Critical Mistakes to Avoid After Divorce

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By Bonnie Sewell

Unfortunate fact: a woman's standard of living, on average, goes down by almost 30% after divorce. If you are a woman in this unfortunate situation, seek care and consideration from a financial adviser with expertise in helping clients going through a divorce.

Understanding what women face financially after such a big transition includes recognizing the settlement they secure may have to last the rest of their life.

"Divorce fatigue" is real and you may want to take a nice long break from the financial fog. It can be critical to resist this if your settlement includes any time-sensitive language.

A woman came into my office in 2013 for retirement planning. Back in 2003, at the age of 45, she divorced and was awarded $1 million, a paid-off home in a well-to-do part of the country and spousal support. She earned $60,000 per year from working. She had four sons to send to college. We were not involved in her divorce financial planning nor the stewardship (or lack thereof) of her settlement. Fast forward to 2013. She was 55, not 45, had $50,000 left, one son left to educate, her home was for sale and she was still working. We had the unpleasant task of sharing her financial reality: she'd need to work past age 70, that last son would go to community college on loans and take loans to complete his last two years, the home price would have to be reduced (it had already been on the market for six months) from its price of $925,000 to $750,000 and after all selling costs, she'd net $690,000. That would get banked and she'd draw income of $2,300 per month to supplement her pay.

Don't be that woman. Be the woman with the same circumstances, but with a much richer ending.

Same client, alternate ending: $1 million gets invested, she safely withdraws $50,000 per year to supplement her pay. The invested funds grow to $2.5 million over 10 years while her sons all participate in paying for their college. She can stop working at 55 and is not forced to sell her home. At that point, if she wants to pay off her sons' student loans she can do so without threatening her financial future. She gets to create a life she loves because she knew the difference between just moving on and moving on with a stable financial foundation that supports her dreams and desires.

Women need to avoid these seven classic financial traps after divorce:

Reading is fundamental: Both you and your adviser should read the settlement to make certain no financial deadlines after decree are missed.

Goals and gaps: Real financial planning helps you declare what you want, when you want it and how much you want to spend on it.

Spending: You'll want to consider what you care most about funding in your new financial life by creating an intentional spending plan.

Support can be taxing: Your adviser can help set up estimated tax payments if you will be receiving support prior to 2018 and navigate other tax traps after 2018.

Invest, Insure, and Incorporate: You'll need to invest. Think about seeking a female, fee-only fiduciary adviser, one that helps you determine your uninsured risks, and if you're a business owner, helps you review any post-divorce business concerns.

What's in a name: Understanding the process for changing your name and then follow-through with the Social Security office afterward.

Live and let die: Review estate planning issues and get a list of three competent attorneys to update your will, your powers of attorney and your medical directive.

This is just one example of understanding the difference a divorce can make for a woman can be seen in an estate planning issue. Previously, estate planning may have focused on the money alone, but post-divorce, a sentimental attachment is often applied to family artifacts. To address this issue, sometimes we suggest a personal letter with estate planning documents directing who receives these important and emotionally valuable items.

What women doesn't deserve a new lease on her dreams and desires after navigating the pitfalls of divorce?

About the author: Bonnie A. Sewell, CFP®, CDFA™, AIF® is not an attorney and does not provide legal advice. All information provided is financial in nature and should not be construed or relied upon as legal or tax advice. Individuals seeking legal or tax advice should solicit the counsel of competent legal professionals knowledgeable about the divorce laws in their own geographical areas or CPAs qualified to provide tax advice.

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