**Divorce and Money: Six Costly Mistakes**

**From overlooking assets to seeking revenge, here are financial pitfalls to avoid**

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Divorce can be hazardous to your financial health.

Splitting up is expensive, and your cost of living is likely to go up when it is all over.

Experts say anecdotal evidence suggests an improving economy and long-running bull market in U.S. stocks are making the costs of getting divorced look more manageable to many couples who might have tried to stick it out in leaner years.

“People have a greater sense of freedom. They gain more confidence that they could live an independent life,” says John Slowiaczek, vice president of the American Academy of Matrimonial Lawyers.

Still, you should understand the risks, which can be considerable—whether you are a stay-at-home parent, the main breadwinner or in a marriage of financial equals. The stakes can be high, particularly for homeowners in some of the nation’s hottest housing markets.

“Divorce generally results in a significant financial setback for all those involved,” says Mark Zandi, chief economist at Moody’s Analytics in West Chester, Pa., who has researched divorce and other demographic trends.

If you are considering seeking a divorce, plan carefully in advance so that you can make rational decisions at a time when emotions may be running high. Here are six common mistakes to avoid.

**Overlooking assets**

Many happy couples maintain a division of labor in which one spouse keeps an eye on the finances.

But when the marriage falters, the importance of being able to see the whole picture becomes clear.

It is crucial to know what your family’s assets and liabilities are, financial advisers say. Make sure you have access to tax returns, statements from investment and retirement accounts, household bills and any other important records, Mr. Slowiaczek says.

Make sure you also have an inventory of valuable property. You probably know about any shared real estate, but don’t overlook collectibles, furniture and the like.

Make sure you obtain a qualified domestic relations order, or QDRO, a legal document that spells out how you and your spouse have decided to divide certain retirement assets such as 401(k) accounts, says Page Harty, a financial planner at SignatureFD, a wealth-management firm in Atlanta.

If there are any hard-to-value assets in the family, such as a privately held business, a share of a professional partnership or stock options, you may need the assistance of a valuation expert or a forensic accountant. The help can be costly, but if the assets are valuable enough, it could be money well spent.

If you overlook something valuable, you may end up getting less than your fair share when the time comes to divide the assets. In extreme cases, your spouse may even try to hide from you something that should be considered joint property.

Keep track of shared debts, too. If you and your spouse have joint loans or credit cards, you still are responsible for paying them off when you are single again, says Ben Barzideh, a financial adviser in Crystal Lake, Ill.

“Lenders don’t let you off the hook just because your divorce settlement states that your ex-spouse will pay them off,” he says. “The best thing to do is pay off all shared debts before the divorce becomes final.”

**Keeping the house**

Fighting for your fair share makes financial sense. Fighting to keep the family home, on the other hand, could cost you money in the long run.

Staying put is tempting, particularly if it seems like the easiest way to make sure that school-age children remain in the same school district. A house also may stir fond memories or symbolize a lifestyle that is difficult to let go.

But a household that took two people to run may be far too expensive for one. Trying to maintain the illusion that nothing has changed can drain your cash flow and eat into your savings, and may end up merely postponing an inevitable move.

The smarter strategy may be to sell the house and split the proceeds in the course of the divorce proceedings, when both parties would be sharing in the risk and cost associated with selling the home, says Matt Mikula, a financial planner in Itasca, Ill.

Mr. Mikula worked with a mother of four who got the family’s $1.5 million home as part of a divorce settlement, as well as $500,000 in other assets. The woman wanted to keep the house because she had custody of the couple’s four children and didn’t want to disrupt their lifestyle.

But taxes, utilities, maintenance and other expenses amounted to about $50,000 a year, and the client had little in the way of other assets or income to cover those costs in the long run, Mr. Mikula says. “She was going to run out of money,” he says.

His client ended up selling the house six years after the divorce and received about 20% less than it was valued at around the time of the divorce, he says.

**Underestimating expenses**

It also is key to get a firm handle on your other expenses, beyond housing.

Take careful note of how much your family spends on food, clothes and other essentials, as well as discretionary purchases that can be cut back in a pinch. Figure out how a divorce may change the cost of health insurance, which can be steep, financial planners say.

