, Health, Dental, Critical Illness, Disability, Long Term Care
- Home, Auto, Motorcycle, Other (Boat, Umbrella, etc.)

Transportation Expenses
- Auto Expenses: Car Payment, Gas, Repair/Maintenance, Tires, Detailing, License, Parking, Tolls
- Taxis, Public Transit

Entertainment/Recreation Expenses
- Videos, CDs, DVDs, Books, Magazines, Newspapers
- Movies, Theater, Opera, Ballet
- Hobbies, Classes (Recreational)
- Vacations/Travel
- Memberships, Clubs

Clothing Expenses (Excludes Children)
- Clothing, Shoes/Boots
- Laundry/Dry Cleaning

Miscellaneous Expenses
- Pet Care: Food, Vet, Groomer, Dog Walker
- Gifts
- Toiletries, Vitamins, OTC Drugs, Personal Care Products
- Beauty: Salon (Hair, Nails), Makeup
- Home Office Supplies
- Business Expenses (Non-Reimbursed)
- Education (Non-Reimbursed)
- Bed, Bath, Kitchen, etc. Items
- Contributions/Donations, Volunteer Work

Legal Documents

Powers of Attorney (POA)
Collect Medical and Financial POA documents for:
- [ ] Husband
- [ ] Wife
- [ ] Children

Business or Partnership Agreements
- [ ] Husband
- [ ] Wife

Trusts
- [ ] Husband
- [ ] Wife
- [ ] Children

Wills
- [ ] Husband
- [ ] Wife
- [ ] Amendments or Codicils

Pre- or Post-Nuptial Agreements
- [ ] Husband
- [ ] Wife

Previous Divorce Documents
Collect divorce documents from prior marriage(s). Of particular importance: the property settlement(s), and any spousal or child support orders still in pay.
- [ ] Husband
- [ ] Wife

Diana Shepherd is the co-founder and Editorial Director of Divorce Magazine, and she is a Certified Divorce Financial Analyst® (CDFA™).

Related Articles

Post-Divorce Financial Checklist
Here are 20 financial "must-dos" after divorce. Once you've completed this list, you can rest assured you've done everything possible to take control and make the most of your finances.
www.divorcemag.com/articles/post-divorce-financial-checklist

Financial Checklist Quiz
Take this short quiz to find out whether you get a clean bill of financial health – or if you require emergency care.
www.divorcemag.com/articles/financial-checklist-monitor-your-financial-health-with-this-short-quiz

Discovering Your Financial Reality
Understanding your financial situation will give you a sense of control over your life – before, during, and after divorce.
www.divorcemag.com/articles/discovering-your-financial-reality

Steering Clear of Financial Landmines

Understanding the financial and tax implications of your options – and avoiding financial landmines – is critical in creating a settlement that will last long-term.

By Andrew K. Hoffman, CFP®, CDFA™

When negotiating your financial settlement, you need to know and understand the facts and your options before finalizing your settlement. In my divorce practice, I have found some crucial items are often overlooked; this article outlines some of those items for your consideration. Make sure to work with your lawyer and a divorce financial professional to cover the bases.

Take Taxes into Account

Failing to understand the tax basis of property can generate unexpected taxes for the spouse receiving property, which reduces the value of the settlement. Carefully reviewing the tax basis of all property, and planning whether to keep or sell the property post-divorce, can avoid the problem of unanticipated taxes on unrealized gains.

Dividing marital property into tax assets of similar tax basis, and then dividing these classes equitably, helps to avoid the complexities or omission of offsetting assets with different basis.

Review Tax Returns

Personal tax returns are a financial road map to the finances of the family and vital to arriving at a financial settlement. In recent years, loss carryforwards are appearing on more tax returns. Carryforwards have a value as a potential tax benefit; some can be deducted from future income, and others affect the basis of the transferred property.

Be sure to negotiate how unused capital losses, net operating losses, passive activity losses, charitable contribution carryforwards, and unused investment interest expenses will be divided in your settlement.

Understand Retirement Plans

Not all retirement plans are the same. It's crucial to find out what options are available to you, and to make sure your divorce agreement only includes payments that your – or your spouse's – plan allows. Here are three points to consider:

- **Defined Contribution Plans:** Find out whether your particular plan will allow distributions. This is an important consideration if some of the retirement funds will be used to generate liquidity, or rolled over to another retirement plan. Some plans do not allow distributions on certain investment choices, while other plans have temporarily frozen funds in certain investment choices. The timing of the distribution also matters; choosing the right timing of a distribution can help one or both spouses reduce or avoid unanticipated taxes.

- **Defined Benefit Pension Plans:** Understanding whether there will be a lump-sum or a future stream of income available from the plan helps couples negotiate better settlements. It might be better to value the pension and offset the value with other assets, divide the future income, or combine these two approaches.

- **Survivor Benefits:** Understanding the importance of survivor benefits and making sure they are included in the pension division document ensures that the spouse who is not directly participating in the plan doesn't lose their pension rights if their ex-spouse dies before them.

Short-Sales may Result in Taxable Income

In depressed housing markets, where many homes are worth less than the mortgage balance, some homeowners are negotiating with their banks to make a short-sale. Understanding whether a short-sale could result in a taxable gain and whether any taxes would be payable on the sale is another important minefield that has to be navigated.

Structure Spousal Support Carefully

Spousal support can be used to shift income from the spouse in a higher tax bracket to the spouse in a lower tax bracket (it reduces income to the payor and increases income to the recipient).

Be sure to structure your spousal support properly so you don't trigger unanticipated taxes. Avoid:

1. Front-end loading of spousal support in the first three years after a divorce.
2. Reducing spousal support based on a contingency related to your children.

A mistake in either of these areas may cause the payor spouse to lose all or a part of the spousal support deducted on his or her tax return and be charged not only unexpected taxes but also penalties and interest. This is an extremely complicated area; ask your divorce financial professional to explain it to you to avoid an expensive surprise from the taxman down the road.

Check your Health Coverage

In the USA, the Consolidated Omnibus Budget Reconciliation Act (COBRA) contains provisions giving certain former spouses the right to temporary continuation of health coverage at 102% of the actual employer's premium. In order to be eligible for continued coverage, you must inform the ex-spouse's employer of the divorce within 60 days of the divorce. Trying to cover an ex-spouse by not informing the employer of the divorce can result in health coverage being denied or a fraud lawsuit by an insurance company attempting to collect medical benefits paid.

[Ed. In Canada, extended health-care plans will not cover an ex-spouse post-divorce; once divorced, a spouse no longer qualifies as a dependent. If you're the non-member spouse, and if you have documented medical issues, you need to investigate plans that allow for pre-existing conditions ASAP; most plans of this type need to be placed within 30 days of the divorce, so time is of the essence here.]

With offices in Arizona and Louisiana, Andrew K. Hoffman (FCA, CFP®, CDFA™) has specialized in working with divorcing individuals since 1999; his firm's website is www.lacdfa.com. For more information about how a CDFA can help you to address the financial issues of divorce, go to www.InstituteDFA.com.

Related Articles

Tax Tips and Traps
Here are two topics you'd probably rather not think about: divorce and taxes. If you're separated or newly divorced, however, it could be worth your while to get some good financial advice about both.
www.divorcemag.com/articles/tax-tips-and-traps

IRA Transfers and Divorce
If you're transferring your interest in an IRA to your (former) spouse, you could get hit with extra tax and penalties if the transfer is not made correctly. Here's the right way to transfer these funds.
www.divorcemag.com/articles/ira-transfers-and-divorce

The 12 Financial Pitfalls of Divorce
A little bit of advance financial planning can go a long way during your divorce process. Discover the 12 common financial pitfalls of divorce that you should avoid.
www.divorcemag.com/articles/the-12-financial-pitfalls-of-divorce

Creating Positive Cash Flow during Divorce

The only ways to increase your cash flow are to increase your income, cut your expenses, or some combination of the two. Here's how to find the money to fuel your dreams.

By Amy Jensen Wolff

Cash flow refers to how your money moves in your household, from the time it is received to when it is spent. "Positive" cash flow refers to having more money coming in than going out – in other words, spending less than you're taking in every month. Positive cash flow is essential to financial solvency; if you take steps to increase your positive cash flow each month, you can then save and invest more each month for those goals that are most important to you.

Take a minute to really consider your short, medium, and long-term goals. What are they? For instance, do you want to:

- Purchase a new home, cabin, or vacation home?
- Make special home improvements?
- Start a business or change careers?
- Help your adult children and other loved ones who are experiencing financial troubles?
- Enjoy an early retirement?
- Go on a dream vacation or just travel regularly?
- Start a foundation and/or increase your charitable giving?

Finding Money to Fuel Your Dreams

The only ways to increase your cash flow are to increase your income, cut your expenses, or some combination of the two.

Let's start with increasing your income. Divorce can definitely impact a person's financial situation, especially if it results in a need to change your working status in order to earn enough money to pay for both your short- and long-term needs. If your income is no longer sufficient to meet your goals, you need to revisit your situation. Perhaps you'll need to find a job – or find a different job that provides you with a better salary. You might elect to pick up a temporary, part-time job in addition to your full-time job to create a cash cushion for yourself or to meet some immediate, pressing needs. You may decide to go back to school to learn new skills to make you either employable or more employable at a higher wage. Investing in yourself could be the best decision you make. By furthering your education and building additional skills, you become more marketable. Your increased income is yours for the rest of your working career.

Second, let's look at cutting your spending as another way to improve your cash flow. To successfully identify ways in which you can cut your spending, you need to know exactly what you're spending now and for what. That means your first step should be to develop a budget: a written plan that details both how you are currently spending and how you plan to spend your money in the future.

