

MANAGING FINANCES AFTER DIVORCE

There are few things in life that can throw a wrench in people's finances like a divorce. The loss in income is likely greater than the drop in expenses. There may be joint debt that you have to figure out how to repay and wills, life insurance policies, and other documents that are now outdated. If you and your ex-spouse divided up financial responsibilities – for example, you did the budgeting and he or she took care of retirement planning – you may be worried about handling tasks you did not have to deal with before. However, by arming yourself with knowledge and taking the time to create a new plan, you can have a financially successful future.

Budgeting

Budgeting is the foundation of wise money management. Basically, it is a plan for where your money will go based on what you have coming in. The first step is to list your current income and expenses. You can use the budgeting worksheet at www.balancepro.org/pdf/budget.pdf. If you recently separated, you may not know exactly what your new expenses are. (You may not know even if you have been on your own for a while.) That is okay. Just use your best guess for now. You can create a more accurate budget in the future by tracking your expenses. (A tracking worksheet is available at www.balancepro.org/pdf/BALN_Tracking.pdf.) Keep in mind that while many of your expenses may be lower than when you were married, they won't necessarily be cut in half – after all, it takes the same energy to run a television whether one person is watching it or two. Once you list your current expenses, add anything you are not doing now but want to do in the future, such as save or pay extra on debt.

Now, total up all of your expenses. If they are less than your income, great! If they are more, go back to your budget and think about what changes you can make. Can you bring your lunch to work instead of buying it there? Cut your land-line and just use your cell-phone? Give up your tap dancing lessons? Be honest about what is truly a necessity and what can be reduced, postponed, or cut out completely. Also consider if there are ways you can increase your income, such as rent out a room in your house (if you are a homeowner) or get a part-time job.

Creating a budget on paper is only the first part – in order for it to be useful, you need to follow it. Put your budget on your refrigerator door or other visible spot in the house, and make an effort to track your spending on a regular basis. (You can use the above-mentioned tracking worksheet, a computer spreadsheet, or budgeting software.) This way, you will know when you have reached your spending limit for the month in a particular category. If you have a hard time sticking to your budget, some of your categories may be unrealistic. For example, perhaps you thought you could keep your supermarket spending at \$50 a month but now realize you cannot live with eating Ramen noodles seven nights a week. Or perhaps new expenses came up that you did not have before. Go back to the drawing board, and figure out what adjustments you can make.

Building Credit

Married people frequently take out credit together. However, as part of the divorce, you may have closed down or been removed from joint accounts. If you no longer have credit cards or other types of credit, it is a good idea to establish your own credit history. Do you plan on getting a mortgage or car loan in the future? In order to get one, especially at a low interest rate, you generally need to have a good credit score. Having a good credit score can also make it easier to rent an apt and get low rates on insurance. You can't have a good credit score unless you have credit that you use responsibly.

In general, a credit card is the easiest type of credit to get. However, if you currently have no or a poor credit history, even getting a regular credit card could be difficult. Luckily, a regular credit card is not your only option. You can also apply for a secured credit card. A secured credit card requires you to put down a cash deposit, which the creditor can keep if you do not make your payments. (You get the deposit back otherwise.) The credit limit is usually low, and the fees can be high, but after a year or two of on-time payments, you may be able to convert it to a regular credit card. Another option is a retail card, which can only be used at the store that issued it.

Once you have credit, it is very important to make your payments on-time and keep your balances low. If you make your payments late and/or have a lot of debt, you will only be building a negative credit history. Collection accounts, repossessions, foreclosures, and bankruptcy are especially damaging to your credit score.

Another wise financial move is to check your credit report regularly. Many credit reports contains errors, and if yours does, you will want to know so you can have it corrected. Checking your credit report can also allow you to spot identity theft. Unfortunately, it is not unheard of for people to take our credit in their ex-spouse's name. (Of course, a stranger could steal your identity too.) You can get a copy of your credit report from each of the three credit bureaus, Equifax, Experian, and TransUnion, free once a year from the Annual Credit Report Request Service. If you see an error or believe you were the victim of identity theft, contact the relevant credit bureau(s).

Contact Information

Since contact information can periodically change, confirm addresses before sending a letter containing personal information.

