

# Managing Finances after a Divorce

DIVORCE AFFECTS EVERY ASPECT OF YOUR FINANCES. HERE'S HOW TO COPE IN THE AFTERMATH OF DIVORCE.

Money is one of the most oft-cited divorce catalysts today, yet getting a divorce is one of the worst things that can happen to your finances. In addition to the high lawyer fees, your household will be split in two, putting a strain on both parties' subsequent budgets. Divorce can have a major impact on the other areas of your financial life as well. This article can help you navigate the world of post-divorce finances with ease.

## Custody, Alimony and Child Support

There are two types of child custody: Physical custody is the right to have your child live with you, and legal custody of a child is the right and responsibility to make decisions about the child's schooling, medical care, religion, etc. Both types can be awarded solely to one parent or jointly to both parents. A

parent who holds sole custody is called the "custodial parent," and this can be in reference to either physical or legal custody.

When one parent is granted sole physical custody, the other parent usually must pay an agreed-upon amount of child support to the custodial parent every month. Whether you have children or not, you or your ex-husband may be required to pay alimony, as well. Alimony is tax deductible for the spouse paying it, and it counts as taxable income for the spouse who receives it. Paying

you don't have to pay taxes on collected child support.

## Taxes

As long as you were divorced by December 31 in a given year, the taxes you file the following spring will read as if you were divorced for the entire year. Once your divorce is complete, you no longer have the option to file jointly; you'll have to file as either single or head of household. Your filing status will depend on whether you have children. If you are the custodial parent, you can file

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alimony can actually have great tax benefits, and it's an above-the-line deduction, so you can receive the benefits without itemizing. Child support is just the opposite: you cannot deduct it on your taxes if you're paying it, but

as head of household and claim your children as dependents, reaping the benefits of the child tax credit and dependent exemptions.



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## Credit

Many recently divorced women find themselves without access to credit because all of the bills and credit accounts were in their husbands' names. Your first step to building credit is to get a copy of your credit report, which you can get for free once a year. The next step is to cancel any joint accounts or credit cards you held with your spouse. If you don't have any cards in your name, sign up for one. You may not be eligible for a very high credit limit, but getting into the habit of using your card and paying it off each month will slowly build your credit so you can eventually apply for more.

## Returning to work

Many women elect to stay home if their husbands' salaries are enough to support the family. If you find yourself in need of a job after an extended absence, it's best to explain that absence to prospective employers. You may want to adapt your resume to a skills-based format rather than using a chronological structure, to de-emphasize your time off. If you took classes or volunteered, describe your experiences and skill building in business terms—don't get emotional or nostalgic.

## Retirement Benefits

Your and your husband's retirement benefits should have been divided during the divorce proceedings. If you received a distribution from

his 401(k), you'll need to either roll it into yours, if you have one, or set up an IRA.

If your husband contributed to the Social Security system, you may be entitled to receive half of his Social Security benefits after you divorce. You are eligible if:

- Your husband is eligible
- You were married for at least 10 years
- You have been divorced for at least two years
- You have not remarried (unless your second marriage occurs after you turn 60 years old)
- You are at least 62 years old
- Your own Social Security benefits would be less than your husband's

## Insurance

If you were covered under your husband's employer's health plan and his company employs at least 20 people, they are obligated to inform you about the option to receive continued coverage for 36 months post-divorce under the federal Consolidated Omnibus Budget Reform Act (COBRA). You must enroll in COBRA within 60 days of the divorce becoming finalized or else you waive access to continued coverage. Because COBRA expires after 36 months and is expensive, it's usually better to go through your own employer or obtain individual coverage if you can. Though most employers only have open enrollment once each year, yours might make

an exception for life events such as divorce.

In addition to health insurance, you may need to replace other insurance coverage that you had under your husband's employer or get new coverage, such as disability, life or renters insurance, that you may not have needed when you were married. If you're receiving alimony and child support, you may want to see if you can get something written into your divorce agreement that requires your ex-husband to buy a life insurance policy so that his obligation to you and your children could be fulfilled in the event of his death.

## Budget

If you weren't in charge of the household finances while married, you'll need to get up to speed now. Gather important financial documents and take inventory of your spending habits and regular income so you can create a budget. Between the loss of your husband's income, the addition of new bills and the need to purchase new housewares, you may find that you can no longer afford the lifestyle you've grown accustomed to, but you should be able to adjust your budget accordingly.

## Estate Planning

After your divorce, you'll want to change your will, power of attorney and beneficiary designations. Most states will automatically block a former spouse's inheritance

in a pre-divorce will, but it's still a good idea to alter your will to reflect the change. Your beneficiary selections are not automatically blocked when your divorce is finalized, and they can actually trump your will if the two are in disagreement, making them an important part of your post-divorce to-do list. However, make sure you consult your attorney before making any changes to beneficiaries. If you do so before the divorce is finalized, you could be accused of attempting to remove your husband's access to benefits.

Divorce can be a stressful time, both on your emotions and on your finances. Getting your to-do list set and checking items off can be a good way to alleviate stress. This list may seem daunting, but if you tackle one task at a time, you can be on your way to financial independence in the next chapter of your life.

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