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Finances and the newly single

The divorce proceedings may be over and the papers signed.

But for many, divorce brings a new challenge: Figuring out how to handle the financial decisions—on everything from budgeting to investing—that may have been handled before by their spouse.


Lili A. Vasileff

What steps should the newly divorced take to get a grip on their new financial situation? To find out we interviewed Lili A.Vasileff, a Certified Financial Planner™ professional based in Greenwich, Connecticut, and president of the Association of Divorce Financial Planners.*

Ms. Vasileff writes about financial issues in divorce on many professional blogs, and on her website, DivorceMatters.com.*

Question: What are some important first financial steps to take after divorce?

Ms.Vasileff: First, try to get a handle on your cash flow. That can start by re-examining your budget because the post-divorce world will be new for you, one in which you will have different assets, debts, expenses, and income streams.

Consider tracking your spending for three months, whether you used checks, credit cards, savings, or cash. From that spending information, you can extrapolate to estimate your total annual spending.

Segregate your expenses into three pots: Those that are fixed, those that are variable, and those that are discretionary. Consider covering your fixed expenses first, your variable ones next, and your discretionary expenses next.

The next step is to identify all possible sources of money coming in, which may include alimony and child support.

Deduct your expenses from your income and calculate whether you have excess or a shortfall. If you have a shortfall, consider reducing expenses. If you have a surplus, think about adding to your savings.

Also consider growing an emergency fund, in cash, to cover three months' worth of expenses, if necessary, or for a short-term goal, like taking a vacation to decompress after your divorce.

If you are thinking about investing extra money rather than just putting it into a savings account, keep in mind that investing is for larger, long-term goals—at least five years away—such as retirement, college, new home.

Keep in mind that investing comes with risks.You can lose money as well as earn it. Investing, however, also provides a greater opportunity for earning a higher rate of return over the long term than you can earn through savings.

If you have any debts, pay off the most expensive first, including credit cards and other debts that have a high interest rate.

It is also important to consider updating your estate documents as soon as possible after divorce. Make sure you have a new will, power of attorney, and updated designations of beneficiaries on your financial accounts and insurance policies.

Question: If you haven't had responsibility for your family's finances, how can you learn how to handle finances on your own?

Ms.Vasileff: Talk to your banker about savings and checking accounts. Even ask the banker to teach you how to balance a checkbook, if you haven't done that before.

Consider consulting a financial planner to help you set goals, pay off debts, plan for retirement, and do so in a comprehensive fashion.

The websites of leading investment companies, such as Vanguard, have a lot of sound information written in plain everyday English for beginners.

How do you go about handling credit issues?

Ms.Vasileff: Begin by establishing your own financial identity: If you have not established credit for yourself, consider doing so now.

If you are unsure about your credit worthiness, you can run a free credit report from all three principal credit rating agencies—TransUnion, Equifax, and Experian*—by applying online.

If you have no credit in your own name, you can start by applying for one major credit card or a credit card from a major department store.

If you haven't had a checking account, consider opening one.

Applying to refinance your mortgage or get a new one will also add data for your credit rating.

If you are going to be renting, the landlord may do a credit check and that may help establish your credit worthiness.

Question: Where do goals such as paying for a college education and retirement fit into the budget?

Ms.Vasileff: One of the things you may have to consider doing is finding a balance between saving for different goals, such as a child's education, and saving for your own retirement.

The harsh fact is that you probably will not be able to do both completely. But keep in mind that your child will have more opportunities for financing college through subsidized government loans, private loans, scholarships, work study, and grants than you will for financing your bills when you retire.

In this economy, it is prudent to save for yourself. You must plan for your own nest egg and add to it to grow it.

Take advantage of your employer's retirement savings plans and contribute as much as possible. Your employer may match your savings, so the total contributions are greater over time and grow on a tax-deferred basis.

Best yet, the contributions are usually on a pre-tax basis, thereby reducing income taxes on your earned income.

If you are already contributing the maximum to your retirement plan, or your employer's profit sharing plan, you may want to consider investing in any supplemental savings plans your employer may offer. Depending on your income, you may be eligible to contribute also to your own individual IRA.

After all that, if you find you can save for college, consider options such as custodial accounts for minors, college savings plans, education IRAs, and standard savings accounts, etc.

Question: If you are near retirement what strategies should you think about?

Ms.Vasileff: If you are covered by an employer retirement plan, read the description of the plan and its terms to understand your options for electing benefits at retirement. Find out about the plan's trigger dates for making investment decisions as well as payout decisions, including when you can make changes each year.

Be aware similarly of key trigger dates for initiating Social Security benefits, or for drawing on IRAs or annuities, if you have them.

You may be entitled to collect spousal benefits based on your ex-spouse's Social Security record, and those should be analyzed along with your own Social Security and pension benefits to maximize total income for yourself.

If you have been awarded part of your ex-spouse's pension, you need to keep informed about the trigger events for initiating the distributions. It could be your own age or when your ex starts to get them.

When you are retired cash flow becomes an important factor. You need a certain amount of cash flow for expenses, and at the same time, ensure you don't outlive your assets.

At this stage, too, you may want to consult with a consultant to help you with investment and withdrawal decisions.

Question: Anything else you should pay attention to?

Ms.Vasileff: Revisit your beneficiary designations on all financial accounts and real property to make sure they are up to date and that you have named your new spouse and/or your children as beneficiaries, if that is what you now wish.

Editor's note: To update your beneficiaries, log on to your Vanguard account, click **My Profile,** then **Beneficiaries**.

Notes

Ms. Vasileff's opinions are not necessarily those of Vanguard.

Photo by William W. Good

Vanguard recommends you consult a tax professional.

All investing is subject to risk.

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