Divorced

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Since nearly half of all marriages fail, divorce is unfortunately very real for many

people. Couples face the difficult task of separating emotionally and financially. This has insurance implications as well. Legal and financial advice will be critical, particularly if there are children involved. Divorce can have a serious impact on one?s credit standing, both in terms of dividing joint debt that exists at the time of divorce and expenses that come with starting over. Paying close attention to existing obligations and monitoring credit reports at this time is critically important.

AUTO

A divorced couple will need to decide who gets which car. A change in car ownership will mean a change in insurance. Let your insurance company know about a change of address; who will now be driving the car; and any change in the type or amount of driving that will be done. These details will have an effect on your insurance premium. If someone needs to buy a new car, new insurance will need to be arranged before the car is registered. Removing a former spouse from the insurance policy also protects you from possible liability if they are involved in an accident and get sued.

HOME

Divorce will mean a change of address for one or both parties. The insurer needs to know when there is a change in residence and property coverage. For example, if one party leaves and receives the jewelry in the

divorce settlement, the insurer will need to know whether to cancel any special coverage for expensive jewelry. Likewise, if security modifications are made to the home, because one party is now living alone, tell the insurance company. Those security upgrades may qualify for a discounted rate. If moving from a owner occupied home to a rental property, consider getting renter?s insurance to cover personal possessions and liability.

LIFE

Many married couples buy life insurance to cover existing and anticipated debts and financial obligations. When a couple divorces, these obligations generally still exist and life insurance should be considered as part of the final divorce decree. Married couples generally list each other as the beneficiary on life insurance policies. Carefully consider any changes. There may be good reasons to continue to keep life insurance on a former spouse. If the spouse who is providing alimony and child support dies, this may mean a loss of income. Some divorced couples may also consider keeping (or purchasing) life insurance on the spouse who has the primary responsibility for raising the children. If he or she dies, costly childcare will need to be arranged. The divorce decree should include the funds to pay for this life insurance policy. This way, the spouse receiving alimony can make sure the premiums are paid and he or she is financially protected with life insurance. If a divorced couple is purchasing life insurance to provide financial protection for the children and money is tight, they may want to consider purchasing term coverage rather than whole life. Term is generally cheaper and it is designed to provide protection for a specific period of time? for example, until the children reach the age of 21.

HEALTH

Unless both spouses each have their own health insurance and there are no children, health insurance should be clearly agreed upon in the divorce decree. Federal law states that spouses and their dependent children who are currently insured by a health plan are eligible for Consolidated Omnibus Budget Reconciliation or COBRA coverage for 18 months. The divorce decree should state how this is going to be paid for and a plan should be legally agreed upon to make health insurance available after that time.

DISABILITY

A disability can threaten financial support that a former spouse and children depend upon. Disability insurance should be addressed in the divorce decree. Careful attention should be paid to how disability insurance should be funded. As with a life insurance policy, the former spouse receiving financial support should own the policy and pay the premiums to make sure that the policy remains in force and that the beneficiaries are not changed. The funds for this insurance should be represented in the amount of financial support the spouse and children receive.

LONG-TERM CARE

Long-term care insurance covers the cost of assistance to those who are unable to perform the normal daily activities that healthy, fully functional people are usually able to do on a daily basis. The need for long-term care services arises from chronic health conditions or physical disabilities such as multiple sclerosis, Parkinson?s or Alzheimer?s disease. Couples going through a divorce need to make sure that they take into account both the need to care for aging parents and dependent siblings as well as the cost of this insurance when assessing needs and allocating assets.

FINANCIAL PLANNING

There are two key things that divorcing couples should do prior to meeting with their insurance or financial advisor:

- 1. List assets and liabilities: This should include real estate and personal property; checking, savings and investment accounts; retirement and pension plans; and life insurance. On the liability side, there are the mortgage, car and school loans; and home equity and credit card balances.
- 2. Develop a budget: Income will be stretched to the limit because there are going to be two households instead of one. The budget should include normal living and household expenses; anticipated educational and business expenses; tax obligations; car and home mortgage payments; medical and dental costs; childcare and insurance premiums. There needs to be a firm understanding as to what is required of each spouse.

A trust may be appropriate to meet the educational needs of any children. This may include a written agreement regarding future contributions to this account to properly prepare for the increasing costs of tuition.

Divorced couples also need to look into the cash flow and tax implications for splitting assets. At first glance, a \$100,000 savings account and a \$100,000 traditional IRA may appear to have the same value. However, a spouse with custody of the children might have more everyday expenses and need greater access to cash than the non-custodial spouse. Generally, the IRA can?t be tapped until age 59 ½ without penalty. In the meantime, unlike a savings or investment account, proceeds are tax deferred. The vested portion of existing retirement plans should also be considered.

Military spouses who divorce should be aware of the Uniformed Services Former Spouse Protection Act, which recognizes the contributions that former spouses made to support the service member?s career and entitles the former spouse to a portion of the retirement pay. More information can be accessed at www.dfas.mil.

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