

*A guide to getting through divorce and moving on*

## Divorce and your finances



Together we'll go far



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# Introduction

If you wake up in the middle of the night frightened, angry, confused, resentful or overwhelmed by the prospects of what lies ahead, you're not alone. Thousands of people in the throes of divorce are, at this very moment, sharing your sleeplessness and experiencing similar powerful emotions. Truth be told, divorce is difficult — whether you initiate it or you don't, whether it's amicable or bitter.

Knowing there are other newly separated night-wanderers in Nantucket or Nashville doesn't provide much comfort, of course. What does help, though, is your confidence that you will get through it. Which you will. With a little luck, some thoughtful planning, and time, you will launch a new and possibly more fulfilling life.

Of course, each person's journey is unique. But — after making certain that children, if any, come through this as unscathed as possible — most people have one important goal: to emerge from this difficult period with a financial agreement that will eventually lead to economic independence.

The paradox of this situation, though, is that at the very time you're asked to think logically, your brain is numbed by intense emotion and often takes a time-out.

This booklet can help bring reason to the forefront by providing a guide through the financial negotiations of your divorce. But it's just a guide. Everyone moves through the process at a different pace and with a different level of involvement.

For couples who both want the separation, uncoupling could be culminated rather quickly. For others, the rancor is so intense that the long process has to be depersonalized and only a judge's ruling can bring resolution to the issues. Most couples, as you might suspect, fall somewhere in between those two extremes.

However quickly the marriage is dissolved, you want to have as much control over the process as possible. But "control" means different things to different people. So you have to ask yourself what type of control you can handle. At one end of the control scale, you can opt to wade into the process with your whole being and mediate your own settlement. At the other end, you might hire and

oversee a team of advisors with different perspectives (legal, financial, tax, emotional) who help filter out some of your stress and intense emotion.

Your decision, of course, will depend on your finances, how much emotional involvement you can handle, and how you can get through this difficult process in a way that works best for you.

### **Wells Fargo Advisors as your objective, neutral and steadfast financial advisor**

In designing this booklet, we've kept in mind these principles:

- Unraveling a relationship is messy. It doesn't start at one place and move neatly to a conclusion. Agreements are proposed, rescinded, thought through again, argued, negotiated, renegotiated and revised.
- You're going to be surprised along the way. You may discover you have more or less money than you expected, more or less debt than you realized. You may discover that your state has certain laws that will be beneficial, or onerous, to you.
- You're not going to get everything you want. The hope is that you'll come away with everything you need.
- Winding up with a financially fair agreement doesn't necessarily mean it's emotionally fair. Hurt, betrayal and emotional abuse aren't mitigated by the financial settlement.
- You don't have to do everything immediately. Some actions are essential and have to be taken now if you want to stay on a sound financial footing. Some are important and should be done soon. And other actions should be taken only when you're ready. Watch for these icons throughout the booklet. They will signal which is which.



- The more you know about your personal finances, the less fearful you will be about the future. Divorce sometimes forces you to take a crash course in managing your finances — but when it's explained in simple English and broken down point-by-point and step-by-step, you can master the basics.
- Money isn't thought of or referred to in a restrictive way. We talk in terms of “spending plans” (not “budgets”) and “adjustments” (not “cutbacks”).
- Divorce can be a growth experience. Once you're single again, you can reflect on why this relationship didn't work.

Your Wells Fargo Advisors Financial Advisor can act as a member or the coordinator of your team of professional advisors, assist you in gathering necessary financial documents, make suggestions to help lead you on a path to economic independence, and be a sounding board for you or your other advisors.

This booklet is divided into four parts:

- Before uncoupling
- Negotiating financial settlements
- Life as a newly divorced person
- More help

Jump into it wherever you are in the process — but when you have an opportunity, do skim the parts that came before. Because divorce never follows a straight line, you might get some valuable advice and tips even if you're near resolution.



# Before uncoupling

## The first steps to take when seriously considering divorce

When a marriage is collapsing, people are often gripped by a paralyzing fear. An uncertain future looms. You imagine the worst: You won't have enough to live on. You are overwhelmed by financial responsibility. You won't be able to live within your means. You'll make a dire investing mistake.

If any of those fears is plaguing you, take a deep breath. Take two. And read on. By beginning a process one might call discovery and safeguard, you'll become informed about what you have and then be better able to safeguard your financial status as much as possible. In doing so, you will tame fears of being intimidated, being taken advantage of, or being left poverty-stricken after the separation.

## An action plan — broken down into manageable steps

### Step one: Begin gathering financial documents.

You're not going to have to do any calculations now, but you'll need certain financial documents in the future to evaluate your assets and understand the financial position you're in. Just the task of gathering papers helps push you out of lethargy. And it doesn't require any critical thinking — something that's so hard to do when you first realize that the marriage is unofficially over.

But the value of getting organized is immense. You're preparing yourself for the next stage. Begin the document collection now, simply because it may take you a couple of months to complete. You don't have to follow any particular order.

***Where do you look for these financial documents?*** Some of the information may be at your fingertips, but some might require sleuthing. Start looking in the obvious places — where you and your spouse keep important papers in the house and in your safe-deposit box, if you have one. But also watch the mail, and be alert to anything from insurance companies, credit-card companies, banks, brokerage firms, and mutual-fund companies. Go to your employer for work-related documents, such as what you currently have in your pension account. Ask your accountant, attorney and financial advisors for copies of any financial information they have, such as prior tax returns or documents on ownership of property.

What should you do with the financial documents? Makes copies of each. Then date them, and put them in a safe place — at your office, in a personal safe-deposit box, maybe even with a trusted relative or friend.

***What should you look for?***

Here's a list of the documents you'll need to identify.

