Picking Up The Pieces

A Divorcee's Guide to Financial Freedom

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"We must let go of the life we have planned, so as to accept the one that is waiting for us."
-Joseph Campbell

Divorce can come with some big emotional and financial scars. It can lead to hefty attorney's fees and contentious conversations. In the midst of the emotional turmoil, it's important to understand the financial ramifications of a divorce so you can pick up the pieces and be on a path to financial freedom. Use this guide to help you along your journey.

Keep in mind that this guide is not meant to be a substitute for a financial planner, attorney, or tax advisor. Nobody but these professionals should be giving you specific financial advice. Be sure to hire a financial team that can speak to your specific financial circumstances.

BUDGET & CASHFLOW

The first place to start for many divorcees is creating and understanding your household budget. While it seems pretty basic, it's important to understand the ramifications of becoming a single income household with similar fixed expenses. It's also important to identify any new items that will be added to the budget, like additional child care costs or counseling. Also, consider factoring in any alimony and child support payments, and the tax consequences or deductibility of each.

Just as you would with any other major life event, it's a good idea to put major purchases on hold and avoid unnecessary expenses. Also, try not to take on additional debt. This can keep you from coming out the other end of the divorce in bad financial shape and even save you from having to file bankruptcy.

Be sure to build up an adequate emergency fund to cover unforeseen expenses. Experts usually recommend between three and six months' worth of expenses stashed away for a rainy day. If your job is fairly secure and you earn a consistent salary, you might opt for three months of reserves. If you have variable income or if your job is in jeopardy, you might want to set aside a six-month cushion.

BONUS

Download a short worksheet to create and organize your own budget at **www.bit.ly/PFISheet**

HOME OWNERSHIP

Some divorcees choose to keep their homes to maintain some semblance of stability for their kids. Others decide to downsize to reduce costs and start anew. Renting for a little while might also work well for you. This would give you a moment to breathe and assess your financial situation before committing to a new home.

If you or your ex decide to keep the house, consider refinancing to have the other party taken off the loan. If the loan can't be refinanced, you or your ex can sign an agreement to continue to co-own the house for a specified period. However, doing so may hinder the chances for both of you to qualify for another mortgage.

INSURANCE PLANNING

Many times as you scale back your budget, you may also reduce or completely eliminate insurance coverages to save on costs. This can be detrimental to your financial future because these coverages are designed to protect you from a major catastrophe. While it seems as if an extra $50 or $100 per month might be better spent on other items in your budget, the sense of security that these policies can provide is priceless.

Since your household now solely relies on your ability to produce a paycheck, maintaining and maybe even increasing your disability coverage is vital. Imagine your financial situation if you became disabled and could no longer take care of your expenses. You're now on your own, for better or for worse, and you need to plan accordingly.

As you review your insurance coverage, take the time to update your beneficiaries. Consider changing life insurance beneficiaries and those named on retirement accounts as well. It's a good idea to update your overall estate plan too. Review your will, guardianship elections, and even who you named as power of attorney and health care proxy. Many of these will still be in the name of your ex, so it's vital to update this as soon as you can if you don't want them involved in your end of life decisions.

COLLEGE PLANNING

A college education can be the most expensive cost that a young adult will undertake. Whether educational expenses are financed by a parent or other family member, a scholarship, loans, or a student's personal funds, there are many factors to consider when planning for this expense.

As Stephen Covey once said, "Begin with the end in mind." Consider the University of Maryland as an example. The in-state cost for the 2016-17 academic year was $26,525*. This includes tuition, room, board, textbooks, and incidental costs. Couple this with an inflation rate averaging 5% and it's no wonder that many people give up on saving for college altogether. While this number can be quite overwhelming at first, once broken down into a variety of funding sources, it becomes more manageable.

The burden to save may not be entirely on your shoulders. Work with your ex to determine how much they will be contributing toward the expense. This will help you understand what's left. Furthermore, other loved ones may want to help contribute to this major expense. Many grandparents make special gifts beyond holidays and birthdays toward their grandkids' college. If you're one of the lucky ones on the receiving end.

