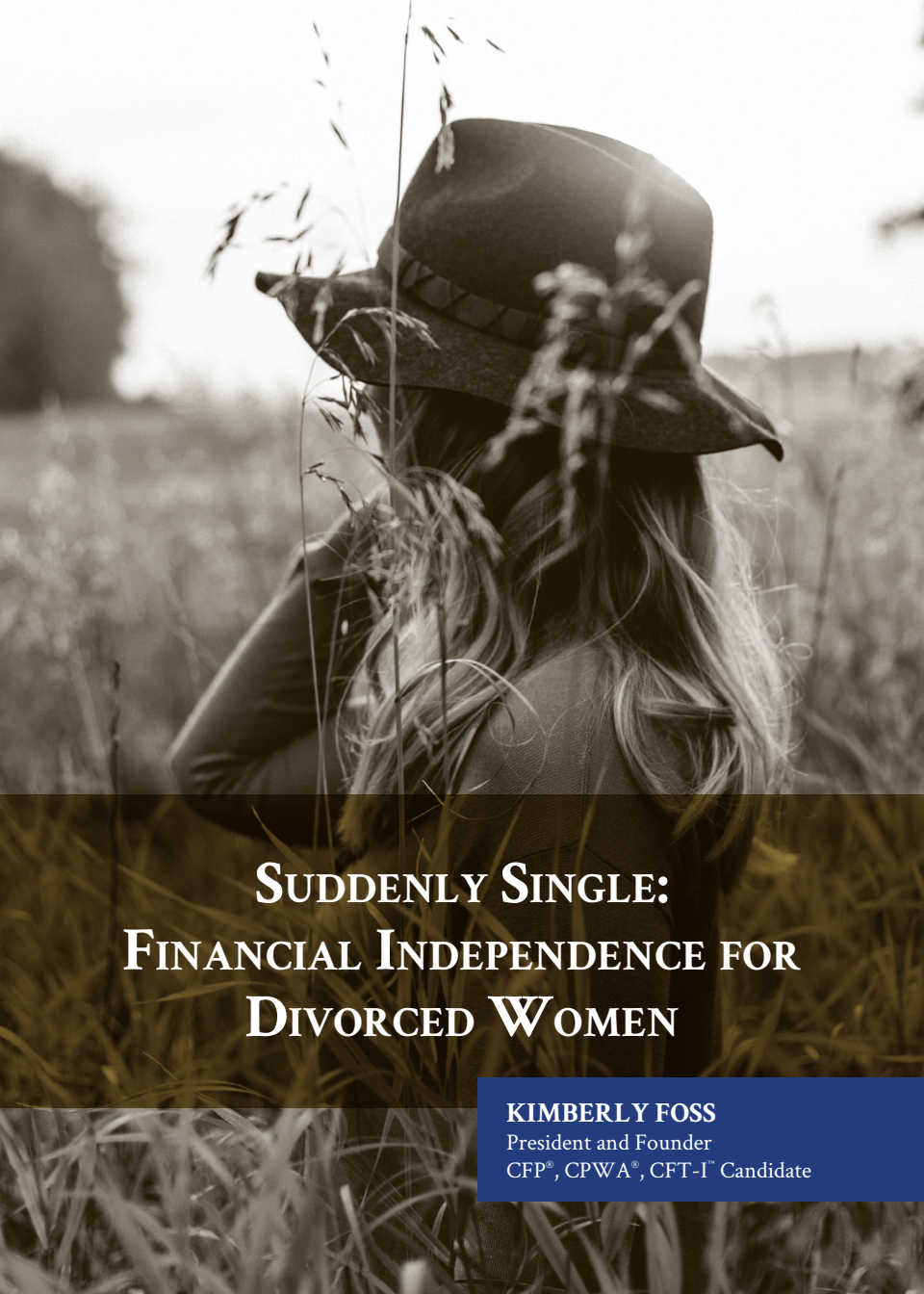

Suddenly Single: Financial Independence for Divorced Women

KIMBERLY FOSS
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CFP®, CPWA®, CFT-I™ Candidate

Letter from Kimberly Foss

As millions of American women already know, divorce can be one of the most difficult and emotionally devastating experiences of your life. You suffer not only a sense of loss, but also confusion, anger, and concern for the financial security of yourself and your family. Many clients have told me, "I never thought that I would ever be in this position."