**Bank accounts.** Whether you or your spouse have joint or separate bank accounts (checking, savings or both), you need to know where the accounts are and approximately how much is in each. Check monthly statements as they come in the mail, print out any available info from an ATM, or print out copies of reports if the accounts are online.

**Life insurance policies.** Look for policies — those personally purchased and those provided by your and your spouse's employers. At some point you'll have to find out the cash value of each policy by requesting a printout from the insurance company directly or from your investment firm or employer — but that comes later.

**Anything connected to your home.** Monthly mortgage statements tell how much equity you have in your home and how much you still owe. If you have a home equity loan on your home in addition to the mortgage, you'll need that documentation as well.

**Financial records on recreational property.** Cottages, boats, motor homes, time-shares and the like are all part of your asset base. If you own them outright, make note of that. If you have a mortgage or loan outstanding on them, you'll need to know how much equity you have in the property and what you still owe. Recent statements from lending institutions should tell you.

**Automobiles and motorcycles.** If you own these outright, make note of that. If you have an outstanding loan, here too you'll need to get a recent statement from the lending institution to determine how much equity you have in the vehicle and how much you still owe.

**Antiques/collectibles/valuable jewelry/precious metals/important furniture.** Make a list of everything of value that you own. You're not going to have these things assessed at this point; you just want a record of what there is and where.

**Retirement accounts.** Depending on your age and how long you've been married, the two of you might have a multitude of retirement accounts, and they may be scattered in many investments and with many companies. Retirement accounts may not send statements monthly, especially if they are inactive.

But they do send them quarterly or semi-annually. So be on the lookout for information and updates on 401(k)s, IRAs, rollover IRAs, SEP-IRAs and 403(b)s (the most common retirement accounts) and make copies of all the statements.

**Stock and mutual-fund investments.** You and your spouse may have invested jointly or separately. It makes no difference. You need to make a copy of all the recent stock and mutual-fund account statements.

**Company and military savings and pension plans.** If one of you works for a company with savings and/or pension plans, you need to get a record of what type of plan it is and how much has accumulated. Request these records from the company's human resources director. If it's your spouse's account and his/her company won't honor your request, just make note of the fact that a plan exists. Make or get copies of any military pensions you or your spouse might have. You want to amass these pension records now, so that you don't forget about them later when you're in negotiation.

**Investment real estate.** Investment real estate may or may not produce income during the year. (In some cases, it might even generate a loss.) No matter. You still need to make note of what you and your spouse own and make copies of any documents that tell you how much the investment earns or loses annually.

**Business interests.** The same financial record-keeping vigilance needs to be given to a business that either of you owns or has invested in. Gather up and make copies of any documents that provide financial details on the business.

**Trust funds.** While these may be excluded from divorce negotiations, you can bet that they'll be discussed. Keep a copy of the trust documents handy if they're in your possession, or just note that they exist.

**Loans you've made.** Often personal loans are overlooked in divorce negotiations. But they can represent a substantial asset (assuming they're repaid). So make note of any outstanding loans made by you or your spouse.

**Money you owe.** You or your spouse may have joint or separate credit-card or margin debt; student, personal or auto loans; lines of credit or tax liability. Make a list of all the money you owe and attach it to any documentation of that debt.

**Your last two years' tax returns.** You need them to be clear about income, profits, deductions and the like. And if you're the spouse who hasn't been actively involved in the family investing, the tax returns can help you track down your holdings because interest and dividends have been reported on them.



**Step two: Educate yourself about applicable laws, especially as they relate to alimony, child support and division of property.**

Most states are considered “equitable distribution states”. “Equitable” does not necessarily mean “equal”. From the court’s vantage point, what is equitable is based on a number of factors, such as . . .

- how long the marriage lasted
- what each person brought to the marriage
- how much each can or does earn
- who has the responsibility for the children
- how much retraining one spouse may need to reenter the work force
- how much debt has been accumulated and by whom

Division of property, however, is rarely based on whose name is on the deed or whose money was used to purchase the asset.

Some states are “community property states”. That means all assets (and all debts) are divided on a 50-50 basis.



**Step three: Protect your credit rating.**

If you and your spouse share charge accounts, you also share the debt — no matter who does the buying. As long as these accounts are open, you are responsible for paying the bills.

So the first thing to do is check your credit rating. Get a copy of your credit report (it might be listed under your name and your spouse’s). Glance over it to make certain the information is correct. (Often the mistakes are the credit reporting agency’s, so don’t panic. Check it out.) If the information is correct, though, it will tell you if your spouse (and/or you) is delinquent or in arrears on any account. If you think there’s anything unusual going on, ask your spouse about it and tell your lawyer.

***You can expect your attorney to ...***

- Tell you about the current laws, codes and procedures that govern divorce in your state.
- Keep on top of your case and protect you from violations — ones that either you or your spouse might commit — that may happen intentionally or unintentionally.
- Explain and clarify anything you don't understand in the separation or divorce process, and keep you abreast of what is next and how long you can expect the next stage to take.
- Be judicious and rational, even when you're overflowing with emotion.
- Provide you with settlement options — pointing out the pros and cons of each without foisting any of them on you.
- Be responsive to your need to discuss the case.
- Represent you and the priorities you have laid out as important in settlement talks or in court (if that's where negotiations wind up).
- Provide an initial evaluation of your case and how much it might cost — and then send you periodic fee statements of billing-to-date.

***Here's what you shouldn't expect from your attorney:***


- Hand-holding for personal problems, such as children acting out
- Help compiling the necessary documents and records for divorce negotiations
- Disrespect (making you feel stupid)
- Disregard (not taking your legitimate phone calls)
- Pressure to accept a settlement you're uncomfortable with
- Guidance in deciding how to invest a settlement

In addition to an attorney, you might want to hire any or all of the following specialists to be part of your team during the divorce negotiations: a financial advisor, to address monetary and investment issues; an accountant, to help with the tax issues; and/or a therapist, to help you stabilize any emotional swings. Each will bring a different perspective to the table. It's your job to weigh how important each perspective is in a particular instance. For example, if taxes are an overriding concern to you, your accountant's or financial advisor's advice might hold sway. But if you're an emotional wreck and want to develop a way of dealing with the negotiations that will save your sanity, your therapist's approach might make the most sense. If you are in a financial quandary, your financial advisor is the person to speak to.