Annual Credit Report Request Service

P.O. Box 105281, Atlanta, GA 30348

877.322.8228

www.annualcreditreport.com

Experian

P.O. Box 2104, Allen, TX 75013

888.397.3742

www.experian.com

Equifax

P.O. Box 740241, Atlanta, GA 30374

To order credit report: 800.685.1111

To report fraud: 888.766.0008

www.equifax.com

TransUnion

P.O. Box 2000, Chester, PA 19022

To order credit report: 800.888.4213

To report fraud: 800.680.7289

www.transunion.com

Repaying Debt

As part of the divorce process, it is typically determined who will pay what debt. If you are responsible for some of the accounts, you may be worried about your ability to make payments. (After all, going through a divorce does not leave most people flush with cash.) If this is the case, it is a good idea to contact your creditor(s) immediately. Many creditors are willing to work with consumers experiencing hardship and allow them to make lower payments temporarily. When contacting them, keep the following tips in mind:

- **Have a plan for the future.** If a creditor feels that you are making little effort to pay your bills, they probably will be hesitant to do anything for you. However, if they know that you are looking for a second job, trying to rent out your spare bedroom, canceling your cable, etc., it may be easier to convince them to provide concessions for a few months.
- **Don't make promises you can't keep.** It can be tempting to jump at any concessions the creditor is willing to provide, but remember, you may only get one chance at help. It is better to be honest and tell the creditor that you cannot make any payment, or can only pay so much, than to promise to send money you don't have.
- **Keep a record.** Most people prefer to first contact their creditors over the phone. There is nothing wrong with that, but be sure to keep a record of what was discussed. After every conversation, record the time and date you called, who you spoke with, any actions you said you would take, and any promises the creditor made.
- **Be persistent.** As the saying goes, If at first you don't succeed, try, try again. If you call on the phone and the customer service representative says he or she cannot do anything, ask to speak to a supervisor. If that is not effective, send a letter.

If the divorce decree says that your ex-spouse is responsible for paying a debt, you may think that you do not have to worry about it, but that is not necessarily the case. Keep in mind the divorce decree is only between you and your ex-spouse and does not sever your obligation to creditors – if your name is on the account, and your ex-spouse does not make the payments, the creditor can collect from you. (This only applies if you are a joint account holder, not an authorized user.) The payment history for the account can also still be reflected on your credit report. So, what can you do? One option is to ask the creditor to remove your name from the account. They may or may not agree. Another option is for your ex-spouse to pay off the old debt with new debt in his/her name only (for example, refinance the house or do a balance transfer on a credit card). However, this may not work if your ex-spouse has a poor credit history. As a last resort, you can monitor the account on-line (most creditors let you do this) and make the payment yourself if the ex-spouse fails to pay. This will prevent a late payment mark from appearing on your credit report. You then may be able to collect the money you paid from your ex-spouse under the divorce decree. (Talk to your lawyer for more information.)

Updating Documents

If you died tomorrow, who would inherit your estate? Who would get the proceeds from your retirement plan and/or life insurance policy? If you were incapacitated, who would have the legal right to make medical and financial decisions for you? If you named your ex-spouse, you may need to make a call to your lawyer and insurance company.

It is common when people are married to name their spouse as the executor of their estate and beneficiary in their will and life insurance policy, as well as give him or her power of attorney. Unfortunately, it is also common for people to forget to update important legal/financial documents when they get divorced. If you want to make changes, don't delay – you never know when something could happen. (However, keep in mind that if you are still going through divorce proceedings, you may not be able to make changes until it is finalized.) If you have minor children and want to make them the beneficiaries, you will have to name a guardian of the estate, since minors generally cannot directly control assets. It does not have to be your ex-spouse, even if he or she gets custody of the children if you die – you can name another person or even an institution. Your lawyer can help you figure out what would work best in your situation.

Retirement Planning

Many people don't save that much for retirement themselves because they are counting on their spouse's retirement plan to provide for them. This is especially true for women who worked part-time or stayed at home to care for children. You may have received a share of your ex-spouse's retirement funds as part of the divorce settlement (and if you were married for at least ten years, you are entitled to Social Security benefits of half of the amount your ex-spouse is eligible to collect if you do not remarry) but how do you know if it is enough? Unfortunately, there is no quick and easy answer. You may want to talk to a financial professional about how much you will need in retirement and how much you should be saving each month. You may be hesitant to start contributing or raise your contributions if your budget is tight, but keep in mind that if you wait until you are 55 or 60, you likely won't be able to save much. By prioritizing retirement planning now, not only will you be able to contribute more, but you are giving your money more time to grow. If you put \$4,000 today in a mutual fund that had an average annual return of 6%, in twenty years you would have \$12,829. However, if you waited ten years to invest, you would only have \$7,183, a difference of \$5,666!

Going through a divorce is usually an incredible stressful event, and the last thing you may feel like doing is spending time and energy on your money issues. However, by doing so, you can reduce the stress that is put on your finances.



Call BALANCE toll-free:
888.456.2227

Explore a wealth of resources available online:
www.balancepro.org

Follow us!
www.facebook.com/BALANCEPro
www.twitter.com/BAL_Pro