

Keeping your head above water

How to make it through your divorce without going broke.

One of the great myths of separating and divorcing couples is that it is cheaper to live as a single than as a couple. Here's the fallacy in that thinking: presently, you both contribute to your lifestyle. And if you're like most couples, you struggle each month to make the paychecks stretch to pay the bills.

If you could barely live on your combined incomes before the divorce, how do you think you can continue to live at the same standard after divorcing and setting up two households -- one for you and one for your ex?

After the divorce, expenses that you didn't think about begin to surface. Let's look at some of these additional expenses -- both small and big:

- Two house payments (or rent payments)
- Two utility bills (one for each house)
- Two telephone bills (one for each house)
- New furniture for the second home n Kitchen staples (flour, sugar, cleaning supplies) and utensils (pots, pans, dishes)
- Two car payments
- Automotive maintenance and repairs
- Convenience foods (new singles spend more money on take-out, eating out, and fast foods)
- Kids' expenses (you may want to double up on many things so that your kids have belongings at Mom's and Dad's).

Most women and men feel they have been taken to the cleaners when the divorce is finally over. They did not consider these "extra expenses" when negotiating a settlement, and the first thing that most do is to liquidate some of the assets received in the divorce settlement to pay for the extras. No wonder everyone feels they got cheated.

The credit-card dilemma

So how do you pay for this? An increasing number of divorcing couples are showing up with large amounts of debt -- mostly credit-card debt. The good news is that you are not alone.

It's tempting to overcharge. If you're like most people, your mailbox is packed with credit-card applications offering a very low percentage rate, even 0% interest for a six-month period on outstanding balances. Who can resist? It looks like free money.

The problem is that this low interest charge prompts even more spending and six months later, with an even larger credit balance, the interest rate jumps up to somewhere between 14% and 20%. Now you're in trouble! You have to stretch just to make the

minimum payments. Suddenly you realize that you're living beyond your means. You'll be paying for that sweater or new CD unit you couldn't afford yesterday -- but charged anyway -- for many tomorrows to come. It's tempting to start living off your credit cards when the spouse who moves out stops sending money. If there is absolutely no money, it may be necessary to use credit cards, but do so sparingly. It is more important to pare down your living expenses to the bare bone. This means no vacation, new clothes, or even car repairs -- unless you have the cash to pay for it.

As in most cases, there seems to be another side. Some attorneys advise their clients to buy whatever they need and run up the credit-card balance. Why? Because it's considered marital debt and your about-to-be-ex will have to pay for half of it. This is bad advice. Too many times spouses max out the credit cards before the divorce. After the divorce, each spouse has difficulty paying off his or her share or getting any other type of credit. Once you run into trouble making credit-card payments, you have put your credit standing into jeopardy. It just isn't worth it.

Evaluating your expenses

So, where does this leave you? Remember the sleuthing you were doing digging up papers and information for your attorney to fill out the various forms you file during the divorce? Your hard work will come in handy when it comes time to create a budget.

You'll also need to take a hard look at what you consider necessary expenses. If you are used to taking a nifty vacation each year, you probably feel that it should be part of your regular life post-divorce. That's not necessarily so. Spending the day golfing or lounging by the country club pool may not be in the cards, either. Also, if your normal expenses include \$350 per month for clothes and you have two closets full of clothes, you may need to make them last longer than before.

Typically, divorce changes everybody's life. Yours, your ex's, your kids', your pets', even your friends'! To determine your minimum financial needs, ask yourself the following:

- Will I have enough to support my current lifestyle?
- Will I be able to keep the assets from our division of marital assets without having to deplete them to pay living expenses?
- Will I be able to contribute to savings and retirement funds?

If any of the answers is "no," you'll have to look seriously at your budget and adjust your standard of living. It has been proven that most of us can easily live on at least 10% less than we currently do.

Two friends

At one of our workshops, we met Sally and Jean. They had been best friends since growing up in a small midwestern town. Both their fathers worked at a local factory, and

there never seemed to be enough money to go around in either family. In college, Sally met and married Don, whose career skyrocketed. She became active within her community, chairing fund-raisers for charitable events and participating in several clubs. They moved to a mansion complete with two maids, and later, two children. Ah, the ideal life!

Jean, on the other hand, married Stan, who also worked at the factory where her father worked. Like Sally, Jean had two children. She became skilled at sewing their clothes and making good, budget-conscious meals.