## People support

Reactions of friends and family members when they hear that you're divorcing are not alike. You have to sift out the truly helpful ones from the toxic. Each helpful friend may serve only one purpose, which is fine. Here's what to look for when tapping into support.

- Someone who's a good listener ... and not a gossip
- Someone who can empathize and who might be able to recommend useful services or professionals because he or she has been there
- Someone who will help you think through, in a strategic and unemotional way, actions you may be contemplating that are motivated by extreme emotion
- Someone who'll focus on your children's well-being in a neutral way because it's hard for you to do that now (as much as you might want to), maybe by taking them on an outing or just listening to them when they need to talk
- Someone who offers sociability and entertainment without being pushy
- Someone who'll respond quickly if you're concerned about your safety or the safety of your children (by calling the police) or if you voice suicidal tendencies (by getting you to an appropriate mental-health professional)

**SOON**  **Step four: Search for assets.**

Here's where sleuthing comes in. As you go through your credit-card charges, highlight any questionable items, such as large jewelry purchases or excessive charges. Same with bank statements — are there any unexplained withdrawals or deposits? And brokerage statements — was there any buying or selling of securities recently that you didn't know about? If so, it doesn't mean that your spouse is necessarily hiding assets. Sometimes he or she has just forgotten about a transaction or hasn't shared it because you aren't speaking to each other.

Other things you could have forgotten about: additional real estate holdings, limited partnerships (that you may be barely cognizant of), and long-held stocks, mutual funds or bonds.

And then there are work-related assets that couples frequently overlook when they're negotiating separation or divorce agreements: bonuses, perks, tips, commissions, royalties and expense reimbursements that don't show up easily or at all on tax returns. Make note of them. Do you or your spouse have any deferred salary increases, stock options, uncollected bonuses or commissions, or accumulated vacation pay? All this needs to be ferreted out if you are to get a complete picture of your finances.

If you need to sell stock, close bank accounts, or take substantial money from a joint account to maintain the family lifestyle, make sure the money or asset you've taken is accounted for — dated and labeled as to what it was used for.

**SOON**  **Step five: Look at your expenses for the past year.**

Most people have a general idea of what they spend annually, but now you're going to have to take a closer look at the numbers.

***Note on paper what you've spent on. . .***

- Housing (from mortgage payments to repairs to extermination and snow-removal services)
- Major purchases (from furniture, art and antiques to appliances)
- Food (from groceries and wine to school and work lunches)
- Clothing (from new purchases for you and your children to cleaning costs to special sporting equipment like scuba gear or skis)
- Transportation (from all the costs associated with cars to fares for taxis, buses, trains and any other commuting expenses)

- Entertainment (from dinners out, movie tickets and rental fees, theater tickets, country club or sports club dues, hobbies, and recreation fees and costs)
- Vacations (from costs associated with day jaunts and long weekends to big trips)
- Medical and dental (from insurance premiums to co-pays to prescription and nonprescription drugs to special tests)
- School expenses (from before-school or after-school care, college costs, books and supplies to religious instruction, tutoring and uniforms)
- Gifts and charitable contributions (from wedding, birthday and holiday gifts to any contributions you make to religious, social service, cultural, community, or educational institutions, or for disaster relief or political causes; note which are tax-deductible and which are not)
- Insurance (from life, homeowner's or tenant's to disability and travel)
- Special expenses (from child or parental support, professional memberships or fees, accounting, legal, brokerage or financial advisor fees)
- Taxes (from federal, state and city to property and school)
- Miscellaneous (from personal expenses such as hair stylists or toiletries to pocket money, subscriptions, cable or pet expenses)




**Step six: Review all your accounts — individual and joint.**

If you don't already have a credit card under your own name, now is the time to consider applying for one. You don't need a slew of cards; one or two will do. Once you get the credit card, though, be prudent. This is not the time for luxury spending.

Once you and your spouse know that you're going to separate, check with your attorney to find out whether you should notify financial institutions of your intentions. Sometimes that action will be recommended to prevent assets from being moved around in a way that will unfairly benefit one spouse. For example, you don't want your spouse to empty out the money from a joint account and put it into a separate account. Nor do you want your spouse to go on a shopping spree and run up an enormous bill for personal items that you'll be responsible for. (Most spouses are careful about abusing credit during a divorce, but not all.) Your attorney will suggest ways to prevent transfer problems, such as requesting that two signatures be required before transactions are made.

Your lawyer will also advise you whether to close some joint accounts or leave accounts open temporarily to pay for household expenses until the terms of a settlement are decided upon.

**SOON**  **Step seven: Update your résumé.**

If you don't have a résumé or curriculum vitae, now is the time to create one, because you may find that as a result of the divorce you will have to go back to work or find a way to increase your earnings. If you have never been in the workplace or haven't worked for a while, you may find that creating a résumé is difficult to do – especially if you think of it in terms of a traditional résumé of employment information and history. But don't be discouraged. More creative résumé approaches highlighting skill sets (such as organizational abilities, advocacy skills, and marketing acumen) that are used in volunteer activities and everyday life can be effective when trying to persuade an employer to hire you.

If you already have a résumé, update it. When the time seems right and you're offered a more lucrative position, you want to be ready to move.

### Work considerations

This is not a good time to think of quitting your job. You'll need it to assure you and your family an income. And as tempting as it may sound to tackle something more challenging and more remunerative, think twice about changing companies or accepting a promotion when you're in the throes of a divorce. Change is difficult for most people, and you're already in the midst of a big one. Unless you're confident that you can handle it, it might be better to postpone the step-up for a few months, if that's possible.