Well, I have been there, too. I have struggled with the same traumas. I believe that by sharing my experience and my financial and investing knowledge and experience, I can help women in the process of divorce recover their financial independence and regain a sense of control over their own futures.

This paper, "Suddenly Single: Financial Independence for Divorced Women," is aimed at helping you through this period of transition. Surviving divorce—and even thriving afterward—is a very achievable outcome. But it requires knowledge and clear decision making to navigate the complex and far-reaching issues that arise. It can be comforting to know that you do not have to do it alone. There are experienced professionals whom you can trust to help you every step of the way.

Sincerely,

Kimberly Foss, CFP, CPWA
Founder and President
Empyrion Wealth Management, Inc.

Introduction

Divorce ushers in a flood of extreme emotions and feelings of upheaval. It's important to understand at the outset that these feelings are a natural part of the process, and you should allow yourself to go through them. In fact, this is the only way to progress to the point of being ready to proceed to the next, new stage of your life.

In the early stages of the divorce crucible, you may feel completely unprepared to make simple, ordinary decisions, let alone the kind of complex financial issues that often accompany divorce or separation. However, settling your financial affairs and addressing your financial future are essential steps in moving forward.

And addressing your financial future after divorce is vital. A 2018 study by the women's financial website Worthy.com noted that a major percentage of women going through divorce report unanticipated financial consequences that could have been mitigated or eliminated with better awareness and planning. And yet, a January 2020 article in Forbes indicates that 95% of women experiencing divorce do not consult a financial planner.

In the days and months following your separation and continuing through your divorce, you will need to make some far-reaching financial decisions. It's natural to struggle with emotions at this time, but the turmoil can seriously hamper your ability to evaluate your options and develop a strategy built around your new circumstances. That is why it is crucial to have as much information at your disposal as possible: information that is accurate, dependable, and framed in terms that you can understand and make logical decisions about.

This paper will provide some of that information. We will discuss various issue and decisions that you will face and suggest ways for making those decisions in a way that will help you on your path to long-term financial independence. We will examine such issues as the hidden pitfalls in the division of assets, managing retirement investments, maintaining your current residence, the division of a closely held business, and other topics.

This paper will also help you identify priorities. During the divorce process, you can defer some decisions, but others require having an established financial strategy before the lawyers meet for the first time. By understanding and taking control of your financial life, your recovery and sense of well-being will progress; you will go from feelings of despair and uncertainty to a place of understanding and control. Remember: you don't need to solve all the problems on your own; you have access to professionals who will help you choose the best solutions.

One important point: regardless of how skilled your divorce attorney is, the financial issues in many cases require a financial advisor committed to finding the best solution for you. Even amicable divorces can involve highly complex financial issues for which simple, obvious solutions may be completely inappropriate—and they could severely affect your future and the futures of your children.

The Financial Component of Raw Emotions

At the time when couples confront the crisis state of their marriages, most people focus on the immediate financial concerns and especially on monthly income needs. Who pays the mortgage? Who covers the next tuition bill? This makes sense; when emotions are raw, it can be difficult to think about anything other than immediate survival. Typically, neither party is eager to focus beyond the near-term financial questions, but the medium- and long-range implications, such as monetary settlements and appropriate investment strategies, actually have much more lasting impact.

For example, the spouse with custody of the children commonly expects to get the home. In popular culture—talk shows, television dramas, and movies—this expectation receives regular reinforcement. And it can be emotionally healing to stay in familiar surroundings, especially when younger children are involved. For some women, however, demanding the home as part of the settlement may not best serve their long-term financial interests, even if it does provide emotional comfort.

If the wife doesn't earn an income independent of her husband, for example, she may not have the resources to sustain the home and support the children at the same time. This situation can arise especially in cases in which the wife gives up other financial assets in return for the home. After all, houses and apartments are illiquid assets, demanding substantial, ongoing payments for real estate taxes, utilities, insurance, and upkeep, in addition to the mortgage. While staying in the family home may initially be the best for the emotional well-being of the children and the wife, the constant struggle to meet payments can lead to a highly stressed atmosphere. For these families, selling the home and using the proceeds to build a more financially stable life might be preferable, although emotionally difficult at first.

