

Key Wealth Institute

# How to Prepare for the Financial Implications of a Divorce

Gretchen Miller, MBA, CFP®, CDFA®, CPWA®, SVP, Key Private Bank Relationship Manager

Sometimes divorce is a necessary step, but it is often accompanied by a web of financial implications and complications that extend beyond the initial division of assets and debts. Understanding these intricacies is essential to making informed decisions that safeguard your financial well-being during and after this challenging period.

Here's a comprehensive examination of the financial complexities that can arise following a divorce:

## **Division of assets and debts: A labyrinth of negotiations**

Marital assets – real estate, retirement accounts, bank accounts, investments, and other property acquired during the marriage – must be equitably divided. This process can be intricate and emotionally charged, often involving negotiations, valuations, and even legal interventions. The outcome of asset division can significantly affect each spouse's future investments, retirement plans, and overall financial security.

## **Child support and alimony: Ongoing financial commitments**

If you have children, you likely will be responsible for paying child support – the financial obligation to contribute to raising your children. The amount of child support is determined based on factors that include the incomes of both parents, the needs of the children, and the allocation of custody. Similarly, alimony, also known as spousal support, is a financial payment made from one spouse to the other to help maintain the standard of living they enjoyed during the marriage. These ongoing financial commitments can strain budgets and affect future financial planning.



## **Loss of income and increased expenses: Adjusting to a new financial reality**

Divorce can often lead to a reduction in household income, which can necessitate downsizing living arrangements, modifying spending habits, or even taking on additional work. Moreover, as a single individual, you may incur additional expenses related to maintaining separate households, including housing costs, utilities, and transportation expenses.

## **Legal fees: Navigating the legal maze**

Divorce proceedings often involve significant legal fees, ranging from a few thousand dollars to tens of thousands of dollars, depending on the case's complexity and the experience of the attorneys involved. These legal expenses can quickly drain your financial resources, leaving less money available for other necessities.

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## **Tax implications:**

### **Unraveling the tax code**

Divorce can have complex tax implications, affecting your filing status, deductions for spousal support and child support, and potential capital gains taxes on asset division. Consulting with a tax advisor is essential to understand the tax implications of your divorce and to make informed decisions to minimize your tax burden.<sup>1</sup>

## **Impact on credit scores:**

### **Navigating the financial landscape**

Divorce can indirectly impact your credit score, especially if you have a history of late or missed payments on joint accounts during the marriage. This can make it more challenging to obtain loans, credit cards, or other forms of credit.

## **Impact on emotional well-being:**

### **Managing the stressful aftermath**

The emotional stress of divorce can manifest in anxiety, depression, and other mental health issues, further straining your financial well-being. The emotional turmoil can impair your ability to focus on work, manage finances effectively, or maintain relationships with others.

**Remember, divorce is a life-altering event. It is important that you address the financial implications with diligence and care. You need to gather financial documentation, seek professional financial guidance, explore mediation, be realistic about your financial situation, and seek the assistance of a professional for emotional health.**

## **Managing financial complications: Strategies for resilience**

Preparing for the financial implications of divorce can help mitigate the complexities and stress of the process. Here are some effective strategies:

### **Gather financial documentation**

Comprehensively review your financial records, including bank statements, investment statements, tax returns, and other relevant documents. This information will be essential for your attorney and financial advisor.

### **Seek financial guidance**

Consult with an advisor to develop a personalized plan to manage your finances during and after your divorce. An advisor can assist in identifying potential risks, making informed financial decisions, and creating a sustainable financial path.

### **Embrace amicably negotiated settlements**

Before involving lawyers, consider negotiating settlements directly with your spouse to avoid escalating legal costs and to maintain control over the process.

### **Explore mediation**

A neutral mediator can help you and your spouse reach an agreement on the terms of your divorce, which can provide a cost-effective and emotionally less taxing alternative to traditional litigation.

### **Be realistic about your financial situation**

Develop a budget that aligns with your reduced income and potential expenses. This will help you make informed decisions about your spending and saving habits.

### **Seek professional help when needed**

If you are struggling to cope with the financial or emotional challenges of divorce, don't hesitate to seek professional help from a therapist or counselor. They can provide emotional support, coping mechanisms, and guidance in navigating the turmoil of divorce.

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For more information, please contact your advisor.

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## About the Author

As a Relationship Manager for Key Private Bank, Gretchen Miller focuses on ensuring her clients' wealth management plans are carried through to meet their unique financial objectives and grow and preserve wealth. Gretchen coordinates the implementation of wealth management strategies with the relationship team and ensures clients have the tools and information to keep track of their financial situations and make informed decisions. She also coordinates regular communications and updates with the team and proactively delivers the latest insights and advice to benefit clients' particular situations.

Gretchen has more than 30 years of experience in financial services and is well qualified to help clients implement strategies to achieve their goals. Most recently, prior to joining Key, Gretchen served as Director of Advanced Planning for Prudential Financial, where she was a subject matter expert on financial and estate planning and on retirement topics such as Social Security, Medicare, and tax-efficient distribution strategies. Gretchen earned a Bachelor of Science degree in Management from Springfield College and an MBA from the University of Phoenix. Gretchen obtained her certification as a Certified Financial Planner.<sup>™</sup> Most recently, she obtained her Certified Private Wealth Advisor certification in 2024. She is a member of the Financial Planning Association, the Investments & Wealth Institute, and the Institute for Divorce Financial Analysts.<sup>®</sup>



<sup>1</sup>After the passage of the Tax Cuts & Jobs Act, alimony payments are no longer deductible by the person making the payment.

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