## Stress busters

No-cost ways to give yourself a break during these difficult times:

- **Practice deep breathing.** Or anything else you find relaxing. Could be soaking in a tub until crinkly, spending an hour on some mindless task, meditating or listening to your favorite music. Whatever relaxation technique works for you, go for it.
- **Do fewer things.** Eliminate one chore a day, such as not making your bed. Or stretch out the time between chores, such as letting the leaves accumulate knee high before raking. You might even temporarily give up a volunteer activity.
- **Have at least one good laugh each day.** Listen to a funny audio tape in the car, turn on a comedy channel for half an hour each night, watch a funny video, read the newspaper's comics, or ask friends to e-mail you a joke a day. Keep in mind that divorce is not death.
- **Make to-do lists.** You'll find a great deal of satisfaction as you check off the chores you've accomplished.
- **Give yourself pep talks.** "Wow, I came up with a pretty good compromise." Or, "living alone couldn't be any worse than living together."
- **Get a physical.** Stress takes its toll on your body, so don't forget about your annual check-up. Ask your doctor for suggestions to help you keep yourself in the best possible health.
- **Get physical.** Work stress out by exercising. (If you've never been an exerciser, become one now.) Even if you can squeeze only 10 minutes of physical activity into your daily schedule, it's important.
- **Go for the green.** And we don't mean money. We mean eating green vegetables, salads and fruits, even though it's so much easier to grab a candy bar or a burger and fries.
- **Join a support group for divorcing spouses.** Who could be more empathetic about your problems than others in the same position?
- **Put up a "happy" picture of yourself on the refrigerator door or in your office.** It's important to remember that you've been happy before ... and you'll be happy again.

# Negotiating financial settlements

## How much will you need — now and later?

Separating assets (and liabilities) is vastly more difficult than joining them. If you've been married for any length of time, it is harder still — and more expensive. Unless assets are bountiful, divorce will have an impact on your lifestyle and standard of living — at least for a while. After all, the same income and assets that supported one household will now have to support two.

### What's really important?

Begin negotiations by thinking about the non-monetary things that are really meaningful to you. Do you want the children to stay in the same school? Do you want to keep the dog? Do you long to be with the children on Thanksgiving? Do you want them to continue their religious education? Do you want to switch careers? Are you eager to move to a different part of the country? Do you want to retire by 62?

Once you have your non-financial priorities established, you're ready to sit down at the bargaining table. It is the nature of give-and-take negotiations — including divorce negotiations — that neither party will wind up with all that it wants. The objective is to wind up with your top non-financial priorities and most everything you need, financially.

### Thinking short-term.

To determine how much you really need, you'll have to do some estimating.

You have to figure out what expenses might be next year for you as a single person (perhaps a single person with children). They'll be different from what they were for you as a married person. You will have similar household expenses, either in the place you're living now or in a new home. But your child-care expenses may increase because you may have to rely on more paid help. You might not get the benefit of lower car insurance that you get when two or more cars are insured at the same address, or the tax benefits of filing jointly. You may have to pay for things that your spouse did for free — like cooking meals, repairing electrical wiring, or lawn and garden work.

And then there's the income side. If you had two incomes, you won't any more. Even though the spouse with custody of the children may get spousal support and/or child support, that amount won't equal a second income. It's more like a third of an income. And if there was only one income, chances are the spouse who wasn't working before will be forced to do so now if he or she wants to maintain some semblance of the "before" lifestyle.

Financial realities are often in conflict with our emotional attachment to things — especially homes. For people who didn't want the divorce to start with, the only control they might think they have over their lives is to stay in their present home. It may not be fair to have to leave it, and it may not be right, but it may be a financial reality that has to be faced — especially if a person doesn't have the income to maintain it. Coming to terms with such realities can be emotionally wrenching.

**SOON**  **Thinking beyond today.**

Certainly what you're going to need in the next year is an important consideration when carving out a financial settlement. But it's dangerous to get stuck in short-term thinking. Unfortunately, if you aren't thinking about what life might be like five or ten years from now, you may be in for some unpleasant surprises — such as facing hefty maintenance costs on property that's aging, paying an overwhelming tax liability when selling an asset in a few years, or child-support payments that are either too paltry for growing children's needs or too onerous for the spouse providing them.

### **The financial elements of most separation and divorce agreements**

The following pieces of financial information have to be assessed during your negotiations:

- **Income of each spouse.** Support, child and spousal, is often calculated on the income and earning capacity of each partner.
- **Your net worth.** You need to determine your net worth as a couple and individually. If assets have to be evaluated or assessed (such as a home or a fine painting or an expensive collection), you'll need to agree on how to do that and whom you will hire to make the determination.
- **Securities.** What stocks, bonds and mutual funds do you own — jointly and individually? How should they be divided or used in the negotiations? Does selling them make sense at this point?