"Budget" is often considered a dirty word, but that may be part of the reason that households with credit card debt carry an average of $10,000 to $14,000, depending on the source you consult. Avoid being part of this statistic! If you're one of those households who tend to carry a credit card balance, please read further to learn how to develop a budget and to live within it. If you're the type of person who uses a credit card and pays it off every month, but still can't save towards your really important goals, you also need to read further. You need to be able to develop and stick to a budget so that you can enjoy the life you have always wanted to – because you're worth it!

Bottom line: Positive cash flow is the foundation of your financial plan. After a divorce, positive cash flow becomes even more important as dollars often need to stretch further to support two households instead of just one.

There are five key steps involved in making and sticking to a budget:

1. Understand your income;
2. Determine your historical spending;
3. Project your future expenses;
4. Organize your budget into a cash flow system that works for you;
5. Monitor and update your cash flow system.

Step 1: Understand Your Income

Income covers a lot of ground, but generally, it can include:

- Spousal maintenance/alimony
- Child support
- Part-time and full-time wages, bonuses and commissions paid to you by an employer
- Self-employed income
- Rental income
- Royalties
- Investment income such as interest and dividends
- Pensions and/or draws from retirement accounts.

Start by listing all your sources of income, as well as how often you receive each of them. For example, do you receive the income semi-monthly, bi-weekly, monthly, quarterly, semi-annually, or annually? Is the income fixed/guaranteed (such as a paycheck or spousal support) or variable (such as self-employed income)?

Because different sources of income are taxed differently, it's also important to understand what your true after-tax income is. Seek out a financial professional skilled in tax matters who can assist you with this.

If you'll be paying or receiving spousal or child support, you need to understand how the taxes will affect your income or your liabilities. For example, spousal support is usually taxable to the person receiving it and a tax-deduction for the person paying it. Child support, on the other hand, is neither taxable to the parent receiving it nor is it a tax-deduction for the one paying it.

Step 2: Determine Your Historical Expenses

Your historical spending can be helpful data to have when developing a budget. Ideally, you should look back at 6–12 months of expenditures in order to accurately capture those expenses that do not come up monthly, such as car and home maintenance, vacations, kids' sports and activities, insurance premiums, etc.

If you've been tracking your expenditures in a software program such as Quicken® or Excel®, or if you're able to access summary spending information electronically from your bank or credit card company, you're in luck: both of those sources give you a headstart in discovering how much you actually spend and for what.

If you don't have access to that type of historical spending data, don't worry. You can access a six-month sample budget that you can use to record your historical spending by visiting ajwfinancial.com/new/amyjenson-wolff1. Click on "Becoming a Client" → "Forms", then choose to download either an Excel or .pdf version of the "Historical Spending Worksheet". Just collect your bank statements, checkbook register, credit card statement(s), a pen, a calculator, and a cup of coffee, and off you go!

Tips for Compiling Historical Expenses

For the sake of your sanity during this process, don't try to document all of your spending to the penny! Instead, try to work on coming up with a monthly average for each of your categories. For example, if you spent roughly $150 in cash on holiday gifts in November, $350 cash in December, and then spent another $500 to pay off your gift-related credit card charges in January, your holiday gift total is $1,000 a year. That means you spent an average of $83 a month on holiday gifts.

Consult a friend or your financial advisor if you need some help in working through this process. And recognize and acknowledge that putting together your historical expenses is hard work, so be sure to reward yourself with a little something special when you finish this project!

Most people never make time to

look at their spending habits; completing this exercise can be an eye-opening and educational experience.

Step 3: Project Your Future Expenses

Next, project what your future monthly expenses will be. Since you now have an idea of how you spent money in the past, you have a framework for projecting your expenses moving forward. In fact, this exercise may actually trigger spending to go up in some areas while giving you motivation to reduce your expenses in other areas.

For instance, are you only spending $25 per month on entertainment? You only live once – maybe you should be having more fun! On the other hand, if you discover that you're spending $500 per month dining out, carefully consider whether that amount is worth it to you, or whether you'd like to cut back on that expense to save towards another goal.

The key here is to be realistic based on your new financial situation. If your income has been cut significantly because of the divorce, but you're still spending as you did before it, it's time to recognize and change those old habits.

Tips for Projecting Realistic Expenses

- **Car purchase and maintenance**. If you tend to keep your cars for eight years and think you'll spend about $25,000 on a different vehicle, saving $260 per month ($25,000/96 months) means you'll be able to buy a new car for cash when the time comes. If you tend to purchase cars more often, you may be able to factor in a trade-in or sale of your existing car when determining how much to save. The older the car you have, the more money you should be putting aside to take care of any unexpected repairs. Car maintenance includes oil changes, replacing tires, fixing brakes, and so on.
- **Home maintenance**. If you are not sure how to budget for this item, here's a good rule of thumb: set aside 1–2% of the value of your home on an annual basis for maintenance costs. That means that a home valued at $300,000 would probably have annual maintenance costs of between $3,000 and $6,000. Newer homes would probably fall at the lower end of this amount, as will homes where you plan to do a lot of the routine maintenance yourself. Costs will be on the higher end for an older home or for someone who needs to hire out help in this area. Home maintenance costs can include:
  - Replacing your roof, siding, or windows;
  - Caring for your lawn and garden (mowing, fertilizing, sprinkler system, annual flowers, landscaping);
  - Fixing and replacing appliances;
  - Repairing a plumbing or electrical problem;
  - Cleaning and replacing carpets;
  - Day-to-day things such as light bulbs, furnace filters, and so on.

  You may not need the full amount you budget for maintenance every year, but you might need much more than this in other years.
- **Holiday expenses**. December gift-giving and expenses are often missed when budgeting. Think through the gifts you give, the decorating you do, and the entertaining you host.
- **Vacation**. This is another area that is often overlooked when budgeting. Consider land and air travel, car rental, hotels, and spending money. If you routinely take two trips a year to visit your parents or friends in another area of the country, put those expenses into your monthly budget.
- **"Big Box" expenditures**. Big Box stores are places such as Target, Wal-Mart, Costco, and Sam's Club. If you visit your local big box an average of twice a month and never walk out of there without spending $200, put this into your budget as a separate line item.

How Much Should You Be Spending?

Although every person's situation will differ, financial coach and speaker Dave Ramsey (www.daveramsey.com) provides these common rules of thumb regarding what percentage of net income you should be spending:

- Housing: 25-35%
- Utilities: 5-10%
- Transportation: 10-15%
- Healthcare: 5-10%
- Food: 5-15%
- Investments/Savings: 5-10%
- Debt Payments: 5-10%
- Charitable Giving: 5-15%
- Entertainment/Recreation: 5-9%
- Misc. Personal: 2-7%

Step 4: Organize Your Budget

There are many systems you can use to help yourself stay within your budget. Here is one system that has proven to work for those who want to keep it simple. Start by taking your projected expenses and breaking them out into three categories: fixed expenses, escrow or "saving" expenses, and living (discretionary) expenses.

Fixed expenses are those that do not change much from month to month. These include things like your mortgage payment, car payment, insurance premium and so on. Consider setting up a separate household checking account from which to pay these expenses.

Escrow expenses are those that are less frequent and which may be paid quarterly, annually or periodically throughout the year. These include things like car and home maintenance, real estate taxes, income taxes, holiday spending, some insurance premiums, etc. Consider setting up a separate checking account or savings account in which you put money each month to cover these costs as they come up.

Living expenses are everyday expenses, including groceries, dining out, gifts, haircuts, children's allowance, entertainment, etc. Consider giving yourself a weekly or monthly allowance and pay cash for these items.

Here's why you should consider using cash for these expenses:

- If you have a budget of $800 per month for living expenses and you give yourself an allowance of $200 each week, looking in your wallet will make it crystal clear to you as to whether or not you can afford to eat out for lunch or whether you should be packing a lunch.
- When you're strolling through a retail store, simply knowing that you are going to have to pay with cash when you check out will make you more mindful of what you put in your cart. And you really won't miss those impulse purchases.
- You will never have a credit card bill you can't afford to pay.

Switching to a new cash flow system is hard work – and it doesn't happen overnight. Think of it as going on a diet or starting an exercise program: it will take a good 30 to 90 days to get into the swing of things and to make this a regular part of your lifestyle. And keep in mind that if you don't consciously develop good money habits, you will subconsciously develop bad habits.

If you truly aren't comfortable paying for your purchases with cash, consider setting up another bank account and transferring your allowance into that. Then use your debit card to access the dollars as needed. Just make sure you keep an eye on your balance so you know you're staying on track.

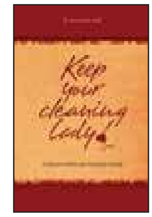
If you're one of those people who are really disciplined about staying within a budget, you can keep using your credit cards as long as you continue to pay off the balance every month. However, if you are ever unable to pay off the card, stop using it and reconsider the cash system.

Now that you know what your income is and what your budget is, think about how you can structure your income to "fund" each of the three areas mentioned above. For example, can you have your company payroll department send direct deposits in the appropriate amounts to each of your bank accounts? Does it work for you if you just deposit your child support check into the escrow account and your salary into the household account?

Your goal is to meet your budget – or better yet, to create even more positive cash flow. If your expenses exceed your income (which is very common the first time you try to stick to a new budget), go back and look for areas in which you can cut expenses. Alternatively, you could also explore options for increasing your income!

Step 5: Monitor and Update

Monitoring and updating your cash flow system as things change is the key to a successful long-term budget. If you're working with a financial advisor, use that person to help you walk through this process. They can also help you stay accountable for your choices. If you aren't working with a financial advisor, consider asking a friend to help you stay accountable to your plan!



