“The Four Things You Need To Survive Divorce”

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Divorce. The word has a certain power to it. Divorce. The word that separates lives. Divorce. The word that does not have to destroy your financial future.

Divorce is not a taxable event. It is what you do with the assets after the divorce that can impact you for the rest of your life. So, educate yourself now to avoid ending up in a financial or emotional state you may not expect.

Before the divorce, you need to determine the assets and liabilities of the marriage. You should decipher between what is marital property and what is non-marital property. In addition, you need to understand your assets and how they can positively or negatively affect your future.

There are four basic things that you will need to survive divorce: a place to live, little or no debt, retirement assets and liquid money. You should strive for a balance of each of these. You need a mix of each of these categories, not an abundance of one category and none in the other.

We will go through each of these four things.

Place to live:

In 1997, the tax code changed relating to home ownership. A married couple is now able to exclude up to $500,000 of gains and a single person is able to exclude up to $250,000 of gains on the sale of their home as long as you have lived in the home for two out of the last five years.

Depending on the divorce, it may be advantageous for one spouse to take the home, while in another situation it could be a disadvantage for the spouse to take the home. You should understand how your divorce settlement will affect you now, as well as five, ten, 15 and 20 years from now. A house is not a liquid asset and if you look historically at the stock market, a house may have less appreciation potential compared with money set aside for retirement. This is where it is very important to establish a financial plan.

Little or no debt:

You should understand what the cost of credit means. Because there is a high cost to having debt, you need to know the difference between good debt and bad debt.

You should be careful when it comes to using credit to protect your assets and your future because we live in a negative savings society. Contact credit bureaus to get a copy of your credit report. If there are credit cards that have a zero balance, call and cancel those cards.

As part of a divorce, remember that the creditor wants the debt paid regardless of the situation. So, if your spouse takes a credit card with your name on it and does not pay that debt, the creditor will come after you.

Retirement Assets:

When you are looking at retirement assets there are many different vehicles in which you can save money for retirement. Make sure that you do not forget some accounts and leave money on the table.

If you receive retirement assets from your spouse's 401(k) plan you may need a QDRO (Qualified Domestic Relations Order) to separate those assets. The QDRO is a legal document that is separate from your divorce decree. This legal document is sent to the benefits department of the 401(k) plan provider to instruct them how the assets should be divided. Make sure the QDRO is written correctly BEFORE the divorce is final to ensure that you receive your retirement assets.

Some benefit plans, however, cannot be divided. In this case, you want to look at other assets of the marriage and receive those instead. For
example, if a pension cannot be divided, take more of the 401(k) assets of the other spouse.

If you receive retirement assets from your spouse's IRA, you will need a copy of your divorce decree and a few other financial forms to separate those assets. With the 401(k) and IRA, you should change the account into your name and roll the assets into another IRA account. This process is known as a "direct rollover". This is another area where it is important to have a financial plan in place so you can realize the foundation you are setting for your financial future.

Liquid Money:

There are three different general phases of the divorce process: the beginning of the divorce, the middle of the divorce and after the divorce. In each of these stages, your budget may be different, so you should make sure that you have liquid money available at all times.

In the beginning, you will need liquid money for the retainer to hire an attorney. You should consider putting this liquid money in a money market account rather than a savings or checking account. This is a vehicle where you are able to earn more interest on your money. Make sure you understand what a money market account is and what it can do for you.

To conclude, make sure you understand the difference between assets, regardless of whether you are single, married or divorced. Gather as much information as you can about your financial situation. Know where your money is. Find out as much information as you can on your own. It is always a good idea to have copies of statements and to start listing all of your assets and liabilities.

Separate your emotions from your finances and remember to look at each asset as an asset. Don't forget about the growth potential on assets. Remember how the different types of assets work. If the only thing that you take away from this article is to educate yourself, get organized, and ask for help you will be on your way to achieving financial independence.

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