- **Real estate.** Your home and any other real property you own are part of your net worth as a couple. Obviously you won't be dividing the home for living purposes. So will one of you trade it for another asset? Will you agree to sell it and divide the proceeds? Will one of you buy out the other and continue living there?
- **Retirement benefits.** It's amazing how important retirement funds are in a person's future, yet it's also amazing how unimportant they seem when you're years away from retrieving them. Don't forget or minimize them when negotiating, because they're essential to your future well-being. Are you going to split the retirement plans or trade them for another asset?
- **Military benefits.** You don't realize how many there are until they're no longer available. Some that may be lost in the divorce are housing and subsistence allowances, medical and dental insurance, and child care on military installations.
- **Military pensions.** Many, many rules govern military pensions and divorce, so it's important for active or retired military people, their spouses and their advisors to be familiar with the Uniformed Services Former Spouses' Protection Act.
- **Alimony or spousal support.** The higher-earning spouse usually pays regular monthly or annual alimony to the lower-earning one. The amount often depends on need, the higher earner's ability to pay, the length of the marriage, and the age and health of the spouses. Sometimes the support is time-limited, often to allow the receiving spouse time to upgrade his or her skills to earn an income or to permit the custodial parent to stay home to care for young children. The person paying the required alimony can deduct it on his or her tax return; the person receiving it must declare it as income and pay tax on it. Alimony usually ends when the spouse receiving it remarries.
- **Child support.** Raising children is costly and takes up a considerable amount of the family income. For example, the average family earning \$65,800 a year will spend nearly \$250,000 to raise a child from birth through age 17, according to recent figures from the government. But that's just basics. It doesn't include heavy medical bills, above-average costs for child care or private schools or the elevated cost of living in many of the nation's largest cities. Nor, of course, does it include college costs. Given the weight of a parent's obligation to children, child support is expected to be paid to the custodial parent for the care and benefit of the children, especially if the custodial parent earns less than the other parent. Child support is not included in the taxable income of the parent receiving it, and it's not tax-deductible to

the one who pays it. In some higher-income families, additional incidental expenses are paid for a period of years — perhaps indefinitely. These could include such things as medical insurance or mortgage and car payments.

- **Debt.** Unfortunately, whatever debt you and your spouse accumulated during marriage is considered joint — even if you weren't responsible for it or your spouse was a reckless spender. But it's another item that can be negotiated.
- **Taxes.** They will play into your divorce settlement decisions. In most cases, lump-sum settlements are not considered taxable income to the recipient, while periodic alimony payments are. So the question must be asked: What's the settlement worth after the future tax is taken into consideration?
- **Social Security.** In order to receive Social Security benefits based on your ex-spouse's earnings, you must have been married at least 10 years and not have remarried. You're eligible when you both reach age 62, even if your ex-spouse has remarried or hasn't yet retired and begun to receive benefits him- or herself. Your benefit is based on half of your ex-spouse's age-66 benefit. You can, of course, receive benefits based on your own earnings record, if they are higher — but, naturally, you're not entitled to both. (If you remarry, you generally cannot collect benefits on your former spouse's record unless your later marriage ends, whether by death, divorce or annulment.)
- **Insurance.** You will probably want to change the beneficiary on your life insurance policies. If you have children, you might need additional life insurance naming them as beneficiaries; if you don't have any dependents, you might choose to drop your life insurance.
- **Health and medical coverage.** This is especially important at this point, and both husband and wife will have to make arrangements for it. It becomes crucial if you are the one being dropped from your spouse's policy.

### Thinking ahead

The effect of inflation is powerful. Even at a relatively low long-term average of approximately 3% a year, inflation will reduce your purchasing power over time. At that rate, in 10 years, \$1,000 will buy just \$744 of what it could buy today. Keep it in mind.

### **When making financial decisions: what to consider**

Remember those non-financial goals that you prioritized before beginning negotiations? Well, what do you absolutely need to accomplish those that are the most important to you? Time? A substantial sum of money? A steady income?

And what can money give you in terms of freedom, choices and security for the future? While all these are important to most people, you might find that one stands out among all the others. Keep your overriding interests and goals in the forefront of your thinking when you consider various settlement proposals.

Here are some of the most important financial questions to be asking yourself:

- What are the maintenance costs associated with keeping certain valuable assets? Can you keep up the considerable annual payments for a vacation home, a country-club membership or a boat, for example? Or would it be better for you to swap one of those for an asset that doesn't require annual upkeep, such as a stock portfolio?
- What's an asset's potential appreciation value? A bond, for example, normally will provide a steady income stream, but will mature at face value — no more, no less. A stock portfolio worth the same amount as a bond portfolio at the time of settlement might or might not provide the diversification you need at this time. Maybe it's too laden with high-risk stocks — something that worked well when you and your spouse also had bond income, but is too much of a risk now that you've given up the bonds. Compare other assets, such as your home versus your investment real estate, or your share in the family business versus your retirement funds. How do you and your advisors think they'll fare in the years ahead?
- What are the tax implications of selling or transferring assets? What if you agree to trade off assets and you take the \$500,000 house while your spouse takes the \$500,000 stock portfolio? They might have vastly different consequences when they are sold, even if they wind up of equal value. For example, the house may or may not be subject to taxes down the road because individuals who have owned and lived in the property as their primary residence for two out of the last five years, are allowed up to \$250,000 (couples up to \$500,000) in tax-free capital gains when they sell their home. There are lots of issues surrounding taxes, such as the tax bracket the spouse will be in at the time of the sale and what the asset might be worth after future taxes are taken into consideration. What's your accountant's advice?

- How do you think child support should be dealt with as the children get older and more expensive to raise? Should special provisions for future alimony and support payments be added? Do you want to include in the agreement an automatic cost-of-living increase or a provision that reviews your spouse's income in a few years to make certain alimony and support payments are approximately the same percentage of it that they were at the time the initial agreement was made? (Keep in mind, of course, that the amount the recipient gets might be decreased as well as increased.)
- Is it possible to put a dollar value on any of the following: community or professional reputation, what you're giving up, infidelity, benefits you had before marriage (such as a rent-controlled apartment), professional status lost from homemaking and raising children, or putting off retirement to help support your spouse's children?
- What happens if alimony and/or child support are the only or main sources of income for one spouse? Will the supported spouse be able to get a mortgage if he or she wants to buy a residence? And what if the supporting spouse dies? How will obligations be covered? Will there be enough life insurance?

Keep in mind that negotiation works best when both of you feel that you've won a little. Maintaining your composure, compromising on non-essential points and moving in the direction of a financial "win-win" (as much as possible) situation not only help move negotiations along, they also lay the groundwork for a working (not necessarily "good") relationship in the future. And if you have children or joint interests, a working relationship is important because you'll probably have many issues that you'll have to deal with after the divorce has been finalized.