This article has been edited and excerpted from Keep your Cleaning Lady: A Divorce Aftercare Financial Guide *(AJW Financial, 2012) by Amy Jensen Wolff (CFP®, CDFA™). This book will guide you through all the steps you'll need to regain your financial self-confidence and take firm control of your financial future during and after divorce.*
www.ajwfinancial.com

Tricks for Budgeting Success

Here are a few more helpful tips to achieve long-term budgeting success:

- **Revisit your budget on a regular basis.** This will make you more accountable.
- **Remember to pay yourself first.** Most people save only if they have money left over at the end of the month. By making it a point to save money first, you can then budget your remaining dollars. An easy way to do this is to set up a pre-determined amount of savings that automatically is transferred out of your checking account at the same time every month, perhaps on payday. If the cash is out of sight, it will likely stay out of mind, too.
- **Use cash as opposed to credit cards.** Oddly enough, if you have a set amount of cash for a week, it's harder to spend it.
- **Use shopping lists.** This helps you avoid spending money on things you don't need. Make sure that the things that go on your list are also part of your budget!
- **Set an impulse purchase limit** (something like $25). That way if you find something you think you really want but it's over your impulse purchase limit and isn't on your shopping list, you'll need to leave the store without buying it. By the next day, you probably won't miss it.
- **Pay down high-interest credit cards** (at more than the monthly minimum). This helps you avoid the finance fees that can quickly devour all the savings you're achieving elsewhere. And once your high-interest debt is paid down, you'll have more money to save or allocate to another area.
- **Distinguish between wants and needs.** Always address your needs first. And by the way, paying down debt is a need. By doing this, anything left over can be spent on your wants.
- **Consider enlisting a financial professional** to help you create and track a personal budget. They can also help keep you accountable for sticking to that budget once you've created it.
- **Don't be too hard on yourself.** Like anything you become good at, staying within a budget takes practice. Once you're successful at it, it can even be kind of fun!

Taking Control of Your Finances

Understanding your income and expenses will help you to gain control of your finances – and life – during divorce.

By Diana Shepherd, CDFA™

Here's a question for you: do you have a written, detailed, up-to-date budget detailing all your daily, weekly, monthly, and yearly expenses and income? If you're like most people, your answer to this question will be "no." The lack of a budget may have caused financial problems during your marriage, but it could be ruinous post-divorce. If you don't know what your expenses are, how will you know how much you'll need to maintain your current lifestyle – for yourself and your children? Or worse: you may already be living so far above your current income that you've taken the first steps down the road to bankruptcy without even being aware of it.

So the first step to gaining control of your finances – and life – during divorce is to prepare an accurate current budget and a post-divorce budget. You will need to gather documentation to ensure that your budget is objective and not the product of guess-work.

First, you need to identify your sources of income, which includes revenue from full- and part-time employment, investment return, and self-employment income. Add up all the income from different sources to come up with total income. If you're clueless about what your spouse earns, obtain or make copies of his/her tax returns for the last three to five years. Also, watch the mail for statements from banks or brokerage houses; if you have never opened any of these during your marriage, and you have good reason not to let your spouse know of your sudden interest in the family's finances, you can start by making a note of how many of these arrive in an ordinary month as well as the names and addresses on each envelope.

After you have an accurate picture of what's coming in, you need to create an equally accurate picture of what's going out. You should review your check register and credit-card statements – or your online banking records if that's how you usually pay your bills. Remember that not all your expenses are paid monthly; some insurance premiums or tax bills might be payable quarterly or annually, so make sure to account for those as well.

Don't forget about cash withdrawals using ATM cards; you'll be surprised how quickly taking $50 here and $100 there can put you in the red if these withdrawals are not included in your budget. Also, you need to be able to account for where/how you spent the cash: was it taking taxis to work, going out to restaurants, on a new outfit, or paying the babysitter?

After you've completed a "first draft" of your budget, ask a reasonable and financially-savvy friend or family member to review it and question the expenses that seem unreasonable. (You may think a $500 shirt and weekly spa appointments are both reasonable and necessary, but someone who sees you living beyond your means may not agree!) If you're going to ask for help with your budget, you'll have to agree to keep an open mind and not to become angry or defensive if he/she questions one of your items. This person is trying to help you, and he/she will probably be a lot easier on you than a judge would be!

Start with the pre-divorce scenario using the "Expense Worksheet" on page 16 as a guide. Make two copies of the chart, replacing or deleting items to suit your needs, then fill in pre-divorce expenses on one and post-divorce expenses on the other. After you've created your pre-divorce budget, go to the post-divorce page and carry over each expense with an increase or decrease in its value based on your new circumstances. For example, an increase might be lawn care or snow removal if your ex used to handle that. Food expenses, on the other hand, should decrease now that you have one less mouth to feed.

If you're like most people, your number-one financial concern during divorce is maintaining positive cash flow – in other words, being able to pay the bills on a monthly basis – not only on the day after divorce, but five, ten, 15 years into the future. In order to meet cash-flow needs, there are three sources of money that may be available to you as a result of your divorce: child support, spousal support, and marital property. Let's take a quick look at all three.

Child Support

In the US and Canada, a parent is obligated to support his or her children, regardless of the parent's marital status. All states and provinces have child support guidelines; you should review the guidelines in your area to get a rough idea of what you might be entitled to receive or have to pay. Generally speaking, child support is based on factors such as the ages of and number of minor children, the amount of time they will reside with each parent, and the income of each parent. These factors are plugged into a formula, which then supplies a recommendation for the Court. In a divorce situation, the non-custodial parent is usually ordered to pay child support to the custodial parent, from which the custodial parent pays the child's expenses.

However, the child support formula does not take into consideration your child's actual expenses. For example, extra-curricular activities, private school tuition, and college funding are not factored into the formula. These are considered "extraordinary expenses," and they are often an area of great discussion and/or argument. It may be unrealistic to keep your child in Rep Hockey, horseback riding, and Kumon math; you and your soon-to-be-ex spouse will now have to start making decisions based on what is financially feasible.

Here's an example. My neighbor Cathy, who is in the process of getting a divorce right now, has an 11-year-old daughter who is a promising figure skater. Brittney's skating expenses are $500 per month in training, competition fees, and costumes. Cathy tells me that the costs will increase as her daughter gets older. Unfortunately, these expenses will not be taken into consideration when the court calculates child support for her, and Cathy cannot afford to cover them on her current salary.

One of the ways in which a Certified Divorce Financial Analyst™ (CDFA™) can help their clients is to determine which costs may not be addressed by the guidelines and then to help them find alternative solutions to cover these expenses.

Since child support is such a complex area of the law – and because it can be a very contentious issue between divorcing parents – you should ask your lawyer for guidance regarding the child support amount.

Spousal Support

Another source of income (or an expense) for many divorced people will be spousal support. Spousal support is based on different factors, and it's a very gray and subjective area. However, the two most heavily weighted factors are need and ability to pay; the length of the marriage is another factor that is considered when awarding spousal support.

Unless you have prepared an accurate budget, you will not know how much spousal support you need – or, if you're on the other end of the equation, how much you can afford to pay.

Aside from determining need and ability to pay, you need to understand some other important issues with regard to spousal support. With respect to the amount and duration, this can either be a negotiated amount between spouses or it can be court-ordered. (In the US, spousal support can be set up as modifiable or non-modifiable; if it's non-modifiable, this means that neither party can ask for it to be changed for any reason at any time in the future.) In most cases, each party may revisit the amount and duration each year after filing a tax return. As well, there may be the ability to revisit the amount of support if there is a substantial change in circumstances for one or both of the parties. Here's an example: John is paying Mary, who currently has a minimum wage job, $20,000 per year in modifiable spousal support. In the second year after the divorce, Mary finds a job that pays $55,000 per year. Due to this change in circumstances, John may be able to have the spousal support reduced.

No two divorcing couples have identical circumstances. The standard is to give support to the spouse who needs it in order to keep the family on an equal setting – however, there is an underlying duty for each spouse to work towards being independent of each other.

Property

The third potential source of money in a divorce is property. Many states and provinces call for an equitable division of property. "Equitable" does not always mean "equal" – it is, however, supposed to mean "fair." If the spouses can't agree, the judge is the final arbiter of what constitutes fair. Although most divorces settle 50/50, it can make a huge difference which 50% you get; in other words, all assets are not created equal.

Expense Worksheet

❑ Pre-Divorce
❑ Post-Divorce
(check one)

	Monthly Expenses	Annual Expenses
Home Expenses		
Rent/Mortgage	$________	$________
Homeowners/Condo Fees	$________	$________
Home Equity Loan	$________	$________
Property Taxes	$________	$________
Home Phone	$________	$________
Cellphone/Pager	$________	$________
Internet	$________	$________
Security System	$________	$________
Cable/Satellite/Netflix	$________	$________
Electricity	$________	$________
Gas	$________	$________
Water/Garbage	$________	$________
Landscape Maintenance/Lawn	$________	$________
Snow Removal	$________	$________
Exterminator	$________	$________
Home Repairs/Maintenance	$________	$________
Home Renos/Upgrades	$________	$________
Housecleaning	$________	$________
Miscellaneous Household	$________	$________
Total Home Expenses	**$**________	**$**________
Food		
Groceries	$________	$________
Dining Out	$________	$________
Total Food Expenses	**$**________	**$**________
Clothing/Footware Expenses		
Clothing/Footwear Purchases	$________	$________
Laundry/Dry Cleaning	$________	$________
Total Clothing/Footware Expenses	**$**________	**$**________
Entertainment/Recreation		
Entertainment (excl. dining out)	$________	$________
CDs/DVDs	$________	$________
Hobbies	$________	$________
Movies and Theater	$________	$________
Vacations/Travel	$________	$________
Classes/Lessons	$________	$________
Total Entertainment Expenses	**$**________	**$**________
Medical (after or not covered by insurance; excludes children)		
Physicians	$________	$________
Dental/Orthodontist	$________	$________
Optometry/Glasses/Contacts	$________	$________
Prescriptions	$________	$________
Total Medical Expenses	**$**________	**$**________
Insurance		
Life Insurance	$________	$________
Health	$________	$________
Disability	$________	$________
Long-Term Care	$________	$________
Home	$________	$________
Auto	$________	$________
Other (Umbrella, Boat, etc.)	$________	$________
Total Insurance Expenses	**$**________	**$**________