You might also forget that when your child goes off to school, you can see some of your monthly budget items go down. Food and utilities should fall with one less individual in the household. Along with this, you may realize that you can afford to pay some of the college costs from cash flow.

*University of Maryland Office of the Bursar

COLLEGE PLANNING

Some parents may not have the capacity to or may not want to cover the entire cost of college. You might want your child to have some skin in the game and encourage them to qualify for grants, scholarships or loans through a financial aid package. Also, they might hold part-time jobs throughout school to help pay for incidentals.

However you fund college, piecing it together might be easier than you think. Consider working with an advisor to discuss all of the moving pieces of your college plan and how each may impact your bigger financial plan. While you goal of helping your children is ideal, there's a definite trade-off between saving for college and savings for retirement. Remember, you can always take out loans for college, but you can't take out loans for retirement—nor would you want to.

RETIREMENT PLANNING

One often overlooked area of your financial strategy is creating and funding your retirement. Coming out of your divorce may have slowed progress toward your retirement goals, but it's important to take stock of where you are and understand how to move forward.

You may have used a qualified domestic relations order (QDRO) to split retirement assets and now have your own accounts setup. Even though 401(k)s and IRAs follow strict rules on distributions to maintain the tax benefits, QDROs allow for individuals to split assets before retirement age without taxes and penalties.

Try not to tap into these accounts for anything other than retirement expenses. You may incur major taxes and penalties if you do. Instead, try to find room in your budget to contribute to your accounts.

It's also important to understand the rules surrounding any pension or social security income you are eligible to claim when you retire. Sometimes, even though you are no longer married, you may be able to access your ex's retirement benefits. The Social Security Administration has some strict guidelines for these claims, so make sure you consult an expert.

RETIREMENT PLANNING

Consider creating a retirement strategy to coordinate all your asset and income sources and to understand if you're on track to hit your goals. If not, the strategy will help you to uncover what's needed to get you there. Whether you need to save more, work longer, or adjust your retirement lifestyle, you'll have a sense of security knowing that you're taking an active role in improving your financial future.

Risk is inherent in the investment world. You'll want to consider how much risk you're willing to take and align your investment selection with your risk profile. Also, use fundamental investment techniques, like dollar-cost averaging and portfolio rebalancing, to minimize your risk and maximize your potential return.

In the end, with proper retirement planning and risk management, you will have a clear path toward financial security for the later stages of your life. You will have built a moat around your financial fortress to protect your nest-egg from financial uncertainty. Ultimately, you will have attained your vision of retirement and achieved financial freedom.

BONUS

Download a risk tolerance quiz and corresponding model portfolios at **www.bit.ly/MAPSQuiz**

REMARRIAGE

Once you have been divorced for a while, you might find someone new. If you remarry, there are a variety of implications to consider. Some pension and retirement programs will stipulate that if you remarry, you may forfeit some or all your benefits that you would have received from your ex. This can be a rude awakening if you had been counting on this income as part of your retirement strategy.

Your new spouse might have a unique financial situation of their own. Depending on your situation, you may want to keep you finances separate. Also, you may want to consider a prenuptial agreement to be sure that your finances are separate if the second time isn't the charm.

Stepchildren may enter the picture as part of a remarriage. If something were to happen to you and your new spouse, you may want your money to go to your own children rather than your stepchildren. Proper estate planning will ensure that your wishes are carried out.

Imagine a situation where you pass away first and you have elected for all your money to go to your new spouse. After all, you want to make sure they are taken care of as well. If your spouse passes away soon after you and their beneficiaries are their own kids, you may have accidentally disinherited your own children. To avoid this, you may opt for setting up a trust where you control the beneficiaries of the assets and you can ensure that the right people receive your money.

HIRE A PLANNER

Whether you relied on your ex to manage the financial household or not, you may feel lost, hopeless, and completely overwhelmed by everything. This is certainly an emotional time, so don't go at it alone. Hire a financial professional to work alongside you and help you identify the location and value of everything. This is your new beginning and, as such, a fresh start toward living financially free.

As you make the decision to hire a trusted advisor, you'll want to review the various types that exist and the responsibilities that go along with them. Each type has its pros and cons. It'll also help you to know how to select the right one for you.

