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How to Plan for a Divorce

Getting Married Can Be Expensive, but Try Getting Unmarried

By

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September is one of the key times of the year during which people start gearing up to file for divorce. WSJ's Veronica Dagher joins Lunch Break with tips on the financial steps to take before filing. Photo: iStock/gollykim

Now that the vacation suitcases are put away and the children are back in school, it may be time to start planning for something that you may have been putting off—a divorce.

Divorce is a huge step and not one to be taken lightly due in part to its enormous emotional and financial ramifications. But as the economy continues to improve, more couples who have postponed their divorces are likely to pursue them.

National U.S. divorce statics are pretty lousy. There is no reliable central database and some states, most notably California, don't even count the number of divorces annually.

That said, the reported number of divorces runs at about 40% of marriages. In 2011, for instance, there were 877,000 divorces and 2.1 million marriages, according to the National Center for Health Statistics.

Whether it's the seven-year itch or you're just plain unhappy and you feel it's time to make a change, there a few things you need to consider before you file.

1. Know What You Own and Make Copies.

Gather as much information as possible, as early as possible, regarding your family's finances, says Solon Vlasto, a financial planner in McLean, Va. "As a divorce progresses, documentation becomes more difficult to locate," he says.

Begin by making a list of assets, debts and sources of income. Try to obtain at least three years of tax returns. Gather employee and retirement-benefit information and insurance documents. Make copies of everything.

Start tracking expenses, if you haven't already. The more information you collect, the better. There will be a point in the divorce where you'll have to review your cost of living, Mr. Vlasto says.

Create a record of all valuables such as jewelry, art and collectibles, says Nicole Feuer, a divorce mediator in Westport, Conn. "Take photos, as sometimes these items can 'disappear' in a divorce," she says.

James Gambaccini, a financial planner in Fairfax, Va., says you should sign up for electronic statements for all of your individual accounts so that your spouse can no longer see these by opening the mail. Also, be sure to change your individual account passwords so that your spouse isn't tempted to log in to your accounts, he says.

Don't hide money, though, says Lili Vasileff, a collaborative-divorce practitioner in Greenwich, Conn. "It gives rise to dishonesty and fraud and it will be discovered in divorce," she says.

If you have reasonable grounds for concern, seek legal advice for how to preserve your financial assets before filing for divorce, she says.

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Scott Pollack

2. Save and Budget.

One of the most overlooked aspects of divorce is budgeting for it, says Ms. Vasileff.

"Decide how much you will budget and which accounts will be used to pay for your divorce expenses," she says. Try to avoid tapping into the "wrong" accounts to pay for it. Taking money out of an individual retirement account, for example, may cost a penalty and taxes, she says.

You'll need liquid funds for legal costs and possibly for a separate living arrangement, and money for daily expenses. You should have at least three months' expenses plus several thousand more saved for your attorney's retainer, she says.

"Keep this cash in separately titled checking accounts, money-market savings and short-term CDs rather than any long-term investments," she says.

You'll also need to create a budget to support your likely scaled-down lifestyle. Most people grossly underestimate how much they spend, says Molly Goetz, a financial adviser in Towson, Md.

After the divorce, you may end up with half of your previous assets but be spending the same amount as before, she says. "Start thinking about the life you want to lead post-divorce and determine what steps you might need to take to achieve that," Ms. Goetz says.

3. Watch and Establish Credit.

Get an individual credit card if you don't have one already, and consider freezing joint credit cards.

Obtain a credit report for yourself, says Anthony Ogorek, a financial planner in Williamsville, N.Y. A credit report will detail balances outstanding as well as open and closed lines of credit.

"This can be critical in the event a spouse tries to retaliate by running up credit balances," he says.

It can also determine if your spouse has opened accounts you are unaware of, says Bonnie Sewell, a financial planner in Leesburg, Va. You can obtain a copy of your report free at AnnualCreditReport.com.

4. Watch the Timing.

Mr. Gambaccini suggests looking to file your divorce in a year when you're earning less money—for example, when you get no bonus or there is a big decline in the value of your investments. While a court will typically look at income over many years, having a recent decrease in earnings may lower future payments, such as alimony, he says.

During the Great Recession, several of Mr. Gambaccini's clients suffered income declines. "They saw this as a way to get out of a bad marriage at a discount," he says.

5. Consider Selling the Family Home.

It can be a mistake to try to keep the marital home, says Mr. Vlasto. While there's often a strong desire to keep it, especially when children are involved, a home is an expensive asset to maintain, he says.

Maintenance, taxes, homeowners-association fees and insurance all add up quickly.

"All expenses need to be considered," he says.

Consider whether you'll realistically be able to afford the home post-divorce, especially if your ex-spouse died, became disabled, lost a job or couldn't make alimony payments.

6. Look into Alternatives.

Explore various options for divorce resolution, Mr. Vlasto says. "Litigation isn't the only option," he says. "It's expensive and you have the least amount of control."

Consider other methods of getting help during your divorce, such as mediation, arbitration and collaborative divorce, depending on your situation.

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