On the other hand, if there are adequate financial resources, other major life decisions can be deferred. Taking early retirement, starting a new job, or launching a new business require careful evaluation, not an impulsive, emotionally driven reaction. In general, you should delay decisions that are irreversible—or reversible only at great cost—until you can think confidently about the future and examine the merits of various solutions.

In either case, people you respect may offer advice or business opportunities, but you can postpone such important decisions until you have regained perspective and sought guidance from an objective, trusted advisor who can help you evaluate potential new paths.

Common Financial Pitfalls

In the Worthy.com study referred to above, 46% of the women surveyed said they had experienced one or more of the following unpleasant financial surprises during the course of their divorce.

1. **Not being aware of all the debt.** This includes not only things like mortgages, car loans, and credit cards, but also home equity lines of credit, loans against IRAs or 401K plans, and student loans. Remember, in a divorce, it's not just the assets that get divided up. It's important for all women to know the type and size of the household debts, and this is especially true for those contemplating divorce.

2. **Not anticipating that they would need to return to the work force.** Even in these present days, many women not only choose to stay at home but also cede most or all of the financial decision making to their spouses. In the event that they must find employment after the divorce, these women face the toughest adjustments.

3. **Overestimating the amount of child support and/or alimony.** Especially when the husband makes the majority of the household income, this can easily catch the lower-earning (or non-working) wife by surprise. The one making the most money typically will try to whittle down the amount of payments to the ex-spouse, making it essential for women to go into the process with realistic expectations, accurate knowledge of household finances, and excellent legal representation.

4. **Not realizing the marital home would either have to be sold or would be retained by the ex-husband.** It is by no means certain that the ex-wife will be able to keep the house, especially in situations where assets must be liquidated to satisfy household debt. Women contemplating or in the midst of divorce require an accurate knowledge of the appraised value of the home and how much debt is against it, and it is often in their best interest to pay for their own independent appraisal.

5. **The cost of health insurance.** Especially for women who have been out of the workforce during the marriage and have been covered by a husband's plan, the expense of obtaining health insurance usually comes with massive sticker shock. It's much wiser to investigate this early in order to get the best deal possible.

6. **Underestimating the cost of the divorce process.** Let's face it: lawyers are expensive. When children are involved, and even more when the marital estate is complex, the legal price tag can become pretty significant. Here again, some advance research is highly recommended.

> Women need to know what they're likely to pay in order to come out of the process with adequate financial resources.

According to the Financial Planning Association, divorcing couples often overlook several other major issues that affect the future of each person.

Equal is not always equal. When the wife takes the home and husband receives the 401(k) account, with each having a current value of $500,000, the split of assets isn't equal. As mentioned above, a house is a continuing financial obligation, while a retirement account grows tax-deferred as a liquid asset- and often at a higher rate than property. The husband would need to pay taxes at the time of withdrawal, however, the wife would need to pay capital gains taxes at the time of the property's sale. A more in-depth analysis would reveal which is the better solution for the wife.

Earnings potential of the higher-income earner. When a wife has supported her husband while he received an advanced degree or training or has put her career on hold to raise the children, she may be entitled to payments for her own education.

The additional cost of taxes. A $150,000 investment account and an IRA with identical mutual funds aren't equivalent from a taxation perspective. As the owner of the IRA withdraws money during retirement, he or she will need to pay taxes on it.

Depending on an uninsured spouse for major financial support. Even in the case of a relatively tranquil divorce, the long-term financial dependency of one spouse on the other may prove precarious. The person receiving the payments needs to own a life insurance policy on the spouse making the payments. Responsibility for paying the premiums can be negotiated. The coverage should account for family support, college education for the children, and retirement income needs. Poor health can cause higher premiums or an inability to find a willing carrier, so the purchase of a policy before the settlement is crucial.

The importance of disability insurance. For the same support reasons, the spouse making the payments needs long-term disability coverage at the maximum insurable amount, which by law is still less than 70 percent of annual salary. Statistically, a person is ten times more likely to have a long-term disability during his or her work years than to die during that time. Disability insurance comes with premium payment options that have a dramatic effect on the tax status and benefits that a person would receive.

Joan's Story

Joan is in the process of divorcing and is looking to establish a new life as a single mother and to regain a sense of financial security.

After a 13-year marriage and two children, Joan found herself in circumstances that she never expected. She's now separated from her husband because of his infidelity, but the divorce and financial arrangements aren't finalized yet. Neither are her plans for her new life.