	Monthly Expenses	Annual Expenses
Transportation		
Auto Payment	$________	$________
Fuel	$________	$________
Repairs/Maintenance	$________	$________
License (driver & vehicle)	$________	$________
Parking	$________	$________
Taxis & Public Transit	$________	$________
Total Transportation Expenses	**$**________	**$**________
Miscellaneous		
Postage	$________	$________
Gifts/Holiday Expenses	$________	$________
Vitamins/OTC Meds	$________	$________
Toiletries	$________	$________
Beauty Salon/Hair/Nails	$________	$________
Pet Care (food, vet, etc.)	$________	$________
Books/Newspapers/Magazines	$________	$________
Donations	$________	$________
Memberships/Clubs	$________	$________
Miscellaneous	$________	$________
Total Miscellaneous Expenses	**$**________	**$**________
Other Payments		
Quarterly Taxes	$________	$________
Child Support Payments	$________	$________
Spousal Support Payments	$________	$________
Eldercare Expenses	$________	$________
Professional Fees (accounting, financial planning, legal, mediation, etc.)	$________	$________
Credit Card Fees	$________	$________
Service Fees (banks, etc.)	$________	$________
Total Other Expenses	**$**________	**$**________
Total Expenses (Excl. Children)	**$**________	**$**________
Child-Related Expenses		
Education/Tuition	$________	$________
School Lunches	$________	$________
Counselor	$________	$________
Sports/Camps/Lessons	$________	$________
Hobbies, Field Trips, etc.	$________	$________
Toys/Games	$________	$________
Boy-Scout/Girl-Guide Dues	$________	$________
Clothing	$________	$________
Medical	$________	$________
Dental/Orthodontics*	$________	$________
Optometry/Glasses/Contacts*	$________	$________
Prescriptions*	$________	$________
Allowances	$________	$________
Miscellaneous/Haircuts	$________	$________
Total Child-Related Expenses	**$**________	**$**________
** Not Covered by Insurance*		
Total Expenses (Incl. Children)	**$**________	**$**________

Make two copies of this Expense Worksheet: one for "Pre-Divorce" and one for "Post-Divorce" expenses.

The first thing to know is that there are two kinds of property: Marital and Separate. Anything that is marital will go into the marital pie that's going to be equitably divided; anything that's separate property will not. The distinction between the two is a gray area and should be discussed with your lawyer, but here's a short explanation of how the courts typically define property.

Separate Property

Separate property is anything that was gifted during the marriage, inherited during the marriage, or brought into the marriage and kept in either spouse's separate name. Let's take a look at some examples. My friend Karen got married 10 years ago. She was in love, so she told her husband, "What's mine is yours and what's yours is mine". So she changed the title on her cottage from her name alone to both of their names. This is called making a presumptive gift to the marriage. The cottage will likely be part of the marital pie and up for division now that she's getting divorced.

How about the inheritance that Karen received five years ago from her Aunt Millie? She left it in a trust account in her name, which means that it's her separate property. What if Karen had taken her $15,000 inheritance and used it to renovate the kitchen in the marital home? She could ask her lawyer to try to subtract $15,000 from the marital portion, but the courts are likely to rule that the inheritance became marital property when she invested it in the home.

Here's another tricky part: any increase in value on the inheritance left in the trust account (or any other separate property) is considered marital, so if that $15,000 grew to $20,000 at the time of Karen's divorce, the $5,000 in growth could be considered marital property.

Marital Property

Everything that's not considered separate property is considered marital. As long as it accumulated during the marriage, it's going into the pie to be divided – no matter whose name it's in. So, starting at your date of marriage, the contribution to your retirement plan that comes out of your paycheck and goes directly into the XYZ fund account in your name is marital property; ditto for your spouse's pension.

In many divorces, the biggest question is who gets the marital home. Should the wife get it, should the husband, or should they sell it and split the proceeds? What if the house is "underwater" – meaning that the householders owe more on their mortgage than their house is worth? The answer is not always easy or clear. In a normal economy, couples typically build equity in their homes; if they decide to divorce, they would usually divide the equity they had built by selling the house or by one partner buying out the other's share. But after the recent boom-and-bust cycle, many couples own houses that neither spouse can afford to maintain on his/her own, and that they cannot sell for what they owe.

According to a recent survey of CDFAs in the US and Canada, 73% of respondents stated that the current housing market has forced them to come up with creative solutions to property-division problems when the matrimonial home fails to sell – or would sell for less than what clients still owe on the mortgage. The most common solution is for ex-spouses to retain joint ownership and continue to live in the house (often, he moves into the basement and she lives upstairs) until the market improves, agreeing to postpone final division of assets until after the house is sold.

The Last Word

You need to create an accurate budget today, and you need to understand how child support, spousal support, and property division will impact your ability to cover your cash-flow needs. This is where a CDFA™ comes in: we analyze and illustrate the short- and long-term implications of different settlement proposals by factoring in expenses, investment earnings, taxes, and inflation. Our clients are then able to make educated decisions about their financial futures. Remember, you only get one chance to negotiate your property settlement. Can you really afford to make a mistake? ■

The co-founder and Editorial Director of Divorce Magazine*, Diana Shepherd (CDFA™) has been writing about divorce issues since 1996. She is the former Marketing Director of the Institute for Divorce Financial Analysts.*

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7 Key Factors when Negotiating Your Divorce Settlement

By Sharon Numerow, CDFA™

Divorce is often the most emotional time in a person's life. It is also when permanent, life-altering financial decisions must be made. If you are in this situation then, naturally, you may be experiencing fear of the unknown. Fortunately, education helps alleviate that fear.

Here are the 7 most important factors to remember when negotiating a divorce settlement:

1. Money Will Almost Always Become an Issue in Divorce

You are probably thinking: "Is that supposed to be a secret? I knew that already!" Yes, that may be so – but you may also be underestimating how much of an issue it will be. Even with the promise of fairness from your ex-spouse, or of a deal that sounds too good to be true, you should still do your homework. Remember not to make offers during negotiations out of feelings of guilt and "give away the farm." Seek out the appropriate professional help and information, so that years from now you do not feel badly that you agreed to a settlement too quickly.

You also want to budget, budget, budget! You will be much more confident in your decisions if you prepare an estimate of a monthly budget (required in some provinces and states) to determine if you can afford to retain certain assets.

2. A 50/50 Division of Property is Not Always Equal

When I began to use this phrase, my teenage daughter reminded me that in school, when children are taught about fractions and things are divided 50/50, it is always equal! I concurred, but explained that in the division of a couples' matrimonial property, this fact is not always the case.

For example, a $400,000 house does not always equal $400,000 in stocks, or $400,000 in rental or recreational property. There are tax implications affecting many decisions, which may affect many of the assets and their values very differently. Overlooking this fact may mean that you get less property than you actually should, or at the very least, you may end up with future tax hits that you were not prepared for or even aware of.

The housing market and stock market are just a couple of examples that in the future may affect the property you choose to retain and, in turn, your future personal net worth.

3. "Divorce the House before the Spouse"

Decisions about retaining the family's largest asset should not be an emotional one. As difficult as it sounds, this decision should be made strictly by considering the responsibility and the dollars and cents involved.

You must find out before signing the legal agreement whether you can qualify for a mortgage on your own. Many people believe that a lender will simply remove their ex-spouse's name – but that is usually not the case! Speak to a lender as soon as possible to find out if you can qualify and (if so) how much you can qualify for.

If you do qualify, make sure you ask yourself these questions:

- Can you afford the monthly cost to service this debt?
- What about the costs of maintaining the home? Things like utilities, property taxes, and unexpected maintenance (a new roof, for example)?
- Do you have the time and energy to maintain a home? Will you be left with 25 years of "stuff" to deal with on your own? Are you prepared to mow the lawn, and clean your home?

4. Understand the "True" Value of Your Investments and Retirement Assets

Get advice on the market risk of your investments. Will you be satisfied if you are the partner left with all of the high risk investments, and then the market takes a turn for the worse? Will you be satisfied if you did not retain 50% of the private investment that today is worth little – but can be extremely lucrative down the road? If you are dividing a portfolio of investments, it is extremely crucial to understand the make-up of these assets, and the background on some of these stocks and funds, before making a decision.

There are hidden or unknown costs associated with many types of investments. If you decide to dispose of them, you must be aware of this fact. A surprise that you owe the 'tax man' money down the road will likely be very stressful.

You may also need to be educated on stock options and other types of employee incentive plans that you or your spouse may have. These types of plans have become more prominent in recent years, as more employers have chosen to offer them to employees instead of raises. Options that may be "under water" today may increase significantly in value down the road as the economy slowly improves.

Remember not to make offers during negotiations out of feelings of guilt and "give away the farm." Seek out the appropriate professional help and information, so that years from now you do not feel badly that you agreed to a settlement too quickly.

5. Ensure that Pensions and Businesses are Valued Properly

Next to your home, a pension – especially for an employee that has been with his or her company long term – can often be one of the most valuable assets that a couple has.

Certain types of pensions may need to be valued by a trained actuary in order to determine the true value. Failure to do this may mean that you miss out on a great deal of money being included in your matrimonial property total. Remember that the value on the annual statement of a pension is not always the correct one to use.

It is also necessary for the spouse with the pension to look into the regulations of that pension, in order to determine the amount that the spouse is entitled to receive, and in what manner.