- Fee-Only Financial Planners

The fee-only financial planner charges a flat or hourly fee to provide financial advice. Since all their revenue comes from fees, their rates may be higher than other types of planners.

HIRE A PLANNER

They usually cannot help you select financial products since it's outside the scope of their fiduciary duties. While this might make them seem more impartial, many times having an accountability coach to help implement the plan is one of the most beneficial parts of financial planning. With fee-only planners, you'll need self-motivation to carry out plan recommendations on your own. You might even need to hire other financial professionals to help you buy products or open accounts.

• Fee-Based Financial Planners

Fee-based financial planners earn both fees and commissions. You might hire this type of planner to help you create your financial plan first. After the plan is in place, you can then choose to work with them to select products or set up accounts. Any specific product recommendations are not a part of the plan, and you are under no obligation to follow them.

Fee-based financial planners may have lower fees since they receive revenue from a variety of sources. This can be a more affordable way for you to create a financial plan. They can help guide you through the action steps in your plan and be a great accountability coach too.

HIRE A PLANNER

Regardless of the type of planner or advisor you consider, each has an individual business model. You should ask how he or she is compensated. Good professionals will be straightforward about how they receive payment for services. They should be able to define their relationship with you without hesitation.

At the end of the day, selecting the right financial professional comes down to who you connect with the most. Reviewing your personal financial situation can get emotional. You might discuss your attitudes toward money and habits that you've created over the years. You may even uncover some hidden resentments. Feeling comfortable as you discuss the good, the bad, and the ugly will go a long way.

BONUS

Download a Financial Planner Interview Checklist to help you with your selection at **www.bit.ly/FPInterview1**

Do you feel overwhelmed by managing your money?
Start making smart decisions with a personal financial plan.

Are you struggling to plan for your financial goals? Do you feel frustrated and confused every time you think about your investments or retirement savings? While personal finances can be a challenge to learn, you can make smart, sound financial decisions with the right guidance. Personal finance expert Jason Silverberg is here to help.

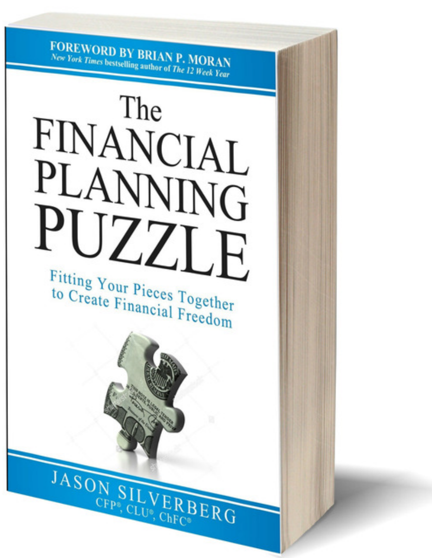
After guiding hundreds of his own clients toward their financial goals, Silverberg has condensed the best of his advice into his new book, *The Financial Planning Puzzle*. This book has advice you need to help you find the solution to your financial success.

In The Financial Planning Puzzle, you'll discover ways to:

- Make financial decisions that help you achieve your goals
- Avoid the myths and misconceptions about money to make better choices
- Become an educated consumer & learn the basics of every part of your finances
- Find the right financial planner to help you stay on track for the long haul
- Achieve your version of the American Dream, and much, much more!

It's time to stop wasting time and money figuring out your financial life alone. If you're ready for a practical, simple, and enlightening personal finance book, then you'll love *The Financial Planning Puzzle.*

Buy the book to start getting your finances in order today!



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Jason Silverberg CFP®, CLU®, ChFC®, specializes in comprehensive financial planning. His practice aims at helping divorcees to fit their financial pieces together to create financial freedom.

He uses a values-based process to connect with his clients on a deeper level than some advisors, diving into the *why* behind the numbers. He focuses on helping clients achieve and protect their goals through methodical investment strategies and calculated risk management and insurance solutions.

In 2017, Jason released his first book, The Financial Planning Puzzle: Fitting Your Pieces Together to Create Financial Freedom. The book helps people organize and improve their financial lives.

In his spare time, Jason enjoys spending time with his wife, Lindsay, and children, Joshua and Rebecca.