She gave up her career as a teacher to raise her children and be a stay-at-home mom. Now she needs to think about her long-term financial future and possibly develop a new career, perhaps in real estate. As her children enter their teen years and have gained more independence, she can focus on the next phase of her life. Having not worked for 13 years, however, she finds reentering the work world a daunting prospect.

After consulting with Empyrion Wealth Management, Joan decides to sell her home and move to a smaller house to reduce expenses. The changed standard of living doesn't bother her very much, so she'll be able to adjust. "I'm fortunate," she says. "I'm not one of those women who needs to sell the house and move into an apartment and work two jobs to support the kids...I'm still very concerned, though, about the future."

Even with the pending settlement, her financial security remains a big concern. She faces support negotiations and the division of half of the assets from a consulting business, but she doesn't have much in her retirement account nor much in the way of savings. She'll receive support for several years, but she doesn't want to depend on it. "I want financial independence," she notes.

Several of Joan's friends are going through divorces, so she started a support group. They're all stay-at-home moms, too, facing unexpected financial challenges.

"I'll have some money [out of the settlement], but I want my money to work for me," she says. "I'm not sure how to do that yet. I know I'll be okay financially. I know my life won't change that dramatically." However, the dreams of raising a family and growing old together with a spouse have evaporated.

"I vowed to myself that I wouldn't be a bitter old woman," Joan says. "There are too many opportunities out there. I have two boys to take care of, and I need to take care of myself to care for them. I have to learn everything. I've never bought my own home. I relied on my husband."

Financial Questions about Divorces

Besides the practical tasks of locating all financial documents and opening a checking account and perhaps other accounts in her own name, a woman in the process of divorce often confronts a range of complex financial questions with long-term implications. The seriousness of each and the best method of resolution varies, depending upon the particular situation. A divorce attorney can help with the legal filings and settlement agreement, and a CPA will sort through income tax filings.

But a financial advisor (preferably a wealth manager) who specializes in working with divorcing women can be especially helpful in determining the best answers for each question. Working with your attorney and CPA, your financial advisor can create a comprehensive personal financial plan for the years ahead. Typically, divorced women need to address financial issues in four categories:

- Financial issues that need immediate attention, such as support;
- Financial decisions that are part of the divorce settlement, such as alimony or the transfer of assets;
- Ongoing management of investments, insurance, retirement savings, and expenses;
- Creation of a financial plan.

Consider the following common financial questions that typically surface during divorce.

How will you divide the marital property?

- Who gets the home? Who gets the vacation home or timeshare?
- How do you divide stock and other investments when some are in regular investment accounts and others are in 401(k)s?
- How do you divide items that have significant sentimental value but not necessarily high dollar value?
- If there is one large asset, such as a house, and other minor assets, how do you divide the property if you don't want to sell it?

How will you divide the marital debt?

- Who will pay off loans and credit card balances?
- Will your spouse's credit report affect your report?

How will the divorce affect your taxes?

- Who will claim the exemptions for the dependent children?
- Are child-support payments always deductible?
- What are the tax implications if you get half of your spouse's retirement savings?

Developing a Post-Divorce Financial Strategy

A wealth manager can guide you through the financial issues posed by questions like these and coordinate the work of your attorney and accountant to attain the best outcome for your situation. In addition, the wealth manager can guide you through both short- and long-term financial planning questions as you begin to establish goals and a path for your new phase of life.

While "wealth management" may sound like a general term, it actually refers to a specific approach and process in helping with financial matters. A wealth manager works like a financial architect, taking a holistic view of your situation before creating a detailed plan and working with you to develop solutions to the major challenges in your financial life. Your wealth manager also oversees the entire process to make sure solutions are implemented correctly.

In its simplest form, wealth management has three phases:

1. A consultative process to establish a close understanding of a client's goals and highest financial wants and needs.

2. Developing customized choices and solutions designed to fit each individual's needs. This range of interrelated financial services and products might include investment management, insurance, estate planning, and retirement planning, among others.

3. Implementing these solutions in close consultation with clients and coordinating the work of other professionals. The wealth manager works with clients on an ongoing basis to monitor progress and systematically identify and address any new needs that may emerge in the future.

