INVESTOR'S EDGE

How to recover financially from a divorce

The most critical thing to do is organize your finances.

"Keep your eyes wide open before marriage, half shut afterwards." — Benjamin Franklin

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Guest columnist

One of the more curious phenomena over the last few years has been the remarkable rise in so called "gray divorces," which describes longer-term, married couples who are divorcing later in life, usually age 55 and older.

In fact, the number of gray divorces has tripled over the last 30 years. Currently, more than one in three people who divorce in the United States are over age 50, and people aged 55 and older account for 25% of all divorces.

The rise in gray divorce, particularly among aging baby boomers, can be attributed to a few things. People are living longer, staying more active, and believe they sometimes have "better options" available if they are in an unsatisfying marriage. Diverging values, priorities, and lifestyle choices can drive couples apart. And, finally, cultural acceptance of divorce has increased significantly.

In fact, according to the Centers for Disease Control, the current divorce rate for all marriages nationwide is around 42%. To put that in perspective, that's 86 divorces happening every hour.

Obviously, while divorce causes significant emotional, mental, and familial strain, it can also do serious damage to your long-term financial plan, even more so if you are nearing or in your retirement years. After all, divorces frequently generate hefty legal fees, loss of a second income source, splitting of retirement assets, and forced sale of a home — just to name a few. In fact, women on average experience an almost 30% decline in their standard of living following a divorce.

In this column, I want to share tips for recovering — financially — from divorce at all stages of life and some ways to possibly minimize or even avoid the financial fallout altogether.

KNOW WHAT YOU HAVE AND SIMPLIFY

I believe the most critical action to take following a divorce is to get organized with your finances. Inventory the value of your assets, debts, investment accounts, income, and general expenses. Have your tax returns, any estate planning documents, and insurance policies easily on hand and up to date.

By taking the time to get organized and focused, you can gain the confidence necessary to rebuild your financial position.

I also suggest simplifying your financial life as much as possible. Close or consolidate old credit cards, bank accounts, and brokerage accounts (as able). Cancel monthly subscriptions you don't need and review any auto-renewals or automatic debits you use for bills.

Check your credit report to make sure information that should have been removed because of your divorce has been taken off.

Change all your beneficiary designations including those on your life insurance policies, retirement accounts, and bank accounts. Review your Will and any other pertinent estate planning documents as necessary.

Also consider the reality that after your divorce is finalized, you're now a single household. This can affect a myriad of things: your tax bracket, your Social Security benefits (divorced spouses who were married 10 years, or more are entitled to half of their ex-spouses' benefits if they are higher), even college financial aid if you are the custodial parent. Consider getting a good tax professional for your new financial life.

Divorces are almost always painful, but with proper planning and organization, you can rebuild financially.
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PRIORITIZE REBUILDING ASSETS — SPECIFICALLY RETIREMENT

This is obviously easier said than done and for many people it's the last thing on their minds after a stressful, even traumatic divorce proceeding. The fact is, however, investing for your future is one of your only keys for long-term financial security — especially now that you are "going at it alone."

If you are still working, prioritize saving at least 15-20% of your pre-tax income in your company 401k plan, Roth IRA, and taxable brokerage account. Obviously, for gray divorcees near retirement, this is more of a challenge. An unfortunate reality. Do what you can.

POSSIBLY AVOID FINANCIAL PAIN ALTOGETHER

Formally "taboo" for previous generations, prenuptial agreements are being embraced, particularly by Millennials, in record numbers. In fact, approximately half of U.S. adults today say they would be "open to signing a prenup before getting married."

While not foolproof, well-drafted prenups can give a clear framework for how the parties' assets, debts, future pensions, income sources, etc. will be handled in the event of a divorce.

Having this framework spelled out can avoid lengthy court battles, legal fees, and the feeling of "uncertainty" that divorce often brings.

Finally, many of my clients have given significant sums of money to their children and are concerned about them getting divorced and losing some of those assets to their ex-spouse.

While inherited assets your children receive are generally exempt from any divorce proceedings, it's important they understand the rules and not co-mingle those assets with marital property — at all.

Divorces are almost always a painful experience in some way, shape, or form. However, with proper planning and organization, you can rebuild financially. Amidst the pain, remember the words from Ellen DeGeneres: "Don't have regrets. You can learn something from every experience."

Jim Burns, a chartered financial analyst, is president of J.W. Burns & Co. The opinions expressed here are his and do not necessarily reflect those of The Post-Standard. Readers should do research before deciding on an investment. Contact him at jburns@jwburns.com