### Skills worth developing

- Being able to identify what frightens, concerns, or worries you with regard to finances ... and being able to communicate that to your advisors and your spouse
- Listening carefully enough to recognize your spouse's concerns
- Negotiating without caving in to your spouse's arguments
- Learning to differentiate between needs and wants ... and being able to communicate them to your advisors and spouse
- Being able to shift emotions into "neutral" during negotiations
- Staying flexible in your negotiations without losing sight of your ultimate goals
- Learning a new way of communicating with your spouse. Practice how to phrase statements or questions to avoid pushing your spouse's hot buttons. Then anticipate two or three possible responses and how you might deal with them
- Being able to ask for and receive support from friends and family

## **Business and divorce**

Complications abound when couples own a business together or most of their assets are tied up in a family or closely-held business. In fact, the acrimony of a divorce can easily seep into the business — unsettling employees, disturbing operations, and upending customer relations. When that happens, no one wins.

Of course, it's much easier if business strategies, such as buy-sell agreements, equity ownership divisions and exit strategies, are developed before a divorce; they provide ballast for the violent emotional swings of the adversarial process.

But many small businesses, especially ones that husbands and wives start or buy, never get around to putting these safeguards in place. If that's the situation you're in, keep in mind that the business is your shared asset. Sink it and it won't support either of you. If possible, keep personal tensions from spilling over into the business.

### ***How can you do that?***

- If you work together, agree to separate your business responsibilities so that you don't have to see or consult with each other often.
- If seeing and speaking to each other at work engenders too much emotion, use e-mail to communicate.
- If you work together, don't talk about your personal problems in the office. Be as cordial to each other as possible.
- Decide whether you really have to split up your business simply because you're splitting up your marriage. Not getting along in marriage doesn't necessarily mean that you don't get along in business.
- If you ultimately decide that you can't work together and one of you is going to buy out the other's share, have the business professionally appraised, with each of you hiring your own appraiser.
- Keep your eye on the prize, which is a thriving business that will support both of you in a lifestyle that you both want — even if one of you no longer owns it or works in it. (This applies whether the business is your family's, your spouse's family's, or one that your spouse owns with you or with outside partners.)

## Financial realities of divorce

- Information is power.
- Fairness doesn't always mean equality.
- Accepting reality is more important than believing that you're entitled to more.

### **The final settlement**

No matter how you've reached the final settlement – whether you've mediated, collaborated, negotiated or gone to court – you will need to have a firm idea of what you are going to end up with, tomorrow and in the future. This financial knowledge will guide you as you plan for your new life. The separation agreement or divorce decree will spell out most of the financial elements. But that's only the beginning.

# Life as a newly divorced person

## Taking stock of and investing in a new life



As a married person, you had to take into consideration not only your own money-management style, but also your spouse's. You might have had to temper your overspending (probably a good thing) or to play the miser to balance your spouse's extravagances (not a good thing). You might have had to check with him or her every time you spent more than five dollars (unpalatable) or had to discuss the reasons behind a major purchase (perhaps unpalatable, but useful). Whether in concert or in conflict, you had another adult in the money-management picture.

That's not so now. So before plunging into the single life, it's important to take a few moments to rediscover your own money-management style so that you can play to your strengths and understand what weaknesses you need to deal with. Take a moment to quiz yourself ... and be honest!

### 1. When it comes to saving money, I

- a. don't even consider it because it's a fantasy
- b. have a jar of coins that I cash in regularly
- c. don't have a plan but generally can save
- d. am diligent and save regularly

### 2. When it comes to bill-paying, I

- a. forget about bills until I get a second notice
- b. pay them when due, but no sooner
- c. worry, but wait for weeks before paying
- d. set aside two days a month to pay bills

**3. When it comes to investing, I**

- a. do as my financial advisor advises without questioning
- b. don't do much for fear of making a mistake
- c. ask friends and family what they're investing in
- d. learn as much as I can about an investment before making a decision

**4. When it comes to borrowing money, I**

- a. absolutely refuse because it stresses me out to feel indebted
- b. don't mind at all and don't worry about paying it back
- c. only borrow from friends or family; don't trust banks
- d. do it only if it's a necessity or it makes good financial sense

**5. When it comes to lending money, I**

- a. won't
- b. am a sucker for a good story
- c. sometimes do, sometimes don't, depending on who the borrower is and what it's being borrowed for

**6. When it comes to spending for a major purchase, I**

- a. just buy what I like without worrying about price
- b. search high and low for a bargain
- c. compare prices but not to the extreme
- d. wait until it goes on sale, if I can

**7. When it comes to taking a risk with money, I**

- a. freak out and back away
- b. do it, but worry and worry that it won't turn out well
- c. gamble and enjoy the thrill
- d. do it, but only after examining the pros and cons

## 8. When it comes to handling my personal finances, I

- a. hate it, but do it
- b. begrudgingly handle the chore
- c. really enjoy it
- d. hand it over to someone else

It would be nice if you enjoyed handling all your financial affairs and were an especially savvy consumer, borrower and investor – but few people fit that description. Take steps to shore up any vulnerability. If you realize you hate to do something and won't do it even though you know that it must get done, find a way around that liability – perhaps by developing routines, asking for (and perhaps paying for) help, or jumping in and learning more about it so you can feel you have more control.

### Taking your first steps

**Simplify.** So that all the financial chores don't overwhelm you, simplify them as much as possible. Consider any of the following techniques; they're all helpful.

