

Divorce and Money

A Certified Divorce Financial Analyst® (CDFA®) can help you avoid many common financial pitfalls with pre-divorce financial counseling.

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Following his divorce, David met with a financial advisor to put a comprehensive financial plan in place. During the discovery process, it became apparent that David's wife had handled all financial and investment decision making during the couple's 14-year marriage. When they decided to divorce, his wife suggested they split everything 50-50 saying, "You take this half of the assets and I'll take the other half." At the time, David thought that sounded reasonable and fair. What he didn't count on were the adverse tax consequences that would accompany his share of the couple's marital assets.

Unfortunately, what David, his attorney, and even the judge failed to realize was that once David accessed the assets he received in the divorce, he would owe \$180,000 in taxes. His ex-wife, on the other hand, was able to access her half of the assets tax-free. Had David met with a wealth advisor experienced in divorce financial planning well before the divorce was finalized, he may have been able to negotiate a more equitable settlement.

David's situation is not unusual. Often, a financial advisor, such as a Certified Public Accountant (CPA), Certified Financial Planner™ (CFP®) professional, or a Certified Divorce Financial Analyst (CDFA), is not considered until later in the divorce process — or even after the divorce is finalized. Ideally, divorcing spouses should seek guidance from a financial advisor as early as possible, such as when they first decide to separate, since managing multiple households can have significant financial consequences.

Keep in mind that disagreements over finances are a leading cause of divorce. So, it stands to reason that if a couple can't solve their financial problems during their marriage, it's likely they will have difficulty arriving at an equitable financial agreement during a divorce.

Pre-divorce financial counseling can help ensure that settlement terms are fully understood by all involved, including the divorcing spouses, their respective attorneys, and the presiding judge, who often reviews financial information to assist in making a fair decision or ruling. An experienced CDFA brings specialized training and knowledge in these areas and can assist all parties to a divorce in making clearer, more informed financial decisions, including:

- Divorcing couples
- Divorce attorneys
- Mediators
- Judges

A CDFA can help you address questions such as:

Property and assets:

- How do we place a value on our property?
- Who gets what property?
- Who gets the house, and will that person owe capital gains tax?
- How do we divide retirement funds and future pension assets?

Financial support:

- How will the lower-earning spouse manage financially?
- What kind of additional financial support might be needed?
- How much spousal support should be paid, if any?
- What happens if the individual paying spousal support dies?

Children and dependents:

- Who gets custody of the children?
- Who will pay for day care, medical expenses, college, summer camp, orthodontia, and other expenses related to the children?

CDFA's undergo training to assist clients and their attorneys in pursuing an equitable financial settlement. They can also provide guidance to attorneys, mediators, arbitrators, and judges on a broad array of financial issues impacting divorcing spouses. Additionally, they can help parties to a divorce anticipate and address common challenges and potential mistakes, such as those listed below.

- Incorrectly evaluating a defined benefit pension plan
- Treating retirement assets as having the same value as an equal dollar amount of nonretirement assets
- Not understanding different division methods for retirement assets or which method is in the client's best interest
- Not understanding the purpose of a QDRO or the timing of its completion and filing
- Using a QDRO inappropriately to divide an IRA
- Not protecting survivor benefits for the non-employee spouse
- Overlooking the possibility of penalty-free distributions before age 59½

Financial Planning and Long-Term Impact:

- Failing to consider the long-term impact of a settlement
- Not factoring in inflation or investment returns, or using unrealistic assumptions
- Making isolated financial decisions rather than considering the big picture
- Not taking transaction costs into account

Support Payments and Taxes:

- Improperly structuring spousal or child support payments
- Failing to understand the tax implications of alimony vs. child support
- Not understanding how to divide stock options or their tax implications
- Not accounting for deferred taxes when dividing assets

As financial, investment, and tax matters become increasingly complex, engaging a CDFA can provide guidance to clients and their attorneys as they work toward an equitable settlement. A CDFA may also provide financial expertise to assist the court in understanding financial matters and settlement implications. (Note that a CDFA cannot provide legal advice or testify on behalf of a client as a legal representative.)

Common mistakes include:

Property and Assets:

- Assuming a simple 50-50 division of property is always equitable
- Negotiating to retain the marital home without considering affordability
- Failing to consider the cost basis of property
- Not understanding capital gains taxes when selling the marital home
- Not understanding how to divide debt

Retirement and Employee Benefits:

- Failing to gather complete information on all retirement plans, employee benefits, and stock options

To learn more about ways to simplify complex financial challenges and pursue the Return on Life® you and your family desire, contact the Return on Life Wealth Partners team at 440.740.0130 or visit us online.

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