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7 Financial Steps to Take When Getting a Divorce

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If you and your spouse are parting ways, follow these steps to stay financially secure.

Having expert advice can save you time, money and even more heartache.

The financial effects of divorce could be worse than any downturn in the economy. An average bear market lasts 15 months and results in a 32 percent loss in investments, according to investment firm Edward Jones. Meanwhile, a divorce can wipe out 50 percent of a person’s assets and never ends, says Ken Moraif, founder and senior advisor of Dallas-based financial firm Money Matters.

“Financially, there are few things more devastating than a divorce,” Moraif says.

Even the most amicable divorce will result in divided assets and lost household income, but you may be able to minimize the damage by following these seven steps.

1. Have a team of experts on your side.

Divorce is usually a highly emotional life event, and for that reason, financial experts say it's important to have trusted advisors by your side.

Gretchen Cliburn, senior managing advisor at BKD Wealth Advisors in Springfield, Missouri, says everyone going through a divorce should work with the following people.

- Divorce attorney
- Certified divorce financial analyst
- Mental health counselor

"Think of this as a business decision," she says. "Work with a team of experts to get you through this process."

Having people who are not emotionally invested in the proceedings is key to avoiding common divorce settlement mistakes, like agreeing to split assets down the middle without considering tax implications or incentives.

"Equal is not equitable," says Dick Harsin, president of Harsin Wealth Management in Lynnwood, Washington. "Yeah, [you] split everything, but what happens down the road? The wife gets the house but can't afford it later."

2. Organize all your important documents.

As soon as you know you're getting a divorce, collect all the financial documents you can. These include the following:

- Bank statements
- Credit card statements
- Tax returns
- Retirement account balances
- Appraisals for valuable items, if available

Whenever possible, go back five years when collecting statements. Moraif notes his practice has encountered situations in which one spouse was planning a divorce and started funneling money out of a joint account long before announcing the intention to split.

Besides looking for money being secretly withdrawn from bank accounts, double-check tax returns for any income you don't recognize. Then look for line items on the IRS forms that may be worth money and should be factored into the divorce settlement.

Leslie Thompson, managing principal at Spectrum Management Group in Indianapolis, gives an example: "There could be some capital loss carry-forward that could be worth tens of thousands, or charitable contributions," he says. "I don't see a lot of people looking at the tax returns from that perspective."

3. Pull a copy of your credit report.

Credit reports should also be reviewed carefully during divorce proceedings. Spouses should look for loans or accounts they don't recognize and work with an attorney to ensure they aren't responsible for any debt incurred without their knowledge.

"After the divorce is finalized, no one should walk away with a liability [that is not theirs]," Thompson says.

4. Apply for a credit card to establish your own credit score.

It's possible your credit score could drop after a divorce, particularly if you don't have accounts in only your name. To minimize any reduction, apply for your own credit card, preferably before your divorce is finalized and your score takes a hit.

Then, you can use the card to make a few purchases and pay them off immediately. This creates a positive payment record on your credit report. However, be careful not to charge more than you can pay back by the end of the month. Incurring debt and racking up interest charges during a divorce can make a bad financial situation even worse.

5. Create a budget based on your new income.

Going forward, you need to have a written budget based on your new expenses and expected income. Don't assume your expenses will be cut in half simply because you've lost half a couple. Housing, transportation and utilities are likely to stay the same if you choose not to move. In addition, some expenses such as insurance may go up after a divorce.

"It could be that health insurance isn't much of an issue post-divorce, but three to five years from now, it could be much more expensive," Thompson says.

In some cases, a divorcee can keep the same standard of living, but often, changes must be made. A financial advisor can be a helpful resource in creating a reasonable budget, especially if you don't have much experience managing money yourself.

6. Review your estate plan and account beneficiaries.

Once the divorce is final, it's time to review estate plans and beneficiaries on insurance policies and financial accounts. Otherwise, if something should happen to you, your ex may get your assets if his or her name isn't replaced on the paperwork.

You may also need to designate a new power of attorney and update Health Insurance Portability and Accountability Act forms for health care decisions. These things should be done as soon as possible after a divorce to ensure you have the right people in charge of your finances and medical care should you become incapacitated.

7. Hold off on any major financial decisions.

Most importantly, financial experts say those exiting a divorce should take time before making any big decisions.

"There is one party that's really hurt, and you're not in the frame of mind when that happens to make financial decisions," Moraif says. "Don't sell the house and move to Florida. Wait six months to figure out who you are and what you're going to do."

Harsin says people tend to act rashly during a divorce without considering the long-term ramifications. "People get so tied up in the emotional aspect that they forget about the financial aspect," he says.

Hearts can heal, but if you make emotional decisions during and after a divorce, it's possible your bank account never will. Avoid losing both your marriage and your financial security by making careful, calculated decisions when negotiating your divorce settlement and setting out on your new life.