Divorced? Now What?

5 Considerations for Your Financial Plans

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Not only can getting a divorce be a stressful and emotional experience, but most often is also viewed as a damaging financial experience. Here are a few considerations to help you move forward in confidence while ensuring you have control over your new financial future.

1. Update Your Estate Plan

An estate plan is not something anyone "requires" of you. In fact, whether married, single, or divorced, a proper estate plan is often overlooked. A solid estate plan will provide direction to people you trust to take care of you or your affairs should something happen to you. This could be as simple as appointing a trusted friend or family member to care for your finances should you become incapacitated; or as naming a trustee of a trust you put in place to benefit your children.

A main consideration when creating an estate plan is to include proper protections for your money or assets should your minor children inherit these assets outright at your death. Do you want your former spouse to be their custodian on the money they inherit? Do you trust they will use it to only benefit the minor child? Perhaps your child is already majority age and off to college. Would it be financially wise to let them inherit all your money and assets outright without any help, supervision or restriction? You may now begin to see why an estate plan properly prepared with a qualified local estate planning attorney can be quite beneficial in ensuring your wishes are honored and your family is protected.

2. Pull a Credit Report and Monitor Your Accounts

The majority of us certainly do not have an ex-spouse who is out for revenge. But for most people, peace of mind can go a long way in healing and repairing your well-being after divorce.

One such consideration is to stay on top of your credit report. There are various credit reporting or monitoring programs out there to choose from. If you want a more hands-off approach, simply request a free credit report from the agency of your choice on a quarterly or semi-annual basis. Monitoring your credit will help in the transparency of your accounts, as well as making sure no unauthorized accounts are opened fraudulently.

3. Change Your Beneficiaries to Reflect Said Estate Plan

Aligning your beneficiaries with your estate plan is an extremely important, yet often overlooked piece of the puzzle. It will do you no good to go through the effort of creating a Will or trusts in your estate plan if you fail to have your assets coordinate with that plan in the event of death. For example, if you name your child outright as beneficiary on your life insurance policy, they receive that money upon your death (placed in a custodial account until they are majority age in your state.) If you set up a trust or other strategy in your estate plan, but do not actually designate the beneficiaries on your accounts to those strategies, then your estate plan fails to accomplish what you wished to happen with those same accounts. Be sure to coordinate both your plans and your documented beneficiaries.

4. Recalculate Your Financial Independence Timeline

Now that you no longer have a joint plan for your future, you may want to work with a financial planner to be sure the goals for your future are still feasible. Do your savings strategies still fit your situation? Perhaps you filed your taxes as a married couple and are now filing as an individual or head-of-household. Do you still fall in the same income tax brackets as before? These and other considerations come to mind now that you are planning as a “single” person, rather than as a married couple.

5. Re-consider Your Risks and Protections

Insurance and other risk protection instruments are often reconfigured and sometimes prematurely discarded as the result of a divorce. For example, you may have canceled some of your life insurance thinking that your Ex no longer needs to benefit financially from you if you die. And that may be true. However, if you consider future financial help for your kids, or wish to leave a legacy to them if you were to die, there may be some merit in keeping the insurance intact. Or perhaps you feel obligated to cover the equivalent lump sum of an alimony or child support payment should you die prematurely. In any case, the form of insurance you choose and how to structure it, is going to be unique to you. I suggest working with a financial planner to determine the best options for you. Just be sure to follow Step #3 above, making sure your beneficiaries are coordinated properly with your estate plan.

Divorce can be a difficult time to navigate, but with informed guidance and a renewed hope for the future, you can make sound decisions that provide peace of mind and empower a well-rounded financial plan moving forward.