Wealth managers can help divorcing women by managing a range of professionals to coordinate with the divorce attorney and plan strategy. For example, they can work with or act as an investment advisor for managing portfolios, they can coordinate with the insurance agent for life and health coverage, they can consult with the accountant handling taxes, they can work with the valuation expert calculating the worth of the family business, and other useful activities that can relieve significant burdens while the client is dealing with the emotional stress of the divorce. Wealth managers possess a wide array of financial services, products, and strategies that can become part of the financial "tool kit" to help someone grappling with financial challenges after dissolution of a marriage

Wealth Planning and Investments

Wealth planning investment services include financial planning, education planning, retirement planning, and any other planning service in which investments play a substantial role.

Brokerage services primarily include the buying and selling of securities, but may also include transactions such as hedging or managing concentrated stock positions.

Asset management services include working with and advising on mutual funds; managed accounts; fee-based brokerage accounts; and alternative investments such as hedge funds, funds of funds, and real estate and private equity funds.

Estate planning services help to provide for the orderly transfer of assets while minimizing taxes. These services often involve the use of wills, trusts, and other estate planning techniques.

Charitable-gifting services can include those available from private foundations, donor-advised funds, charitable remainder trusts, and charitable lead trusts in which the client would manage the investments.

A wealth advisor can help clients select the best options for their individual situation.

Wealth Planning and Insurance

Wealth transfer services are intended to identify and facilitate the most tax-efficient way to pass assets to succeeding generations.

Asset protection services are designed to shield wealth from litigants, creditors, and other potential threats. There are a great number of strategies available to accomplish this, including liability insurance and legal techniques.

Property and casualty insurance can cover everything from the mundane (autos, homes) to the exotic (rare artwork, yachts).

A wealth advisor can work with the client to decide what types of insurance coverage are advisable and provide referrals to trusted professionals.

Wealth Planning and Credit

Credit services include advice and planning around mortgages, personal loans, and, for business owners, commercial loans.

Loans to estate planning entities may include grantor-retained annuity trusts.

A wealth planner has the expertise to advise and guide clients about the best ways to use credit as a strategic part of the overall financial plan.

Traci's Story

Traci gave up a great deal to help her husband's career. He worked for a start-up company and traveled around the world. They married and six years later had a son. She decided to stop working as a senior engineer for a consumer goods manufacturer in Boston to spend more time with their son, and they relocated to southern New England, where her husband's company was located.

They lived there until her husband transferred to California just as their son was entering first grade. They raised their son there until he was in high school. At that time, her husband transferred back to New England to become an officer of the company, a prestigious position. The company had employed 40 people when he started; by the time of his transfer, the staff had grown to a few thousand.

"We moved back. It was quite traumatic," Traci notes. "We loved living in California. We had a happy marriage, I thought. He promised that we'd go back just for three or four years, make some big money, get our son into college and then retire. We were going to travel, maybe wind down and open a small business. It was a gamble to leave a life we loved, but I decided it was worth it."

Then, after two years in New England, Traci's husband came to her and said he was moving out. After sifting through the excuses, she learned that he was having an affair with his secretary, 15 years younger. He became engaged 30 days after the divorce was finalized. They were divorced by the end of her son's senior year in high school. Her husband refused to give an alimony, saying Traci would have sufficient resources after the split of marital assets. Having discussed financial settlement with Empyrion Wealth Management, Traci employed an improved solution involving the tax advantages of an outright transfer of assets rather than alimony payments, which would be taxable for her and a deduction for her ex-husband.

Traci had handled all the investing and daily budgeting for the family. With Empyrion Wealth Management's advice, she chose to take the family home instead of the retirement plan, although it had the same dollar value. IRA and 401(k) assets would still be taxed at the time of withdrawal. She had enough assets that upkeep of the house wasn't a concern. Also, per the terms of the divorce settlement, Traci will benefit from her ex-husban's stock options. With the money from the settlement, she was able to set up a trust and can now live off the income it generates. She works part-time in a golf shop for fun.

Although she doesn't have financial concerns for the future, the personal ones remain unsettling. "How am I ever going to meet anybody? By now, I thought we'd be retired in Palm Springs. Now I'm alone," she observes.

