



Divorce is Financially Stressful

Working with divorcing clients for over 25 years, I've discovered the difficulties they have in wading through all the financial documents, trying to understand the jargon, and deciding what makes sense for their future.

Often one spouse is less familiar with the finances and may feel at a disadvantage when presented with settlement options. Critical long-term decisions have to be made under emotional circumstances. Typically, lifestyle adjustments are necessary since two households cost more than one. Where do you turn for help?

A Certified Divorce Financial Analyst (CDFA) has extensive training in the divorce process. Often, they are also Certified Financial Planners (CFP®) and may have an investment and tax background as well.

A CDFA works with you and your attorney to illustrate projections on the immediate and long term implications of property distribution proposals, evaluate taxes, retirement plans, the adequacy of support and many more financial issues that will impact your future.

Frequently Asked Questions

Q. What is the difference in taxation between alimony (spousal support) and child support? Does it matter if the support is "allocated" or "unallocated"?

A. Alimony is always federally taxable to the person receiving the payment and deductible to the person making the payment. Child support is never taxable or deductible.

But if support is "unallocated" then it is fully taxable to the recipient and fully deductible to the payer. Unallocated payments are a common situation during separation. Often a client is unaware that the support they are receiving is fully taxable since nothing has been formally "allocated" as child support.

Q. We have assets but they are mostly in my spouse's retirement plans. How can I get my share without paying taxes and penalties?

A. There are special provisions that allow assets to be transferred from a 401k and similar ERISA plans to an alternate payee (due to divorce) via a legal document called a QDRO (qualified domestic relations order). Typically your share would be rolled into an IRA for you and current taxation would be avoided. Note: IRAs and ROTH IRAs can also be transferred between spouses but do not require a QDRO.

Q. My husband is a successful executive. I stayed home, raised the children and supported his career. Now he wants a divorce. What assets are marital?

A. Generally all assets that were acquired during the marriage are marital no matter who earned the money. This would also apply to debts.

Q. Do we have to split my inheritance?

A. Inheritances that were kept in your own name are probably not considered marital but any appreciation may be. If you commingled the funds in a joint account they may have become marital.

Q. I had a 401k before we got married. Can I keep that?

A. If you had assets prior to marriage, they may be considered non-marital but again the appreciation may be marital.

Q. I want to stay in the house until the children get through high school. What do I need to consider?

A. If you are going to be responsible for the mortgage, will you be able to handle the current payments as well as utilities, taxes, insurance etc.? Most likely you will have to refinance the mortgage to remove your spouse's name from the loan. You should also have a cushion for normal and unexpected maintenance.

Are you comfortable with the agreed value of the house? Normally this is based on an appraisal minus 8% for presumed selling costs minus any outstanding mortgage or credit lines.

Be sure to take a hard look at the condition of the property. Whenever you do sell, the buyer may require numerous repairs and the cost will fall on you. Consider an inspection report now to uncover foundation or electrical problems etc. and negotiate with your spouse now.

Q. I have an attorney. When should I contact a CDFA?

A. The earlier in the process you meet with a CDFA the better. It is important for the CDFA to understand the whole picture in order to provide the best service. In many cases, the advisor role may be limited in scope depending on the assets and circumstances. In other cases the CDFA may be needed throughout the entire process including testifying at trial if your case cannot be settled.

Next time in this column we will discuss "Collaborative Divorce" and how you can work together towards a better outcome with more control and less animosity.



Lisa Turbeville, CFP®, CDFA, is the owner of Watermark Financial, 615 Washington Rd. Suite #203 in Mt. Lebanon. She is a graduate of Carnegie Mellon University and has been selected by Pittsburgh Magazine as a 2009 Five Star Wealth Manager – Best in Client Satisfaction. For more information, call 412-531-3533 or email lisa@watermarkfinancial.net.