For self-employed spouses, the value of their business is often included in valuing a couples' matrimonial property. The valuation of a business can be very complicated, and for many it is absolutely necessary to consult with a Chartered Business Valuator.

6. Ensure that the Payor of Child and/or Spousal Support is Life Insured

In the event of a payor's untimely death, it is necessary to have life insurance in place to fulfill future support obligations. Imagine if you have young children and are receiving child support, or if you are in your 50s or 60s and receiving spousal support (or alimony), and something happens to your ex-spouse (the payor)? In such cases, you will suddenly be without that income, which may be financially devastating.

7. Many Divorce Decisions Have Significant Implications for Your Tax Return

There are many available claims on your tax return, especially with respect to children, which can save you significant tax dollars. The rules for most of these are complicated – especially as they apply to separated parents. However, when applicable, the tax savings can be significant. Do your research before signing your legal agreement, and have a professional complete at least your first tax return after legalizing your financial settlement.

These are the seven most important factors to remember when negotiating a settlement. Treat the financial decisions as a business deal, and educate yourself on the facts so that you will be an empowered decision-maker, and in control of your financial future.

Also keep in mind that divorce is one of the few times in life when we often do not listen to our intuition, although it is the most important time to do so! ■

Sharon Numerow is a Certified Divorce Financial Analyst® and the founder and owner of Alberta Divorce Finances. She is also the proprietor of a personal income tax return preparation business. She has worked with clients and lawyers for more than ten years consulting on divorce finances. www.AlbertaDivorceFinances.com

Negotiating **Your Future**

When you're negotiating your divorce settlement, preparation – including a thorough understanding of the situation, as well as assistance from professionals to ensure your interests are being protected – is the key to success. Here are a few questions you need to be able to answer before sitting down to negotiate.

By Henry S. Gornbein (JD) and Dr. Fadi Baradihi (CFP®, CDFA™)

During the course of your marriage, you accumulated both assets and liabilities. Although there are regional differences when it comes to who gets what, basically, everything purchased, received, or saved during your marriage must be divided when you divorce. So now you're about to sit down and negotiate a financial settlement with your ex – but are you truly ready to do so?

As with any negotiation, preparation – including a thorough understanding of the situation, as well as assistance from professionals to ensure your interests are being protected – is the key to success. Here are a few questions you need to be able to answer before sitting down to negotiate.

Personal property is important, but don't spend thousands of dollars fighting over property with more sentimental than real value.

Do you know what your marital assets are?

You can't divide the marital assets fairly if you don't know what's there. The discovery process, which can be informal or formal, is important in every divorce. The informal way is to exchange lists of your assets and debts in an affidavit form. This method should only be used if you are sure that you know everything that exists in your estate; if you're not sure, then a more formal means of discovery should be utilized. One such method is called "interrogatories," in which each lawyer has their client list, under oath, information about assets, liabilities, and income. This process provides everyone involved with a complete economic picture before starting negotiations. In some cases where more Discovery is needed, depositions are taken. Depositions are statements under oath with a court reporter present.

What if there's a business or professional practice involved?

A business or professional practice tends to complicate a divorce. More often than not, the value of the business becomes a focal point of contention. Couples need to seriously consider getting a professional and objective valuation of the business. The costs of a professional valuation are usually steep, but you can't divide something fairly if you don't know its true worth.

Then comes the question of what to do with the business. There are a few options, such as:

- One spouse keeps the business and gives the other a reciprocal dollar value using other assets.
- Sell the business and split the proceeds.
- Keep ownership in the business at 50/50.

In a business-owner situation, the business is usually most or all of their net worth, so there aren't enough other assets to compensate the other spouse. Even if selling the business is an option (it usually isn't), finding a buyer to pay the right price within an acceptable time frame is practically impossible. Most divorcing couples don't want to maintain a relationship – not even a business relationship – after the divorce. So what do you do? The only real options are a property settlement note (one spouse buys the other's share in a series of installment payments at a market-interest rate) or a spousal-support arrangement to compensate for the difference.

What about a budget?

It is critical to determine the incomes and expenses of the parties and to try to estimate what the future expenses will be after the divorce is final. If there are children, one spouse will probably pay child support to the other, and in many marriages, one spouse will also pay spousal support ("alimony"). It is important to determine both income levels and future needs before you start negotiations. A financial professional – such as a

Certified Divorce Financial Analyst® (CDFA™) – can play a critical role in determining both a budget and cash-flow needs. A financial professional can also help to plan a course of action for the future by preparing different scenarios utilizing assumptions based upon needs and projections with different income levels.

What about pensions?

In many divorces, the most valuable assets are future benefits such as pensions. These must all be determined and considered before starting to think about a settlement. In most cases, the marital portion of these benefits – in other words, the portion of the pension or other deferred benefits that have been acquired during the marriage – are subject to division as part of the divorce settlement. A good lawyer and CDFA will help you consider these benefits as part of the overall settlement plan, making sure your future needs will be met.

What about personal property?

Personal property is important, but don't spend thousands of dollars fighting over property with more sentimental than real value. Items such as collectables, favorite home furnishings (from chairs to rugs to pots and pans), hobby equipment, and other personal property must not become the focus of your negotiations. A good lawyer and/or financial advisor can help you gain perspective on these items and focus on the big picture when you're getting ready to negotiate a settlement. Remember that an expensive television or computer has almost no value a few years after you made that big-ticket purchase. The courts don't look at replacement value but the actual value of the item, which, in the case of used furniture, is often garage-sale prices.

Are you emotionally attached to your home?

Over the years, we have seen people who were determined to stay in the marital home no matter what. In some cases, that can be a big mistake. First of all, it may be too expensive to maintain. In some situations, it's better to sell the home and find another one that's smaller and less expensive to pay for and maintain. As you move ahead and rebuild your life, it may be better to start fresh in another home. Aside from the financial considerations, there may be too many memories attached to the marital home to let you move forward emotionally as long as you're still living there.

Assuming it is not "underwater" (meaning you owe more on the mortgage that your house is currently worth), there are several ways to handle a marital home:

- **It can be sold immediately.**
- **One spouse can buy the other out** by refinancing the home or by trading the home for other property.
- **Both parties can hold it jointly for a number of years** – for instance, until the parent who has custody of the children remarries, or the children reach a certain age – after which the home is sold and the proceeds divided in some fashion. In many cases, the party who remains in the home pays the mortgage and taxes and gets credit for any reduction in principal on the mortgage from the date of the divorce until the date that the home is sold or one party buys the other out. Major repairs are often divided between the parties with the person who advances the money for repairs being repaid at the time of the closing on sale or buyout of the home. If the house is underwater, however, the most common strategy is for ex-spouses to retain joint ownership and continue to live in the house (often, he moves into the basement and she lives upstairs) until the market improves; in this case, the couple agrees to postpone final division of assets until after the house is sold.

Other common solutions include:

- **Renting the house to a third party** until the house can sell for more than the debt
- **One ex-spouse stays in the house and pays rent to the other** until the market improves
- **"Birdnesting".** The ex-spouses retain joint ownership of the home, they rent a small apartment nearby, and each one alternates living in the house with the kids and in the apartment on his/her own.
- **Agree to sell the home at a loss,** share the loss, and move on with their lives.

What do you want – and why?

You must have a game plan when you enter into settlement negotiations. Do you know what you want? Do you know what you need? Are you thinking about all options? Are you being realistic in your demands? It is standard negotiating practice to ask for more than you expect to receive – without going to extremes. Don't be a doormat, but don't be excessively greedy, either. Insoluble disagreements arise when divorcing couples are negotiating based on wants rather than needs. So take the time to objectively determine your own needs – and those of your spouse – before starting to negotiate. We have found over the years that if your demands are reasonable and based more on needs than wants, then the chances for a quick, fair settlement are good. There must be give-and-take and wiggle-room in your settlement proposals; your lawyer and financial advisor can help you strategize and come up with different game plans and scenarios as you prepare for this negotiation.

The bottom line

You must be well-represented and advised in order to negotiate effectively. This includes knowing the "ingredients" of the marital pie, and also how much of that pie you can realistically expect to keep as you prepare to negotiate your settlement.

A team consisting of a lawyer and a financial professional – and perhaps a therapist if emotional issues are getting in your way – can help understand your needs, your rights, and your true "bottom line" before you sit down to negotiate with your spouse.

Divorce is one of the most difficult and stressful experiences you'll ever have. During this emotional time, it can be hard to think clearly or rationally, so make sure to enlist the help of professionals who can guide you when you've lost your way.

Remember, if both sides are somewhat unhappy with the outcome, then the negotiations went well.

Henry S. Gornbein (JD) is a practicing divorce attorney in Bloomfield Hills, MI, a Fellow of the American Academy of Matrimonial Lawyers, and a past-president of its Michigan chapter. Dr. Fadi Baradihi (DBA, MBA, CFP®, ChFC®, CLU, CDFA™) is the former president and CEO of the Institute for Certified Divorce Financial Analysts™ (IDFA™).

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Avoiding Financial Disaster

Tips to help you avoid some of the common financial pitfalls of divorce.

By Nancy Kurn (CPA, JD)

Many couples face financial uncertainty after they divorce. This is often the result of using the same income to pay expenses to operate two households instead of one. For instance, you're now faced with two mortgage or rent payments; utilities, furniture, appliances, and supplies for two homes. The expenses add up.

If only one ex-spouse works outside of the home, then he or she may have to pay both spousal and child support, which will negatively affect the payor's cash flow. If both spouses work outside of the home, then each would have only a portion of their combined income to use to pay for their individual household expenses.

Separation or divorce is a time when both of you should reduce your spending and make an effort to live within your individual means. For instance, if you're not working, can you really afford the country-club dues or fresh flowers every week?

One common pitfall is considering the assets that you receive as part of the property settlement as an additional source of income. Instead of using these assets to pay for current expenses, they should be maintained for emergencies, retirement, creating new sources of income, and other long-term financial goals.

