

The ramifications of divorce on your financial life

Personal Finance

GOING THROUGH a divorce is usually an emotional experience, but it can also have financial repercussions. These should be carefully examined as you proceed through the divorce process and reviewed again after the decree is finalized.

The first step after a divorce is assessing your financial situation. You might have lost monthly income as the former spouse's income isn't there anymore. You might have to pay expenses that you haven't before or have shared with your ex. Expenses like housing and car loans might be all yours to pay. After reviewing your income level, it may be apparent that your cash flow is going to be tight.

A budget will further help you review your finances. To make a budget, list your income and then your expenses. Income could include more than just a salary. It might include dividends and interest. Perhaps you were awarded child support or alimony.

Your expenses include things that are fixed in nature — housing costs, for example. You can also include a category for discretionary expenses, such as vacations and entertainment. If expenses exceed income, the place to look for cuts is in discretionary spending.

Now that you have a handle on your budget, it is time to re-evaluate your financial goals. Make a list of what you want to accomplish. It could include saving for retirement. Perhaps you want a new home. Maybe going back to school is an option to explore.

Next, review your debt. Take control of your credit. Don't use credit cards for those extra goodies. If you have debt, have a plan to pay it off as quickly as you can. List out your debt, including the balance, interest rate and monthly payment. Paying off the highest interest rate debt first might be a good plan. Avoid late fees. Pay the bills on time.

You might need to protect your credit. A good credit history can help you obtain credit when you need it. It might be reviewed by future employers or insurers. To accomplish this, review your credit report. It can be obtained at www.annualcreditreport.com. Review your report for accounts that should be retitled or changed. Errors should be corrected.

Medical insurance coverage might have been negotiated as part of the divorce. You might find you need additional insurance. Health insurance is a must. You might be able to obtain coverage through your employer or COBRA may be possible. You could also purchase individual coverage.

Disability and life insurance coverage should be in place that matches your current needs. This is true if you are the custodial parent of your child or children and will need to have these sources of income if the worst should happen.

The next financial step is to change the beneficiary designation on your life insurance policies, retirement accounts and bank or credit union accounts.

A review of your will and powers of attorney is also needed. Your ex-spouse might be listed as your personal representative or hold your power of attorney. You might need to make some changes to the documents. Also, a trust might be needed.

Tax issues usually crop up, and divorce is no exception. Your filing status, income, deductions and credits might change. Taking child tax credits might change depending on whether you are the custodial parent.

The financial implications of divorce can be complicated. Consider seeking the advice of a certified financial planner for information specific to your situation.

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Money Sense

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Try to assign a cost to these and then prioritize what is the most important. Then develop a strategy to fund them.

Your divorce decree might have certain requirements, so be sure to consult the document when making changes.