

Top 15 financial mistakes to avoid in your divorce settlement

March 2022

One of the best ways to regain your sense of self, besides therapy (seriously), is to minimise the financial damage of a divorce and put yourself in the best possible position to start over. Here are a few mistakes that you will want to avoid during this time when it's hard to think clearly.

Becoming a financial victim

The biggest mistake divorcing spouses can make is being in the dark about finances. If your spouse has always handled all of the financial decisions in your household and you don't have any information about you and your spouse's income and assets, your spouse will have an unfair advantage over you when it comes time to settle the financial issues in your divorce.

If you are planning to divorce, or suspect your spouse is planning a divorce, get as much information as you can now. Make copies of important financial records such as account statements (eg., savings, investment, and retirement) and all other data that relates to your marital lifestyle (eg., current accounts, credit card statements, tax returns).

If you believe your spouse may liquidate (sell or transfer to cash) assets or retitle marital assets without your consent, notify the holder of the asset or property in writing and work with a solicitor to protect your assets. You may be able to obtain a restraining order from the court. Watch out for any cash held in joint checking and investment accounts, and the cash value of life insurance policies. If your spouse uses or moves assets without your knowledge, you may have to hire legal and forensic accounting experts to help you locate and value the assets.

Not considering mediation

If you and your spouse can work together to reach a fair settlement on most or all of the issues in your divorce (eg., child custody, child support, alimony, and property division), choosing mediation to resolve your divorce case may save thousands of pounds in legal fees and emotional aggravation. The mediation process involves a neutral third-party mediator (an experienced family law lawyer

trained in mediation) that meets with the divorcing couple and helps them reach an agreement on the issues in their divorce. Mediation is completely voluntary; the mediator will not act as a judge, or insist on any particular outcome or agreement.

Mediation also provides divorcing couples a lot of flexibility, in terms of making their own decisions about what works best for their family, compared with the traditional adversarial legal process, which involves a court trial where a judge makes all the decisions.

Mediation, however, is not appropriate for all couples. For example, if one spouse is hiding assets or income, and refuses to come clean, you may have to head to court where a judge can order your spouse to comply. Or, if one spouse is unwilling to compromise, or there has been abuse in the relationship mediation probably won't work.

Not considering a divorce coach

Divorce is a legal, financial, and emotional journey. Often, the emotional journey derails the legal and financial process, making it longer, more traumatic, and way more expensive.

When you work with a divorce coach to feel calm, confident and in control of your emotions, you will have clarity and be able to make empowered, informed choices. You will be able to communicate more effectively, and you could save yourself thousands in legal fees.

Through working with a coach, you will shift your focus away from your ex, and onto you – and ultimately create the blueprint for a new life designed around what matters to you.

Hiring a combative lawyer to punish your spouse

This is a very bad idea for two reasons. First, except in extremely egregious cases, most courts won't punish your spouse financially for being a bad person.

Second, hiring a lawyer to punish your spouse will cost you because your lawyer will need to increase the number of hours spent on your case. Increased lawyer hours means higher divorce costs, and higher divorce costs means there will be fewer assets and cash left for you and your family.

Try to take the emotion out of your divorce and treat your case as a business arrangement. The best revenge is to live well after the divorce is over. Hire a divorce coach to work with you on this.

Over-using your divorce lawyer

Divorce lawyers generally charge £200- £400 per hour, and partners in well-known London family law firms typically charge £800 per hour. These lawyers can provide advice on divorce-related issues, but they are not therapists, coaches or financial planners. If you need to talk through the emotional aspects of your divorce, need career counseling or financial analysis, save money on additional lawyer's fees and be sure to talk to the right professionals, such as a licensed therapist, divorce coach, or us.

Failing to recognize your common enemy - HMRC

Work together with your accountant to minimise the total taxes you and your spouse will pay during separation and after divorce; you can share the money you save. Don't forget that both spouses are liable for taxes due as a result of audits on joint returns, so it's usually in your best interest to work together and minimize possible liabilities. If you're facing complicated tax issues in your divorce, it's best to consult with an experienced accountant. If you don't have one, we can recommend a suitable firm.