This does not mean that you should never touch these assets: it's one thing to use them to pay for tuition to improve your job skills, but quite another to deplete them to purchase a brand-new SUV. Before you dip into these assets, ask yourself whether the expenditure is going to create income for you in the future, or whether it's a frivolous purchase you're going to regret when the bill comes due.

Let's take a look at an example of how failing to create and stick to a realistic budget post-divorce could affect your future.

Consider the cases of Lisa and Teri: two sisters who married men with very different careers. Lisa's husband became a wealthy stockbroker, while Teri's husband worked at the local GM plant. Eventually, both couples divorced.

Lisa was awarded five years of alimony at $75,000 per year, half of her husband's retirement account ($300,000), and the million-dollar family home. Lisa was not used to living on a budget of $150,000 a year, and she wanted to preserve her image as a successful woman. For her, that meant country-club fees, $25,000 a year on clothes, vacations in Palm Springs, lavish parties, summers in Europe, and keeping the family home. Her alimony did not come close to covering her expenses, but she dipped into her retirement account to cover the monthly shortfall. Five years later, she has burned through her retirement savings, her support has ceased, and her only asset is the house that she cannot afford.

Teri, on the other hand, received $20,000 per year in alimony for the same five years plus $35,000 in retirement savings. She went back to school, which enabled her to get a better, full-time job before her support ended. She also put herself on a strict budget – which included $100 a month of "fun money" to spend on eating out, movies, or to save toward a bigger-ticket item such as an entertainment center or a vacation. Five years later, she has grown her retirement savings to $100,000 and is enjoying the same lifestyle as before her divorce.

Lisa ended up with a better divorce settlement than Teri, but Teri is now in a much better position than her sister.

Why? Aside from her obvious extravagances, Lisa's biggest mistakes include the facts that she:

- did not reduce her expenses, and she lived far above her means with no plans for ever bringing her expenses into line with her income;
- kept the family house instead of buying a smaller place and investing the difference;
- spent her retirement savings instead of investing it;
- did nothing to prepare herself for the day her alimony would end, such as going back to school or trying to turn one of her talents into a business: as a professional party-planner, for instance.

Not All Assets Are Equal

When you are deciding on what assets you and your spouse will take, you should be aware that not all assets are equal. One of you may end up with a huge tax bill when you access the assets: for instance, you could end up paying capital-gain taxes upon the sale of your home or your investment assets. In addition, if you dip into your retirement assets, you may end up paying income tax and a penalty. In the example above, Lisa paid taxes and a 10% penalty in the U.S. every year that she dipped into the retirement account.

Other assets may end up being a money pit. Your primary residence, vacation home, or rental properties could cost you a significant amount of money to maintain. Frequently, the primary benefit of a rental property is not necessarily cash flow, but the tax losses that are generated. If you are in a low tax bracket, then these losses may not benefit you to the extent that another investment would. Your expenses may actually increase. For example, if your spouse used to make all repairs, mow the lawn, etc., but now you have to hire someone to do those things, then your expenses will increase. Would you be better off liquidating these properties and investing the proceeds in something that would increase your cash flow instead of creating a financial drain?

The Family Home

Reducing expenses may mean selling the family home and downsizing to a smaller home. In the example above, did Lisa really need the million-dollar family home? In this case, "keeping up appearances" cost her a comfortable future. If she had sold the house at the time of her divorce, she could have increased her cash flow in two ways: decreased costs, and additional funds to invest. The costs to maintain her home – such as property taxes, utilities, maintenance, and repairs – would have decreased in a well-maintained but more modest property. In addition, since there was no mortgage on her home, she would have been able to buy a smaller home free and clear and still have funds left over to invest and increase her cash flow.

Her choice to keep the house also meant that she was hit with all the capital-gains tax from the time she and her ex-husband bought the house in 1985 to the time she was forced to sell it. The house had appreciated significantly in value over the years, so after paying her tax bill, she was left with a much smaller nest egg than she had expected to help her start over.

Choose Your Battles

You can go broke during property division if you insist on fighting over every last item. During her marriage, Mary purchased a leather desk-accessories set that included a matching leather wastepaper basket. Her husband Larry wanted the wastepaper basket, but she insisted that the set would be incomplete without it, so they ended up fighting over it. After spending in excess of $5,000 in attorney's fees, Mary ended up with the wastepaper basket. Does this sound too ridiculous to be true? Be warned: this kind of thing happens every day in divorce court. Emotions are running high, and some people will fight "to the death" over truly trivial items. Sometimes, they're more concerned with making sure their ex-spouse *doesn't* get an item than with actually getting it themselves.

You have to look at the big picture. Is this item really worth fighting over? Can you purchase a new one for significantly less than you will spend in attorney's fees? Not only are you wasting money, but you are also increasing the ill-will between you and your soon-to-be ex. If you have children, this can take an emotional toll on them.

Here's a hard truth for you: no one gets everything they want in a divorce settlement. You will have to give up some possessions you really like – maybe even some heirlooms – so prepare for this by creating a short list of "Must-Haves," a longer list of "Would-Like-to-Haves," and a third list of "Don't-Wants." Don't tell your ex you don't want the items on this third list; instead, "graciously" offer to trade them for the items you really want. Be prepared to give up some of your

"Would-Like-to-Haves" in exchange for more of your "Must-Haves."

Forgettable Assets

Some assets are easy to forget, such as pensions, stock options from an employer, accrued sick and vacation pay, the cash value of insurance policies, frequent-flyer miles, prepaid dues (such as annual country-club dues and season's tickets or passes), and timeshare properties and vacation clubs. These should be addressed as part of the property settlement. In many cases, pensions can be worth more than houses, so make sure you have a qualified financial professional value these and other assets before you sign away your rights to them.

Credit Rating and Debt

It is imperative to protect your credit rating. Here are some tips:

- get a copy of your credit report
- close all accounts that you do not use
- if you don't already have one, apply for a credit card in your name only
- close all joint accounts and credit cards.

A vindictive or spendthrift ex-spouse can incur debt on your joint accounts and destroy your credit rating during the divorce process. If you're not able to pay off a joint account in full, ask if you can maintain a balance on it after it's been closed.

Your credit report will help you discover any outstanding debts that need to be addressed as part of the divorce process. It may be best to pay off joint debts with marital assets, and then each spouse can move forward with a clean slate.

Once your divorce is final, you should use your credit cards sparingly. If you need to establish a credit rating, make sure to pay off all balances on time every month.

If you need to use credit for short-term liquidity, then you may be better off refinancing your home and avoiding maintaining a balance on your credit cards. In the U.S., the benefits of refinancing your home include deductibility of interest and a lower interest rate. You will need to qualify for the mortgage, but spousal and child support are generally included as sources of income to permit a non-working spouse to qualify for a mortgage.

Back to Work or School?

You may have to go back to work to supplement your support payments. If you don't go back to work now, do you want to wear a fast-food restaurant uniform when you're in your 60s or 70s? Your property settlement assets should be kept for your retirement – remember Lisa's example (above) when you're tempted to dip into your retirement account.

You have to be realistic about any career changes you make. What are your prospects at your current job? If you go back to school, what can you realistically expect to earn? Will your degree improve your earning capacity? Are you taking courses that will help you secure a position in a growth industry that needs qualified workers, or are you just taking a course because it interests you? Does your chosen career or course of study take advantage of your natural strengths, abilities, and interests? Taking courses you hate to secure a job you'll hate is not a wise use of time or money. Work with a career counselor or personal coach to figure out the pros and cons of staying put or changing direction.

The Bottom Line

Your lifestyle will change after your divorce. You will have to make some sacrifices. However, if you plan ahead, these sacrifices will pale beside how bright and prosperous your future will be. ■

Nancy Kurn (CPA, JD, MBA) is the former Director of Educational Services for the Institute for Divorce Financial Analysts™ (IDFA™) – the premier national organization dedicated to the certification, education, and promotion of the use of financial professionals in the divorce arena. www.InstituteDFA.com.

Tips: Avoiding Financial Disaster

1. **Negotiate a reasonable settlement.** Get some professional advice from a CDFA or CFP to make sure you'll be able to live with the financial terms of the settlement – now and into the future.