As time went by, both couples decided to divorce. Sally was used to living on an allowance of \$138,000 per year, while Jean could do well on \$21,000 per year. Sally's husband Don argued that her best friend, Jean, could live on \$21,000 per year -- why couldn't she?

Sally didn't see how she could possibly cut her budget to less than \$92,000 per year. When Sally's divorce was final, Don agreed to pay her alimony of \$60,000 per year for six years, the \$850,000 house, and \$262,000 (half of his retirement account).

After the divorce was final, Sally continued to spend \$92,000 per year. She retained her membership in the country club and continued as the chair of their annual fund drive. She felt it was important to keep up her image of a successful, dynamic woman doing volunteer work within the community. She knew that there was a shortfall between the alimony she received and the actual amount she spent each year. She also knew that she could tap into the retirement account to cover any shortages, and she did.

No one initially told her that the money she withdrew from the retirement account would be both taxed and penalized for early withdrawal. Once she was aware of it, however, it didn't stop her. After all, she had her image to keep up. Within six years, the retirement account was depleted. On top of that, her alimony payments of \$60,000 came to a screeching halt. Her only asset was her \$850,000 house, which certainly was not a measly amount of money! But, with Sally's track record, whatever equity she had accumulated would be gone within a few years at her spending pace. She had no paying job, no income from alimony, and no retirement fund. Just the house. She cried to her friend Jean, "If I had only known how fast my money would disappear, I would have spent more carefully or gotten a job or something!"

And how did Jean fare during this same time? Stan paid her half his salary, \$19,000, for five years, and half his retirement account. She earned another \$7,500 per year from a part-time job. With her sewing skills and ability to get along well with few resources, she was able to add \$5,000 per year to her mutual fund and retirement accounts that totaled \$22,000 when her divorce was final. In the same six years while Sally was going broke on \$60,000 per year, Jean's mutual funds and retirement accounts had grown to \$81,135.

What should Sally have done?

Choice is an important word for most people today. Sally had plenty of them. She chose not to work for pay. With her country club connections, she could have tapped into a well-paying job from someone who knew of her organizational and fund-raising skills. Or, if her pride wouldn't let her ask her friends for job leads, she certainly could have gotten some training and some coaching from a career counselor to secure a position.

She chose to keep the \$850,000 home, which was free and clear of a mortgage. She felt she had an image to keep up and couldn't make do with a more modest house. She chose to sit on an asset that did not produce any income for her. If she had decided to buy a smaller home at half the cost of her current home and invest the difference, she could have realized an extra \$40,000 per year in interest income at 8%.

She chose not to reduce her expenses. Large homes cost money. Hers required the use of caretakers, which included a maid, housekeeper, and gardener.

She chose to continue to buy clothes at the rate of \$1,000 per month. It didn't matter that she had four closets full already. But she didn't want to be seen in the same thing over and over.

She chose to continue to have lavish parties and entertain on a large scale. Her image was more important today than how she would look tomorrow. "What will people think if I don't stay visible in the community?" she asked.

She chose to continue to travel for relaxation and leisure. "I have to get away once in a while to recuperate," she said.

She chose to have her hair, nails, and facials done weekly. "After all," she said, "I must look my best."

Eliminating financial misery

This article is about evaluating your expenses. It's important to make reasonable decisions when facing divorce. Are you willing to change your spending patterns and live at a reduced lifestyle in return for not having to live with your spouse anymore? This is a critical question. It doesn't make sense to trade one kind of misery for another kind. You don't have to live in financial misery after divorce if you:

- Can negotiate a reasonable settlement
- Can adjust your spending patterns so you don't tap into your assets, however minuscule they look
- Can take responsibility for some of the financial issues (this may mean getting a better job, or even just a job).

What about the kids?

Let the kids help, and tell them the truth. Parents often hate to deprive their children of the designer jeans and shoes they've been getting. Instead, they go without other necessities to avoid letting the kids know the difficulties of the financial situation. This is insanity.

Our experiences are that when the kids are part of the financial decision-making and are privy to the income and expenses of the household, wondrous things can happen. The "gimmies" that are so prevalent, especially when parents attempt to soften the emotional blow of divorce by buying things, almost vanish. Your kids can be incredible troupers at wanting to help cut costs and make things work. It becomes a game for them. That's what brought Carol and her teenage daughter Marie together.

