

Divorce by the numbers

Dana Lacey, *Financial Post* Published: Wednesday, February 10, 2010



There's nothing that can upset a financial plan more quickly and thoroughly than a separation or divorce. Thankfully, there are ways to prepare yourself. Here's what you need to know when you're thinking of making the big split.

Prepare yourself There are ways to prepare yourself when you first start thinking about divorce or separation. "While there's no getting around the hurt and pain of separation or divorce, understanding the financial implications of a breakup can save you time, money, and grief - and the sooner you consider how your finances will be affected, the better," says Karin Mizgala, the president and founder of LifeDesign Financial. Make copies of every financial document that comes into the house for as long as possible, put it in a strong box and keep it off-site. Otherwise, you're at the mercy of your spouse's honesty.

Debbie Hartzman is a certified financial planner and a certified divorce financial analyst working in Kingston, Ont. "I have women come to me feeling stupid for letting their partners handle the finances for the last 20 years," she says. "They end up with nothing. And these are not stupid women. It's pretty scary to see people living that way in 2010."

Before meeting with a financial advisor, collect up-to-date financial data about personal and jointly owned assets (cash, bank accounts, real estate, household effects, vehicles, investment accounts and stock certificates, RRSPs, pension plans, other investments, receivables, business interests, life-insurance policies and inheritances) and liabilities (bills, mortgages, lines of credit, credit cards, personal loans, car loans and leases). Know

the market valuation of real estate and other assets. "One woman, when she requested copies of her shareholder agreements, her accountant said, 'Oh honey, you wouldn't understand them. They're very complicated,'" Ms. Hartzman says. "It turns out her husband had been signing her name for 20 years, and the accountant had allowed it to happen. I see that a lot."

Get real The next step is to start keeping a strict budget that tracks every purchase and bill. Take the time to consider which expenses are essential and which can be pared back. "Understanding where your personal income and expenses are flowing to will help prepare you to drastically reduce your household income," Ms. Hartzman says. For many people, this is one of the toughest parts of divorce. "As an advisor, it's important to help my clients understand the expectation that they're not going to maintain the same lifestyle on one income that they had with two." Most people live to their income, Ms. Hartzman says, and it's not easy to adjust when it's suddenly chopped in half. "If I can keep my client's financial expectations in check, the divorce lawyer will have an easier job because the client isn't asking for the moon."

Emotional rescue Not one of the lucky few experiencing an "amicable" divorce? Do your best to remove emotion from the equation, or you'll never move on, Ms. Mizgala says. Don't leave all the decision-making to your lawyer.

An advisor is an impartial consultant who approaches the confusing and often emotional entanglement of a couple's assets with logic and reason. He or she does not take sides. However, a lawyer is hired to be your advocate, to be in your corner and ready to fight. This distinction is important, especially in the world of separation and divorce, where some assets are more personal than others.

"The matrimonial home is a hugely emotional asset," Ms. Hartzman says. "In every couple I deal with, one party wants to maintain the lifestyle and the home, regardless of what it means to them financially. Some women think they have to maintain the home because that's the lifestyle their children are accustomed to. If it's a man, it's usually an ego thing and he doesn't want to give it up."

A lawyer might advise her client to fight for ownership of the home by buying the other half from the spouse. The spouse's lawyer will probably advise the same thing. Let the expensive, emotionally exhausting court battle begin.

"In a lawyer's eyes, he's giving legal advice on property," Ms. Hartzman says. "Advisors analyze the big-picture financial situation. We tell [clients] what asset makes the most sense, or where they will derive the most income from."

Plan A, B, C, D ... Of course, this doesn't mean you should cut the lawyers out. Instead, use them for their intended purpose: to advise you on your rights.

"The problem is, the law is more conducive to having people fight instead of trying to settle," she says. "The one who has the most money and can stall the longest wins. A

good planner has to understand how to work with lawyers, because they're not used to working with us."

An advisor can help facilitate the legal process by laying out all the options. "Of course, divorce planning is a lot more successful when working with people who don't want to burn through their assets paying lawyers' fees," Ms. Hartzman says. "Compared to the lawyer that makes \$300 per hour to fight for the house, I have nothing to lose. These people hired me to advise them and I get paid even if they don't take my advice."

It's a financial planner's responsibility to be blunt with clients when they're not being realistic. "The truth is, sometimes they are far better off to give him the house and take their cash and start all over again. No one else is going to tell them that."

Advisors can also see how much money the paying spouse can reasonably afford to give by comparing the effect of alimony payments on each spouse's net worth. For more complicated cases, Ms. Hartzman uses proprietary software to create financial projections for various combinations of assets. "The client can take these different scenarios back to their lawyer and say, 'Let's see if this flies.' "

Every case is different. "I'm dealing with a complicated case right now where the husband has a lot of hidden income," Ms. Hartzman says. "They're living in a million-dollar house with a declared income of \$67,000 on his tax return."

Ms. Hartzman sees variations of this situation often. "Unless you have the personal resources to fight this guy for a long time, you're never going to find out how much income he's actually making. You're going to have to make the decision about whether it's worth it."

Divorce is traumatic, no matter how much goodwill remains or how much money is at stake, Ms. Mizgala says. "The decisions that you make during this time can have a significant impact on your future financial security, so take the time to educate yourself and refuse to be pressured or rushed into important financial decisions. The next stage of your life may depend on it."

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