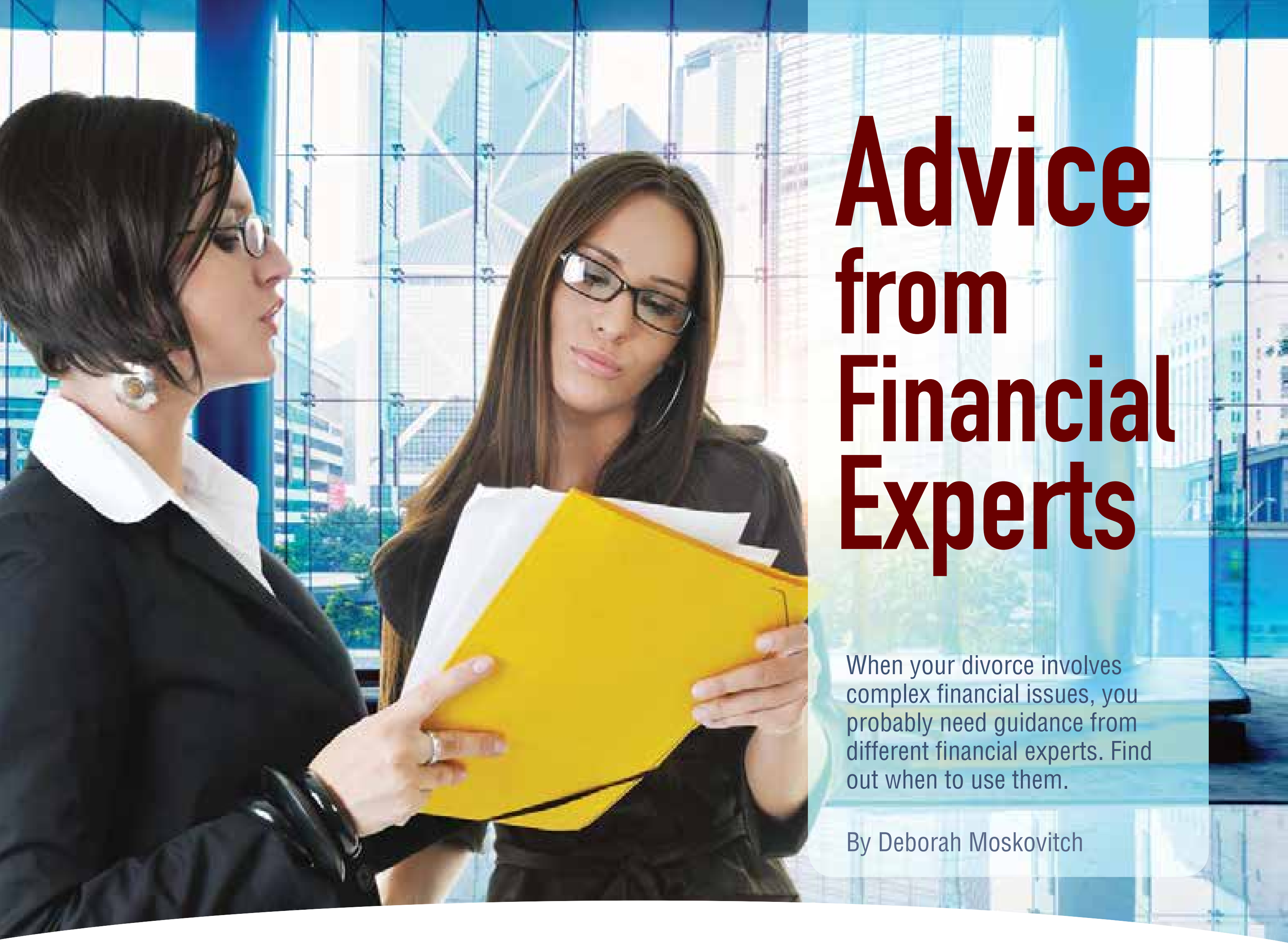
2. **Don't live beyond your income.** Reduce your expenses – or increase your income – so that you are always saving something for a rainy day. Ask your financial advisor for help creating a budget if necessary.

3. **Think twice about keeping the family home.** Ask your financial advisor whether you can truly afford it, and ask them to show you what cash you'd have available for investment if you moved to a smaller home.

4. **Realize that you won't get everything you want in the property division.** Don't spend months and thousands of dollars fighting over furniture, appliances, or other personal items. Make a short list of "Must-Haves" and be prepared to compromise on everything else. Look at the big picture; is this asset best for your situation?

5. **Protect your Retirement Assets.** In the U.S., have the QDRO filed as soon as possible. In Canada, make sure to have the pension valued by a qualified professional.

6. **Use debt sparingly.** Get a copy of your credit report and close all joint accounts and credit you do not use. Avoid maintaining balances on credit cards.



Advice from Financial Experts

When your divorce involves complex financial issues, you probably need guidance from different financial experts. Find out when to use them.

By Deborah Moskovitch

The financial issues associated with divorce can be complex. Without the proper guidance, you could find yourself in an adverse situation later on, when it is too late to do something about it. That is why your lawyer may recommend that you work with different financial experts to help you through this difficult time.

If your spouse agrees to full financial disclosure, then in most instances all you need to do is hire the appropriate expert to critique the numbers. If, on the other hand, you need to uncover financial information that is being withheld, remember that the more you ask your experts to do, the more it is actually going to cost you. Think about how much you are willing to spend and how much you may be able to uncover. Do the cost-benefit analysis, and don't fall prey to the "revenge factor." For example, are you going to spend ten thousand dollars to uncover five thousand, or will you spend thirty thousand dollars to find five hundred thousand?

Different experts have different training and expertise. Here are some things to know about each.

Accountants

An accountant is skilled at managing business records and sometimes at providing financial advice. He or she may prepare a client's tax returns. You or your spouse may have an accountant who you feel is qualified to provide you with all of the financial information that your lawyer requests.

However, many lawyers believe that if you rely on your own accountant to provide this information, you're making a mistake that will end up costing you more money in the long run. Your accountant can provide you with the basic financial facts, but he or she may not necessarily be familiar with family law rules or have the expertise to uncover all the information you're looking for. Furthermore, if you end up in court, the judge may not consider your personal accountant a "good" witness.

If you and your spouse use the same accountant, even the information that accountant provides may not be seen by your lawyer or the judge as totally independent and unbiased. In addition, conflict of interest may prevent him or her from testifying on your behalf.

Forensic Accountants

A forensic accountant, or litigation accountant, has additional training that allows him or her to investigate and analyze accounting information and prepare reports that can be used in court. There are different levels of investigation that can be pursued, with each level costing more money. These experts can help you to value things such as the interest in private companies, options, company public stock, and business assets.

Because of their expertise, forensic accountants are considered excellent witnesses in court. In addition, the information they provide can also help the parties come to a negotiated settlement and determine how the settlement amount is going to be paid. They evaluate the family assets and determine which ones are best to liquidate, transfer, or otherwise manipulate to meet the parties' financial obligations.

Financial Planners

The financial planner can analyze settlement options, explain how those options will affect your financial standing in the long term, and help you to manage your postdivorce financial plan to achieve your goals. The financial planner can help you develop accurate predivorce and postdivorce budgets to make sure that the numbers you report make sense. They can also help you understand your investments and how they should be managed.

Other Finance Experts

To accurately estimate your assets and liabilities, you may also need the help of other experts with training in specific areas. To value a pension, you would use a pension valuator. To value income from property investments, you would use a real estate appraiser. Whatever the item in question is, it is important to go to the professional who can best assess its value.

There are also experts who can help with your finances once the divorce is finalized. For instance, a money manager can maintain your investment portfolio by choosing which assets to buy or sell over time.

Finances of the Settlement

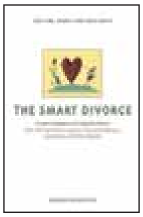
There is no crystal ball that will forecast exactly what the final outcome of the divorce process will be. Until the financial settlement is signed, you don't know what it is going to look like. When people assume that their settlement is going to result in X dollars and make investments or buy a home in anticipation of that outcome, they often regret their decisions when the settlement turns out to be smaller. In addition, monies you spend now might not be considered part of the marital assets – you might be held personally responsible for the expenses. Don't make any investments or major purchases prior to signing the final agreement.

There is a lot to think about before you sign: What are the tax implications of dividing property? Are the assumptions you used to calculate investment returns realistic? What legal fees or other expenses do you need to budget for? Take the time to consider all the options.

The family home is an especially difficult consideration. In most instances, your home represents more than just a roof over your head. For many, there are emotional ties, fond memories, and feelings of security. And the world around you assumes that in a divorce, the winner takes the home and the loser moves out. But, while the home represents so much emotionally, it may not be the best asset for your financial security. There are factors that need to be evaluated. What is the outstanding mortgage? Will your postdivorce income cover the costs to run your home? If you need to sell the home, what are the associated selling costs? Consider these factors, and discuss them with your experts when developing your postdivorce financial plan.

If you go to trial and a judge orders the equalization payment, in most cases that payment will need to be made in cash. If you are the payor spouse, you will be ordered to pay whatever the judge determines, so you need to have the cash on hand, or you will most likely have to liquidate some assets. In most instances, the payor is responsible for the taxes on this payment to the recipient.

Once all the financial agreements have been signed, you'll need to manage your postdivorce settlement to ensure that it lasts as long as you need it. You might want to consider contacting a money manager to help you sort out what to do next with your funds to help maintain your financial security. ■



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Your New Financial Identity

Learn the need to protect your credit score during divorce and how to establish yourself as a financial individual.

By Jeffrey Schwartz, MBA

Every day, we hear about the high divorce rates, and how much money it costs to divorce. However, we rarely hear of how divorce can affect your credit score, and your ability to borrow as an individual (separate from your spouse).

Most couples are tied to each other through joint credit cards, mortgages and bank accounts. But with a separation or divorce, couples need to re-establish themselves as "financial individuals," and the right time to do that is when they first separate. At that time, both parties most likely need to create a new financial identity in order to access some type of credit to start their new life.

Your Credit Report

First, let's ask: what is a Credit Report? Most of us have never thought to request a copy of our Credit Report. This document gives you an overview of: your personal information; employment information; banking information; credit history; payment history; public record data; and collection data. It gives you a good picture of your financial liabilities, and how well you're doing in living up to those obligations and paying your creditors on a regular basis. Assessing your Credit Report is especially important if you're not the spouse who takes care of the household finances, or if you're not the primary owner of the debt. You may be surprised by the credit cards and loans that are in your name.

You obtain your Credit Reports from credit bureaus. In Canada, there are two major credit bureaus: TransUnion (www.transunion.ca) and Equifax (www. equifax.ca). In the US, there are three: TransUnion (www.transunion .com), Equifax (www.equifax.com), and Experian (www.experian.com). Lenders use these reports to determine if an individual is a good risk, or in simpler terms, it tells them if individuals have the financial capacity to repay their debt. Real estate companies and prospective employers may also use the report to decide if an individual is a good risk for home ownership or employment.