Disregarding the impact of taxes in a divorce settlement

It's important to remember that after the divorce is final, you may get taxed on the marital assets you received through your settlement. Say your spouse handles all the investments and offers to split them 50/50. Sounds good, right? The only way to know if you're getting a fair deal is to determine the value of the investments on an after-tax basis, then decide if you like the deal. Again, you should speak with a tax professional about the impact of any proposed property division before you agree to it.

Not producing an accurate budget

Divorcing spouses usually underestimate living expenses when they produce their initial budget for temporary alimony (also referred to as "maintenance"), and later find that they aren't able to cover all of their bills. Use a financial professional like us to help you produce an accurate and complete budget.

Failure to evaluate settlement proposals

If you're trying to decide whether your spouse's proposed divorce settlement is fair and workable, take advice to determine how the settlement will impact your finances in the years ahead. There are many factors to consider, including assets, incomes, living expenses, inflation, alimony, child support, taxes, retirement plans, investments, medical expenses and health insurance costs, and child-related expenses such as education.

There are specialized models that produce comprehensive and realistic analyses of your post-divorce lifestyle. You should speak with your lawyer or us for help analyzing any proposed financial settlement.

Beware of settlement offers that look too good

Both spouses and children must make compromises in their life styles post-divorce. A settlement that does not give one spouse enough money to live on is likely to go into default in the future. Be fair, but verify the numbers. Get payments up front whenever possible, even if you get less in total. Try to secure all payments with assets and insurance. It may be worth speaking to a family law lawyer who can review a settlement offer and make sure your rights are fully protected.

Being emotionally attached to assets in divorce negotiations

The marital residence, the pension you earned, a painting purchased during your marriage, a holiday home - these assets often bring an emotionally charged debate to divorce negotiations, which can impair good decision-making. Often, divorcing spouses that are attached to the family home don't realize that they can't really afford to keep it. Yet, they fight tooth and nail to do so, sometimes at the expense of retirement planning. A divorce coach can support you to come to terms with these feelings of loss, so that you can look to the future.

A home is a major cash expense (eg., mortgage payments, property taxes, repairs, and utilities). Let go of any emotional attachments you may have. During your divorce and settlement negotiations, your main focus should always be on how to maximise your finances by making sure you'll have enough cash for living expenses after your divorce and in retirement.



CAVENDISH

FAMILY OFFICE

Disregarding the long-term impact of inflation

The effects of inflation on the cost of a child's university education, or on retirement, 15 years in the future can be dramatic. The "Rule of 72" is a simple way to judge the impact of inflation. For example, if the inflation rate is 3%, the "Rule of 72" means that prices will double in 24 years ($72/3=24$). University costs at 5% inflation will double in 14.4 years ($72/5=14.4$). Be sure to work inflation into your settlement negotiations so you can cover the true costs of future financial expenses.

Forgetting to update estate documents

After divorce, many people forget to change the beneficiaries on their life insurance policies, Pensions, and will(s), so the estates they wanted to leave to their children, new partner, or favorite charity may go instead to their ex-spouse. If you're going through a divorce, talk to a family law lawyer to find out what changes you can make to your estate plan during and/or post-divorce.

Failure to adequately insure the divorce settlement

Your ex-spouse's premature death or disability can be devastating and may result in a loss of alimony, child support, university tuition, or property settlement payments. Life and disability insurance policies can guarantee that these payments will continue despite an unexpected loss or injury.

Failure to develop a post-divorce financial plan

One indisputable fact of divorce is that two households cost more to operate than one. Many divorcing spouses fail to realize that their divorce settlement must last a significant amount of time: perhaps even the rest of their lives. Financial planning can help people transition from a married to single lifestyle by prioritizing financial goals, developing realistic expectations, and producing sound plans for the assignment and division of financial resources.



www.cavfo.com



CAVENDISH

— FAMILY OFFICE —

Conclusion

Here at Cavendish Family Office, we pride ourselves on providing a bespoke service to all our clients. That is why we work together with carefully chosen family lawyers and divorce coaches to offer a triangular service, connecting you with the right professionals at the right time. We call this the Triangle.

Most people don't have the skills to deal with complex legal and financial matters, and the stress and pain of a divorce—even an amicable one—can prevent you from thinking clearly. Having the right legal representation, divorce coach, and financial team by your side is definitely worth it.

Mark Estcourt

CEO



www.cavfo.com