

How to Prepare for the Financial Impact of Divorce

Divorce is not only emotionally trying – it can also be financially devastating. The average price tag of a divorce is \$25,000-50,000, but for many couples, that's only the beginning of the financial implications of breaking up.

While divorce can be overwhelming, there are ways to be proactive and take steps to maintain your financial well-being. Here are a few things to consider at key stages of the divorce process:

1. If you're considering divorce, start gathering crucial information.

Now's the time to assess your family's income, expenses, assets, liabilities and important paperwork.

- Get copies of your family's financial records. You'll need recent pay stubs and at least three years of tax returns, for both yourself and your spouse. This can be tough and time consuming, but it will help you thoroughly assess your financial situation before a divorce filing.

- Gather statements for mortgages, bank and investment accounts, retirement plans, credit cards and other financial accounts. Inventory personal property like car titles, jewelry and other valuables, too.
- Revisit personal documents that could impact or be impacted by divorce. You'll want to take a look at prenuptial and postnuptial agreements, as well as estate planning documents like wills, powers of attorney and beneficiary designations.

2. Once the divorce process is underway, act quickly to get your financial situation in order.

Make key changes to protect your financial well-being.

- Divorce could cut your income in half and nearly double your expenses. Adjust your budget to reflect your new circumstances and stay on track to achieve your long-term financial goals.
- Close or freeze joint accounts and credit cards. You could be on the hook for bank ▶

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fees if any payments or deposits post after an account is closed.

- Start the next chapter of your financial life by opening new accounts and cards in your name alone. Change the user names and passwords on your financial accounts and social media profiles, too.
- Different assets have different tax consequences – be sure you understand those relevant to you before dividing assets up with your spouse. For example, withdrawals from retirement accounts will be taxed as regular income, but withdrawals from taxable accounts could be taxed at (usually) lower capital gains rates.

3. After your divorce is finalized, retool your financial, estate and retirement plans to reflect your needs and vision for the future.

Divorce could render your well-laid plans obsolete – it's time to make updates.

- Review and update your beneficiary designations and estate planning documents so they reflect your post-divorce wishes.
- Get your retirement savings plan on track as soon as

possible. If you're 50 or older, take advantage of catch-up contributions to your 401(k) or IRA.

- Evaluate your Social Security plans. If your marriage lasted 10 years or more, you can apply for half of your ex-spouse's benefit if it's larger than your own and you are unmarried.

Divorce is a complex, emotional, expensive process. By taking proactive steps at each stage of the process, you can prepare for and mitigate the financial impact of a complicated transition. A Baird Financial Advisor can help you navigate this financial turning point. Not a Baird client? Find a Baird Financial Advisor.

Please reach out if you or anyone you know would benefit from discussing this topic further.