Your Credit Report and Divorce

I'm sure some of your biggest fears revolve around the financial connection between you and your soon-to-be ex-spouse. As soon as you begin the separation process, consult with your legal advisor and financial advisor to determine the best way to handle your current financial situation, and to protect your rights as part of your divorce. Without the proper protection in place, your finances may be adversely affected for years. Here is some general advice:

- Pay off any joint debt, if possible. This is the most practical strategy to creating a good credit score.
- Make sure regular payments are made on all credit cards, lines of credit, the mortgage, etc.
- Close any joint bank accounts.
- Cancel any joint credit cards.

Don't wait to do this until the divorce

decree is finalized – it may be too late by then, and your delay may hinder your ability to acquire any credit of your own. For example, let's say that pursuant to your divorce decree, your soon-to-be ex is required to pay off two jointly-held credit cards. A few months later, he/she neglects to make the required payments, and the creditors contact you demanding payment. Although you have sent them a copy of your separation agreement or divorce decree stating that your ex is responsible for the debt, you may still be legally responsible for paying off the joint accounts if you have the cash to cover the debt. Plus, your creditors have the right to report any and all late payments to the credit bureaus – and if so, these negative marks would become part of your credit history. Your advisors will help you to sever these financial ties to your spouse early, so that you'll be better protected and avoid a problem on your Credit Report. These are important first steps in establishing your own financial identity.

Your New Financial Story

Now, it's time for you to become educated on financial independence! By creating a budget, you'll discover if you're a saver or a spender, or if you must alter any of your current spending habits.

In order to create a new financial story, first decide how you're going to manage your finances going forward. Budgeting is a critical component in this process. It includes: determining monthly expenses (including any support payments you may have to pay), saving for your future, and your income, including any support payments you may receive. Here are the steps to follow:

- Start by recording your expenses each week for a month.
- Divide your expenses between Fixed (e.g. mortgage or rent, car payment), Flexible (e.g. utilities, groceries) and Fun (e.g. entertainment, lunches, coffee).
- Make sure you're current on all of your payments.
- Add all of the items together and compare the total with your net income for the month to see what, if anything, is left over.
- If the amount is positive, add it to your savings; if it's negative, then look for ways to cut back on spending or generate more income.

Let's say you have a negative outcome to your budget after you complete the above exercise. You'll need to ask yourself: "What am I able to cut back on, or cut out, in order to improve this situation?" Is your monthly car payment very high? If so, perhaps you can trade your foreign model SUV for a smaller domestic car. Or are you spending too much eating out? Perhaps you can make your lunch four out of five days a week. Sometimes, it's the little things that add up and contribute to saving for your future. Prospective creditors are more willing to lend money when they see savings in the bank, and that all payments are current.

If you have a positive outcome to your budget, you can begin to plan how to invest your money.

Establishing Positive Credit

Another big step is organizing your finances. You've formally severed all ties to your spouse, and now it's time to move forward. Here are some quick tips to help you establish positive credit:

- Establish a steady source of income.
- Pay all bills promptly.
- Open a checking account and don't go into overdraft.
- Open a savings account and make regular deposits.
- Apply for a department-store credit card – they are easier to obtain – and ensure that you make regular payments. (Note: you don't have to charge a lot to this credit card, since interest rate is generally quite high, but the idea is to make regular payments on time, therefore establishing a good payment pattern.)
- Apply for a small line of credit and make regular payments.

Most importantly, stick to your budget! By staying faithful to it and spending only what you can afford, you'll be able to live debt-free and financially independent.

After your budget is in place and you have been sticking to it, check your Credit Report again after one year. It is also important to ensure that all of the information is correct, and that you're no longer financially connected to your spouse. Check to make sure that all joint accounts and credit cards have been deleted. If you've moved, confirm that your new address is showing on the Credit Report. It's important that all errors are resolved on a timely basis. ■

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*Jeffrey Schwartz is an executive board member of the Credit Association of Greater Toronto: a non-profit association providing a dynamic forum in which members can share information and expertise (*www.cagt.ca*). He is also the executive rirector of Consolidated Credit Counseling Services of Canada: a national non-profit credit counseling organization that teaches consumers about personal finance through web-based budget and debt analysis tools, financial literacy community outreach programs, and in-person or telephone counselling. To obtain free financial education booklets, budgeting tools, and iPhone application, go to* www.consolidated credit.ca.

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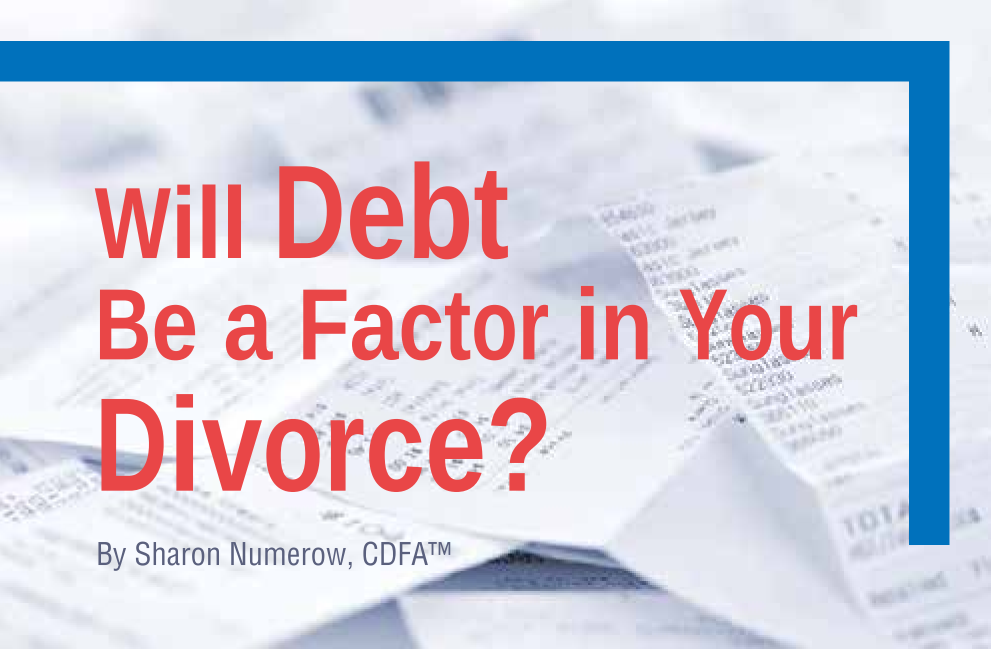

Will Debt Be a Factor in Your Divorce?

By Sharon Numerow, CDFA™

Often people think that only low-income families have debt issues, when in fact, many higher-income-earning couples accrue significant debt as well. Here are three options to deal with divorce-related debt.

Although debt can be a significant issue for married couples, it becomes a much bigger problem to deal with in separation and divorce.

Debts You Don't Know About

You may already know what you owe. However, if your spouse has been secretive about your financial affairs, you may be totally unaware of how much debt is involved. Your first step should be trying to determine what you're dealing with. You should always consult a lawyer with respect to debt that you were totally unaware of to determine if you will be responsible for a share of it.

Debts that are secured against an asset, e.g. mortgage, car loan, etc. should usually be retained by the spouse retaining the associated asset. Unsecured debt is often more difficult to deal with.

Three Options to Deal with Debts

There are really three options when it comes to dealing with the debts of a marriage with respect to the decisions about dividing the matrimonial property.

1. **You can agree to pay off debts now.** If you and your spouse have cash or if you have property that you can sell for cash, paying off your debts now is simpler, cleaner and safer for both of you. If you can work together to solve the credit issues, sometimes that is the best way. There will be no uncertainty about the eventual cost of the debt, and you both know exactly what you have as you begin your new independent life.
2. **You can agree that either you or your spouse will be responsible for the debts and get other assets to compensate you.** If you agree to be responsible for a debt, you still need to know exactly what you need to do to get the debt satisfied. You can decide now or later whether you want to liquidate property to produce cash to pay off the debt, and you can decide as you go how many adjustments you want to make in your own lifestyle to allow for repayment. If you agree that your spouse will be responsible for a debt that the two of you share, be warned that you are vulnerable. You or your lawyer may insert some type of indemnity agreement to the effect that your spouse agrees to hold you harmless for the repayment of the debt. The problem is that the indemnity agreement is binding only between you and your spouse, not on third parties. This means that when your spouse agrees to pay off the joint VISA card debt and agrees to indemnify you for it, if your spouse later doesn't pay off the debt, the credit card company could come looking for you and make you pay the debt. Sure, the indemnity gives you a claim against your ex-spouse, but who wants to have to sue an ex-spouse for a debt? It would be best to take care of it much earlier in the process.
3. **You can agree to be equally responsible for the debts.** If you agree to share equal responsibility for payment of a debt, this is potentially the worst option. You remain entangled and therefore vulnerable. You increase the extent to which you have to continue communicating with your ex-spouse about money after the divorce. And in addition, you still run the risk that one of you may take advantage of the other. To paraphrase Nike, "just don't do it!" Instead of agreeing to share a given debt equally, divvy up the debts in some roughly equal fashion according to the matrimonial property laws. Your goal is to finish with a list of debts for which you have sole responsibility, and a separate list of debts for which your spouse has sole responsibility.

It can be very complicated. More importantly, separation and divorce will provide you with a new beginning. Whether you and your spouse accumulated debt together, whether your spouse accumulated debt behind your back or whether it was your own spending habits or lack of funds that created the debt issue, now is the time to work it all out. It may also be time to learn new habits including the art of budgeting, the ability to say I don't need that, etc. Do not berate yourself for your lack of involvement at this most stressful time in your life. Your mental health is likely not equipped to take a self-beating. Every mistake is an opportunity to learn; seize this opportunity and put your financial future on the right track! ■

Sharon Numerow is a Certified Divorce Financial Analyst® and the founder and owner of Alberta Divorce Finances. She is also the proprietor of a personal income tax return preparation business. She has worked with clients and lawyers for more than ten years consulting on divorce finances. www.AlbertaDivorceFinances.com.

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