Make sure you can cover the postdivorce expenses on your own, without relying on your ex. “Always plan for the ’what ifs.’ What if someone loses a job, doesn’t pay off debts as promised, disappears off your radar?” says Lili Vasileff, a financial planner in Greenwich, Conn., who works with divorcing clients.

Expect the unexpected. After Shelly Church got divorced, her daughter was invited to play on a volleyball team that traveled extensively. Ms. Church, a financial adviser at Raymond James Financial in Naples, Fla., suddenly needed to come up with about $400 to $500 a month to cover hotel rooms, meals and other expenses.

Ms. Church advises clients to be aggressive when they project their postdivorce cost of living, especially if they have children. Be sure to include the impact of inflation, she says.

One thing is almost certain: “There will be unforeseen expenses,” Ms. Church says.

**Seeking revenge**

The less you spend, the more you keep.

That is the financially savvy principle behind investing in a low-cost mutual fund and waiting for a sale at your favorite store—and it applies to negotiations with your soon-to-be-ex, as well.

Think carefully before hiring costly experts who advocate aggressive tactics in an effort to boost your share of the settlement—and try to curb your own impulse to do the same if the aim is to punish the other person. Even if the strategy works, you could merely end up with a larger slice of a smaller pie.

A woman who was married for more than 20 years to a surgeon sought advice from Rose Swanger, a financial planner in Knoxville, Tenn. Her husband had cheated on her and they were getting divorced.

The surgeon earned a seven-figure income, and the woman wanted to get at least $300,000 a year in alimony. But that turned out to be unrealistic because the couple owned two houses that were in affluent neighborhoods and heavily mortgaged, and they were paying private-school tuition for their children, according to Ms. Swanger.

The woman already had gone through two lawyers and run up tens of thousands of dollars in legal fees by the time she consulted Ms. Swanger, and her husband had done the same. As the woman’s legal bills grew, her credit score suffered, says Ms. Swanger, who ultimately dropped her as a client.

“I don’t blame her for trying to retaliate, but I warned her that a calm divorce is the best divorce,” Ms. Swanger says.

Keep in mind that every dollar you or your spouse spends on winning the divorce is a dollar you can’t agree to split 50-50. Couples are better off approaching divorce as an opportunity to strike a favorable business deal rather than a chance to settle scores.

**Forgetting about taxes**

Be careful not to divide assets in a way that looks fair on the surface—but which sticks one spouse with a larger tax bill.

Before you complete the divorce papers, for example, consider how different accounts might be treated by the tax collector.

Monica Garver, a financial planner in Johnstown, Pa., says she worked on a case where the husband proposed a division of assets that amounted to a nearly even split of their face value. He proposed keeping $2 million that was in an after-tax investment account and giving his wife $2 million that was in tax-deferred retirement accounts.

“Each and every dollar [in the retirement accounts] had to pass through the hands of the taxman before the spouse could put it in her pocket,” says Ms. Garver, who pushed to increase her client’s share of the couple’s assets to compensate.

Similarly, Ms. Garver worked on a case where the husband wanted to give his wife—Ms. Garver’s client—investments worth $500,000 that had cost $150,000 to purchase and to keep $500,000 in investments that had cost $480,000.

That would have left the wife facing a much bigger tax bill on $350,000 in capital gains, while the husband would have owed taxes on only $20,000 in gains.

**Thinking the work is done**

Divorcing couples often put so much time and energy into dividing up assets that they believe everything is taken care of when the papers are signed.

But there are other important financial matters that former spouses should attend to on their own.

For example, be sure to update your will, says Ms. Vasileff, the Connecticut financial planner. Many people make the mistake of forgetting to do that, which can put your intended heirs in a difficult situation, she says.

If you have a health-care proxy or a power of attorney that names your former spouse, you may need to update that document as well, Ms. Vasileff says.

Make sure you transfer the titles for any real estate, cars, investment accounts or other assets that were held jointly into your name, says Ms. Harty, of SignatureFD. Change the passwords on your accounts, too, she says.

Don’t forget about the future. If a divorce settlement requires your former spouse to purchase a life-insurance policy and name you as the beneficiary, for example, you should make sure that the premiums are being paid and that you remain the beneficiary, Ms. Harty says. One option: Ask for periodic confirmation from the insurance company.