- **Pay monthly bills automatically by credit card.** On most regular bills from phone, cable, electricity, and gas companies, for example, you'll find a place to fill in credit-card information that will allow the company to charge your card automatically. Fill it out and you will rid yourself of one monthly check-writing chore. (But don't forget to look over the bills you get. You still have to be vigilant that you're not being overcharged.)
- **Pay bills online.** Most banks and financial institutions now have a way for you to make online transfers from your account automatically for monthly bills, and to make incidental payments to other creditors. It's usually a free service and it saves on stamps.
- **Develop your own routines.** For example, you may decide to pay bills twice a month. (Just make sure the dates you choose allow you enough leeway to get payments to creditors before the due dates; otherwise you'll wind up paying late fees.) Another excellent routine to establish is to "save off the top." That means instead of waiting until the end of the month to see how much you have left to put away, you take a set amount off the top of your paycheck, your alimony, or any other income stream, and put it into a savings account. It's the old story: what you don't see you don't miss.

- **Consider consolidating your investments.** If all or most of your accounts are with one institution, you should have an easier time keeping up with your investments.

**Keep records.** This may be a pain, but it's especially important for divorced people because if there's a dispute over support payments made or received, you have backup documentation for your position. But also keep careful records of expenditures relating to home improvements, since they may play an important part in decreasing your taxes when you decide to sell your home.

**Clean up the remnants of the divorce.** That means you have to change your will and the beneficiaries on all your pension accounts and life insurance. It means you have to rethink your health care directives and whom you want to assume a power of attorney for you in case you need it. You'll also have to begin estate planning anew — starting with a new will. You'll need your own bank accounts and investment accounts.

**Figure out what it will take to make you feel financially secure.** Is it a well-paying job, additional education, income-producing investments, reduction of debt, the establishment of a college fund for your children, balancing short-term needs with long-term goals, wise investments for the money from your divorce settlement, or bringing expenditures in line with income? Whatever it is, begin the process of making it happen. If you are uncertain how to begin, speak to your financial advisor or a career counselor.

**Seek help if you're stuck in an emotional quagmire.** Obviously, divorce is a life event that you don't just forget about. You'll probably always use it as a benchmark when you refer to a time in your life ("before I was divorced" or "after I was divorced"). But if you're still feeling despondent, furious, terrified or paralyzed months after you've signed your final papers, it would probably help to talk to a mental-health professional or spiritual advisor. Just talking through these powerful emotions often alleviates or defuses their negative impact on your life.

**Dream. . . and find ways to finance your dreams.** What are your personal dreams and goals for the future? Divorce gives you an opportunity to rethink the patterns you've developed during your married years. Some of the activities you engaged in when you were married were ones you really enjoyed and want to continue — but probably not all of them. Now is the time to reorder priorities or start turning dreams into reality. As you plan and pursue your new life, stay in touch with your financial advisor. He or she can help you find investments to pursue your most important goals.

# More help

## From your Wells Fargo Advisors Financial Advisor

### **When you are seriously considering divorce, he or she can ...**

- Provide you with a printout of all the assets you have at the firm – with purchase dates and prices, present market values, and more
- Explain anything you don't understand on your statements, plus provide investment strategies designed to save on taxes
- Raise financial issues for you to think about so that you won't be surprised by them later in the divorce process
- Work with and coordinate the efforts of your team of advisors

### **When you're in the midst of negotiations, he or she can ...**

- Provide you with financial information, suggestions and expertise
- Ask you the questions you might not be able to ask yourself, such as "If your ex loses his/her job, are you still okay with not working?"
- Model a way of looking at financial information unemotionally
- Serve as a sounding board for settlement suggestions

### **When you're launching life as a newly single person, he or she can help you ...**

- Consolidate your holdings
- Change beneficiary designations on your insurance and retirement plans
- Develop a portfolio plan to help you move forward
- Develop an investment strategy that will help meet your cash-flow needs
- Readjust and rethink your finances at key junctures in your life

## Useful Web sites

Please note that we are not responsible for the information contained on the listed Web sites. Their addresses are provided to you for information purposes only.

### General sites on divorce

- **divorcemagazine.com** — This e-zine’s easy-to-read articles range from how to tell whether your kids are “at risk” from the divorce and how, when and what to tell them about the divorce to what happens if your ex can’t pay his or her share of the debt — and much more.
- **divorcesource.com** — Information from divorce laws by state to custody handbooks for mothers and fathers to how to stop your divorce. It also includes forums and message centers that allow you to “talk” to others who are divorcing.
- **divorceinfo.com** — Specific tax information regarding divorces, on everything from “tax filing status” to “excess alimony rules.”
- **divorceonline.com** — Focuses chiefly on single-parenting issues, but it also has articles and information on many aspects of divorce — psychological, legal, financial, real estate, etc. The referral section helps you find professional assistance near you.

### Professional assistance sites

- **aaml.org** — The American Academy of Matrimonial Lawyers has articles and news about divorce and lists its members by state and name.
- **acrnet.org** — The Association for Conflict Resolution has a list of trained mediators, which you can access by zip code by clicking **Resources** and selecting **Find a Mediator**.
- **collaborativepractice.com** — Has links to state organizations of collaborative professionals who are lawyers.
- **bvappraisers.org** — Helpful in learning more about business valuation practices and procedures and finding a business appraiser.

### Government assistance sites

- **ssa.gov** — Specific questions about Social Security and divorce are answered here, but the site deals mainly with retirement and survivor and disability benefits.
- **irs.gov** — Use keywords “Separated or Divorced Spouses/Parents” for a multitude of frequently asked tax questions and answers surrounding divorce.

## Books and booklets

The views and opinions expressed by the authors do not necessarily reflect the views of Wells Fargo Advisors or its affiliates.

