



/guide

Your questions answered

BEING FINANCIALLY PREPARED FOR DIVORCE

In this client guide, financial adviser Jodie Phelps explores how to get yourself into the best possible financial decision ahead of divorce and separation. She looks at why this is important for during your divorce as well as it being a great way to set yourself up for the future.

The Importance of Financial Independence

As a financial adviser, I often help clients navigate through life changes, whether it's marriage, having children, moving house, divorce, or bereavement. Life inevitably throws challenges our way, many of which we cannot foresee or prevent. However, we can control how financially prepared we are for them, which can mitigate the additional stress that financial uncertainty brings during tough times. Being financially prepared means being in a stronger position to face the problem at hand, without the added burden of financial uncertainty.

What are the main financial challenges people face when going into divorce?

1. Lack of Awareness and Control Over Current Expenses

Many people are unaware of their current spending habits. It's common to have unnecessary subscriptions and unreviewed household bills, leading to overspending.

2. Unfamiliarity with Savings and Investments

I often meet clients who are unaware of the savings and investments they have, or they don't fully understand their significance and how they work.

3. Complexity of Pensions

Pensions are often one of the most complex assets to divide. Without professional help, it can be challenging to comprehend their long-term value. A financial planner can provide clarity on pensions worth and how to handle these during a divorce.

4. Valuation of Businesses

If a business is involved, determining its value and whether and how it should be divided can be very complex.

5. Selling Assets

Sometimes, assets need to be sold to divide them, which can incur taxes and other costs. Understanding these potential expenses beforehand can help you make informed decisions.

6. Division of Joint Debts

Deciding how to split joint debts like mortgages, credit cards, and loans is another challenge. It's essential to reach an agreement on who will be responsible for what and how it will be managed moving forward so that your credit ratings aren't affected.

7. Changes to Income

Transitioning from a dual-income household to a single-income can be daunting. This often requires adjustments to your lifestyle and careful budgeting to ensure financial stability.

8. Spousal and Child Support

One party may be required to make regular payments, which can affect their financial situation. Ensure these payments are factored into your budget.

9. Reviewing Protection Setups

Your current protection setups, such as life insurance and critical illness protection, will need to be reviewed and probably changed. These were likely based on your married status and priorities, which will now be different. A Financial Planner can assist you with this.

10. Emotional and Psychological Costs

Divorce is stressful and can impact your mental health. Many people find counselling helpful during this time. Additionally, the stress can affect work productivity and income.

Divorce can be financially complex, but with careful planning and professional guidance, you can navigate these challenges and secure a stable financial future.

Top 10 tips on how to be financially prepared for divorce

Being financially prepared for a divorce involves several key steps to ensure you have a clear understanding of your financial situation and can navigate the separation smoothly. Here's what you need to focus on:

1. Understand Your Current Assets

Know what assets you have, their value, and what's in place. Gather relevant documents such as bank statements, investment account statements, insurance documents and tax returns.

2. Know Your Joint Incomes

Be aware of all sources of joint income. This includes salaries, rental income, dividends, and any other streams of revenue. Understanding the total income helps in assessing the financial situation post-divorce.

3. Manage Your Outgoings

Stay on top of your expenses by reviewing and cutting out unnecessary costs. Ensure you are not paying for subscriptions you no longer need. Regularly review and update your budget to reflect current expenses.

4. Understand Joint Liabilities

Know all the debts and liabilities you share with your spouse, including mortgages, credit card debts, and loans. This understanding is crucial for fair division and repayment planning.

5. Ensure You Have a Personal Bank Account

Ensure you have a bank account in your own name. Joint accounts can be frozen during separation, so having a personal account is essential for financial independence and security.

6. Build an Emergency Fund

Create a savings fund to cover any unexpected expenses that may arise during the separation process. This financial cushion can help you manage unforeseen costs without added stress.

7. Improve Your Credit Score

Review your credit report and work on improving your credit score. Establish credit in your name if you haven't already. A good credit score is vital for securing loans, renting property, and other financial activities post-divorce.

8. Check Beneficiary Designations

Ensure that the beneficiary designations on your financial accounts, insurance policies, and retirement plans are up to date. These will need to be amended on divorce.

9. Develop a financial plan

Make a plan that outlines your short-term and long-term goals. Include budgeting, saving, investing, debt management, and retirement strategies.

10. Consult a Financial Adviser

A financial adviser can be part of your support network throughout divorce. They can help you understand the financial implications of divorce and assist in planning for your future.

How to Understand Your Financial Assets and Position: Step-by-Step

1. Gather Financial Documents

- **Bank Statements:** For all current accounts and savings accounts.
- **Investment Statements:** For stocks and shares, bonds, mutual funds, retirement accounts
- **Tax Returns**
- **Loan Agreements and Statements:** For mortgages, car loans, student loans, credit cards, and other debts.
- **Insurance Policies:** Life, health, home, car, and other insurance documents.
- **Business Financial Statements:** For any business property or business bank accounts If you or your spouse own a business.

2. List Your Assets & Liabilities

Create a detailed list of all your assets:

- **Property:** Home, rental properties, business property and land
- **Vehicles:** Cars, motorcycles, boats, and other vehicles
- **Savings & Investments**
- **Pensions:** Note the current value, contribution amounts, and any employer matching benefits
- **Valuable items** like jewellery, art, collectibles, and antiques
- **Business Interests:** Any ownerships in businesses

Create a detailed list of all your liabilities:

- **Mortgages:** Primary residence and any other property loans
- **Loans:** Car loans, student loans, personal loans, and other types of loans
- **Credit Card Debt:** Outstanding balances on all credit cards
- **Other Debts** eg. tax debts, family loans

3. Calculate Your Net Worth

To determine your net worth, follow this simple calculation:

1. **Total Assets:** Add up the value of all your assets
2. **Total Liabilities:** Add up all your debts
3. **Net Worth:** Subtract your total liabilities from your total assets

$\text{Net Worth} = \text{Total Assets} - \text{Total Liabilities}$

This figure provides a snapshot of your overall net worth.

4. Review Your Income and Expenses

Document your monthly income and expenses to understand your cash flow:

- **Income:** Salaries, bonuses, rental income, dividends, interest, benefits, child support, and any other income sources.
- **Expenses:** Mortgage/rent, utilities, groceries, transport, insurance premiums, childcare, education, entertainment/hobbies, subscriptions, and miscellaneous expenses. Create a budget to track and manage these figures.
- **Determine your disposable income:** This is the amount that is left every month after you have paid for your essential outgoings. This can be used to save towards future goals and for enjoyment.

You can find out more about Jodie via her [LinkedIn](#) or on the De Mellow&Co [website](#).

Need more information?

Call our Client Care Team on **0330 838 7456** to speak with one of our specialist family lawyers or visit www.stowefamilylaw.co.uk