Finding the Right Wealth Manager for You

The wealth manager you select should be able to fully understand your family situation and your finances. They should listen to you carefully and your focus on your values, goals, challenges, resources, and dreams. Generic solutions that attempt to solve one piece of a complex picture can often cause more harm than they prevent. This makes it critical that your wealth management professional be familiar with your situation; be proactive in thinking ahead; and communicate clearly laying out and explaining step-by-step what a financial plan for you might involve. For example, your wealth manager might need to help you calculate how much income you might require before and after retirement age to maintain your desired lifestyle while also covering education expenses for children and perhaps grandchildren.

Wealth management professionals with experience in counseling divorcing women going through difficult situations such as yours can offer a great sense of relief. They can help those going through the divorce process to be sure that their needs are met, even when the clients may not always clearly see what is in their own best interest.

The choice of the right wealth manager is a critical one. You should be comfortable sharing details of your private life that directly affect your financial security and that of your family. You will also need to feel confident delegating your certain tasks while sharing long-term oversight of your plan. Characteristics of the right wealth manager include the following:

- In practice for ten years or more;
- Strong network or relationships that include other professionals such as lawyers, accountants, insurance experts, business consultants, and others who can help you achieve appropriate solutions;
- Experience with the types of financial decisions that you're facing;
- A practice with a limited number of new clients to ensure that you get the personalized attention you require;
- Professional certifications and credentials that indicate expertise, knowledge, and training;
- A clear client orientation and ability to explain concepts in a way that you understand—jargon-free, careful, and complete answers to any questions you ask. While this can be difficult to quantify, you should go with your instincts. You might consider entering an initial interview with a list of issues that are important to you.

Above all, a wealth manager's job is to listen carefully. The client's responsibility is to voice concerns, wishes, questions and goals, as well as to work closely with the wealth manager to achieve them.

A Closing Word

Divorce can be one of the most difficult and emotionally devastating experiences of anyone's life. Nevertheless, as with any period of transition, surviving divorce requires skill and clear decision-making to navigate the complex and far-reaching issues that arise.

While proceeding with a divorce and dealing with the myriad issues involved in reaching a settlement, it's easy to miss the significance of certain financial decisions. Financial professionals suggest that you fully analyze each asset, such as a home or retirement account, to understand its true worth to you in your new circumstances—something that you can't learn just from the apparent face value. Taxes can have a large impact on the ultimate value of such assets. As discussed above, even a regular brokerage account and an IRA with identical investments won't put the same amount of cash in your pocket. Your wealth manager can help you sift through all the data and come up with the right answer for you.

The good news is that you don't have to perform this type of financial analysis on your own. Working with the attorney and CPA, an experienced wealth manager—preferably one who specializes in helping women about to divorce—can guide you through important decisions and the management of your assets. A wealth manager can also create a comprehensive personal financial plan for the happier years ahead.

About the Author

Kimberly Foss, CFP®, CPWA®, is the Founder and President of Empyrion Wealth Management™ and the New York Times–bestselling author of Wealthy by Design: A 5-Step Plan for Financial Security. She brings both technical expertise and real passion to her work with her clients, including affluent family stewards, women in transition, and thriving retirees. Kimberly shows her clients that it's possible to seize control of one's own financial destiny. She is committed to helping her clients make wise investment choices while avoiding costly mistakes in building wealth.

Kimberly began her career at Merrill Lynch as the youngest female account executive at the time. She later left the commission-driven environment of a stock brokerage firm to found E&A Investment Advisory, which was renamed Empyrion Wealth Management™ in 2002. Now Kimberly frequently shares her financial expertise with leading media outlets, including The Today Show, Good Morning America, CNBC, Fox News, Fox Business, The Wall Street Journal, MSN Money, Forbes, Investor's Business Daily, and U.S. News & World Report.

About Empyrion Wealth Management

Empyrion Wealth Management was founded on the principle that an effective investment portfolio directly reflects the investor's primary economic objectives. We strive to maximize the probability of achieving all that's important to our clients. We are a fee-based company, specializing in long-term investment strategy and dynamic portfolio design.

Empyrion Wealth Management provides financial and investment counseling for a limited number of high-net-worth individuals, closely held corporations, trusts, and pensions. We only take new clients when we have determined that we can add substantial value to those client's financial situations. Our services include thorough historic performance analysis, complete portfolio and investment policy development, diversified asset allocation, and comprehensive performance measurement and monitoring. In every aspect of our work, we make an uncompromising commitment to provide world-class client service and to meet every client's high individualized wealth management needs.

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