- **“Cooperative Parenting & Divorce”** (Parents Guide), by Susan Blyth Boyan and Ann Marie Termini (Active Parenting Publishers, 1997). This is all about children: how to keep them from being pawns in a divorce tug-of-war and how to help them through this traumatic time.
- **“Difficult Conversations: How to Discuss What Matters Most”**, by Douglas Stone, Bruce Patton, Sheila Heen and Roger Fisher (Penguin Books, 2000; also available in abridged form on audiocassette and CD). Information on talking about everyday things like children or money in ways that will accomplish your objective and diminish hard feelings.
- **“Divorce & the Military II”** by Marsha L. Thole and Frank W. Ault (The American Retirees Association, 1999). A comprehensive guide for military members (active duty, reserve/guard and retired), spouses and their attorneys on the rules and regulations surrounding the finances of divorce.
- **“Divorce and Money: How to Make the Best Financial Decisions During Divorce”**, by Violet Woodhouse and Dale Fetherling (2002, Nolo Press, 9th edition). A comprehensive overview and a good reference book to have on hand.
- **“Getting to Yes”**, by Roger Fisher, William Ury and Bruce Patton (Penguin Books, 1992). Advice for the layperson on how to negotiate successfully without caving in.
- **“101 Best Resumes”**, by Jay A. Block and Michael Betrus (McGraw-Hill, 1997). Lots of ideas for taking inventory of your skills and how to make your résumé reflect your abilities. Plus sample “stand out” cover letters.
- **“Tax Information for Divorced Individuals,” IRS Publication 504**. Download from [irs.gov](http://irs.gov) or call 800-829-3676 for a free copy.
- **“What Color Is Your Parachute?”** by Richard Nelson Bolles (Ten Speed Press, annual). A popular manual for job-hunters and career-changers. Basically a course of study into yourself — what you like to do and what you’re good at — and how to translate that into a rewarding work experience.

## The financial language of divorce

Because most people don't go through divorce more than once, the terms are as foreign as the process. Here is a list of the most common.

**Age of majority.** The age when a child legally becomes an adult in your state.

**Community property/marital property/family assets.** All the assets and debts that have been acquired since the marriage, regardless of whose name the assets or debts are in.

**Interim or temporary agreement.** Exactly what the name implies. You agree with your spouse on specific issues for a limited period — usually until you can work out the outstanding issues in the divorce.

**QDRO (pronounced “quadro”).** Short for “qualified domestic relations order”. In cases where a spouse's qualified retirement plan is governed by ERISA, a QDRO needs to be drawn up by an attorney or QDRO specialist to allow the non-employee spouse to become an alternate payee. The QDRO, a complicated document which requires court approval, spells out how the plan administrator should divide the benefits between two spouses. The options may include a one-time payment at retirement, monthly payments starting at retirement, or a lump-sum payment now that's transferred directly into a rollover IRA that the other spouse sets up. It's ideal if the QDRO is approved at the same time as the divorce decree becomes effective, but if that doesn't happen, it can be drawn up after the divorce.

**Separation agreement.** A legally binding contract that details the terms and conditions of the separation that both spouses have agreed to. It is often incorporated into the divorce decree.

## What's where:

An at-a-glance checklist of the location of important papers

Marriage certificate \_\_\_\_\_

Birth certificate

Self \_\_\_\_\_

Children \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Adoption papers

Children \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Passports

Self \_\_\_\_\_

Children \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Social Security card

Self \_\_\_\_\_

Children \_\_\_\_\_

Social Security information, benefit statements

Self \_\_\_\_\_

Spouse \_\_\_\_\_

Power of Attorney \_\_\_\_\_

Health care proxies/living wills \_\_\_\_\_

Wills and codicils

Self \_\_\_\_\_

Spouse \_\_\_\_\_

Medical records

Self \_\_\_\_\_

Spouse \_\_\_\_\_

Children \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Life insurance policies \_\_\_\_\_

Health insurance information \_\_\_\_\_

Mortgage information \_\_\_\_\_

Deeds (auto, house, other) \_\_\_\_\_

Tax returns \_\_\_\_\_

Employment contracts \_\_\_\_\_

Trust information \_\_\_\_\_

Investment information \_\_\_\_\_

Banking information \_\_\_\_\_

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## My most important contacts during the divorce

### Attorney

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Name	Phone	Cell phone	Fax	E-mail
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Address

### Attorney's assistant

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Name	Phone	Cell phone	Fax	E-mail
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Address

### Paralegal

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Name	Phone	Cell phone	Fax	E-mail
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Address

### Mediator

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Name	Phone	Cell phone	Fax	E-mail
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Address

### Wells Fargo Advisors Financial Advisor

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Name	Phone	Cell phone	Fax	E-mail
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Address

### Wells Fargo Advisors Financial Advisor's assistant

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Name	Phone	Cell phone	Fax	E-mail
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Address

**Accountant**

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Name	Phone	Cell phone	Fax	E-mail
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Address

**Accountant's assistant**

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Name	Phone	Cell phone	Fax	E-mail
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Address

**Banker**

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Name	Phone	Cell phone	Fax	E-mail
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Address

**Banker's assistant**

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Name	Phone	Cell phone	Fax	E-mail
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Address

**Therapist**

**Self**

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Name	Phone	Cell phone	Fax	E-mail
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Address

**Children**

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Name	Phone	Cell phone	Fax	E-mail
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Address

**Children's principals or teachers**

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Name	Phone	Cell phone	Fax	E-mail
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Address

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Name	Phone	Cell phone	Fax	E-mail
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Address

**My doctors**

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Name	Phone	Cell phone	Fax	E-mail
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Address

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Name	Phone	Cell phone	Fax	E-mail
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Address

**Children's doctors**

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Name	Phone	Cell phone	Fax	E-mail
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Address

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Name	Phone	Cell phone	Fax	E-mail
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Address

## Friends and family

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Name	Phone	Cell phone	Fax	E-mail
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**Investment and Insurance Products: ► NOT FDIC Insured ► NO Bank Guarantee ► MAY Lose Value**

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