After the divorce, Marie lived with her mom during the summers and with her dad the rest of the year in another state. Carol was ashamed of how little money her job was paying. In desperation, she had no choice but to share her financial situation with her daughter. She just couldn't afford all the teenage things Marie wanted. But what Carol thought was an embarrassment turned into an adventure. Carol would come home from work and find that Marie had found a bargain at the grocery store and had whipped up dinner for just a few dollars. Marie was so proud the day she found a bookcase at a garage sale that she knew her mother needed. All summer long, they found bargains and were able to laugh at their creativity.

Contrast that with the situation with Stella and her son, Josh. Stella was too proud to share her financial situation with Josh. When she grew up, her family didn't talk about money -- it was not the proper thing to do. The end result was that she and Josh would argue over every purchase he wanted to make, creating a real strain in their relationship. He was convinced that his mother was a real miser and didn't care about his wants and needs. Or Stella would give in and buy the designer clothes for him instead of paying her credit-card bill. Her money woes only deepened, and her relationship with Josh worsened.

Whose shoes would you rather be in: Stella's or Carol's? The choice is yours.

If you don't own it now, don't buy it

Darrell and Laurie argued all the time about money. When they decided to get divorced, they made an effort to stay out of the war zones and make sensible decisions to make it as easy as possible through a trying time. One day when Laurie got home from work, Darrell was unpacking a new computer. Laurie blasted at him about his irresponsible spending habits -- he had just spent the money they were going to pay to the attorney. Darrell tried to defend himself by explaining that he was expecting to learn new computer skills that would help him earn enough to ease their financial situation and besides, he felt he deserved the computer to help him through this emotionally difficult time.

Needless to say, with this additional financial burden, Laurie became so angry that their efforts to have a friendly divorce were sabotaged.

During the divorce process is not the time to buy the new house or a new car. This is also not the time to invest in any product or to shift investment assets. Investments that you make during this time could have enormous financial strings attached -- and enormous tax implications. Your property may be divided in a different way than you thought it could be. There'll be costs to split it up, even penalties in shifting assets from one spouse to the other.

Unless the property division has already been decided before you make a purchase, how do you know who is going to get which asset? Shifting assets could create difficulty in tracking the location and ownership of the asset, and a suspicion that someone is hiding assets.

Guerrilla warfare -- do you or don't you raid the accounts?

This is a tricky one. There's a balance between having enough to live on and taking money just to be vindictive. Then there's the situation where you may just want to make sure you get what is rightfully yours before it disappears.

Take Molly. Her husband, Daniel, walked out after years of bitter fighting. He was the breadwinner, and she stayed home and raised their four kids. Before he left, he gave her money each month for bills and groceries. After he left, she didn't hear from him, nor did he leave any money for her. She did hear from the bank. Nothing had been paid on the car or mortgage. She borrowed from friends to feed the kids until she could borrow no more.

Molly knew it was time to hire an attorney. The first three attorneys she called wouldn't take her case because she had no money to pay a retainer. The moral here is that it would have been prudent for her to have taken money from a bank account immediately when Daniel left home to allow for such emergencies.

Then there's the opposite. Consider the case of Patricia and Ken. When Ken left, Patricia was so angry that she went to their bank and raided their accounts. She depleted them and moved the money to a different bank in a different city. Now, Ken had a hard time making ends meet when he needed cash. That point was brought out strongly in their court trial, which prejudiced the judge against Patricia.

Summing up

Know what you spend money on and where you spend it. Determine which areas can and should be trimmed back if necessary. Don't make any financial commitments that you don't understand or are not absolutely clear about. Don't take out loans or add additional credit obligations on to your balance sheet. And, if you have kids, don't keep them in the dark. They have ESP and know all is not well. Game-playing doesn't deal a fair hand.

Emotional facts of divorce

1. The wife may not be able to keep the house.
2. The husband may need to share his pension.
3. In divvying up household items, you may not be able to keep your favorite painting or casserole dish.
4. You may not have as much money as you want, need, or used to have.
5. You may have to set up a visitation schedule for your family pet.
6. The kids will go to your ex for permission when you say "no."
7. Your old friends may not be your friends anymore.
8. You may not get invited to couples parties anymore.
9. You may dread running into your ex with your "replacement."
10. It's a lonely time -- but possibly a time of positive transformation, if you play your cards right.

Adapted with permission from *The Dollars and Sense of Divorce* by Judith Briles, Edwin Schilling III, and Carol Ann Wilson © 1998 by Judith Briles, Edwin Schilling III, and Carol Ann Wilson.