

How to Deal Financially with Divorce

Nobody wins in a divorce. Make no mistake, divorce is financially devastating. Your standard of living almost certainly will take a hit. Yet couples invariably make matters worse by tossing away money on costly bickering. That doesn't mean you should meekly accept whatever your estranged spouse demands. But if you are going to make it through your divorce in one piece, both emotionally and financially, it helps to treat the settlement like a business transaction. On that score, here are some thoughts:

Pick your Fights

You should decide what you think is appropriate and fair going into it. Think carefully about how you will manage your financial affairs after the divorce. For instance, do you really want the house? Experts say that women, in particular, often fight to keep the home even though it may not make financial sense. They're emotionally attached to the house. But they really need to see if they can afford to keep it.

Similarly, do you really want, say, half of your spouse's 401(k) plan? You may find that, rather than getting stuck with a big stash of retirement money, what you need is cold cash, which you can then use to rebuild your life.

Ask yourself: Would I rather have more cash now to get back on my feet or do I want more wealth at retirement? Maybe you should settle for less of the other spouse's retirement accounts, so that you get more cash up front, and then plan on socking more away for your own retirement later.

Pick Your Lawyers

If you want an inexpensive divorce, you need to choose your lawyers carefully. You also want lawyers who are interested in negotiating not litigating. A divorcing couple should look for attorneys who are interested in getting their clients to settle. This saves money and it also saves relationships, with the children and with others. Of course, if the couple is pigheaded and the lawyers are litigious, the whole crowd will likely end up in court. At that point legal costs start spinning out of control. Remember, two days in court will cost a lot more than two days of legal fees. The attorneys involved will spend countless hours on research, all at your expense.

Pick your words.

You husband was bullying and overbearing? Your wife was unfaithful? Try not to let the bitterness of the breakup spill over into the financial negotiations. You can have your lawyers fire letters back and forth, making proposals and counter proposals, while the legal meter runs. But in virtually every divorce I have observed, the couple eventually ends up negotiating all the key details directly. The sooner a divorcing couple reaches that point, the less their legal expenses will be. But if they can keep their emotions in check, they'll have a lot more money left afterward. No doubt about it, divorce settlements can be complicated especially if there is a big discrepancy in the income levels of the two spouses, if there are substantial assets involved, or if one spouse operates his or her own business. Similarly, the calculations get muddied if one spouse inherited a lot of money or come to the marriage with substantial assets. But oftentimes, it's not that difficult to figure out what a fair settlement is. After all, there are state guidelines for determining child support. Meanwhile, dividing up the assets isn't that tricky. You calculate what your assets are worth, adjusting values based on, say, the mortgage owed on the house or income tax bills embedded in the retirement accounts. Then you figure out a fair division, which often will be 50-50. The reason people have lawyers is because they can't put their emotions behind them. You'll be much better off if you look at this as the dissolution of a partnership, rather than the end of a romance.