DIVORCE FINANCIAL ADVISING UPDATE

April 2017

Thea Glazer,

CFP®, CDFA™

MS Accounting

Trained in Collaborative Divorce

Offices in San Diego and Laguna Hills, CA

Divorce in an Uncertain Economic and Tax Environment

With a new President and up in the air healthcare and tax regulations, it makes it more difficult to project future effects of divorce settlements.

- **Cash Flow Concerns.** A really good handle on sources of income and realistic spending is critical. Of course, uncertain taxation makes after-tax income calculations that much more challenging. I am spending more time than ever on assisting clients building detailed projected budgets and helping them find ways to reduce spending if necessary.
- **Emergency Funds.** I advise that clients keep at least six months of living expenses in a money market fund if possible. This is particularly important in case of a period of unemployment or reduced earnings.
- **The House.** Many clients are adamantly against selling their house. Having both parties on title as tenants in common for a fixed period of time is one solution that is popular as is renting out the house. However, a detailed after-tax cash flow analysis can be a good reality check as it often shows that keeping the house could create an impending liquidity disaster.
- **Lack of Liquidity.** Many couples have the majority of their estate in the house and retirement plans. Remind clients that distributions received from an ex-spouse's qualified plan pursuant to a QDRO are taxable but are free from tax penalties. That can increase liquidity in a tax efficient manner. In cases where liquidity is very tight, I'm recommending that clients stop contributing to their retirement plans or contribute only up to the amount their employer will match. Life insurance premiums that include an investment component can be reduced dramatically by changing to a premium that will just sustain the death benefit.
- **Credit Cards and Home Equity Lines.** Lenders are raising credit card rates while lowering both credit card and home equity limits. If possible, consolidating into the credit card with the lowest rate is advised and paying down high interest debt is recommended. This may mean some real belt tightening, but is necessary.

A note of caution: Until the tax issues are resolved by Congress, I would be very cautious in setting in stone anything that is impacted by taxes or is tax-effected. An example would be an alimony buyout.

Have Questions? Need help? Call or e-mail me!

16870 West Bernardo Drive, Suite 400 | San Diego, CA 92127 | Tel: 858-485-0814
23046 Avenida de la Carlota, Suite 600 | Laguna Hills, CA 92653 | Tel: 949-397-9105
| Fax: 1-888-255-6782 | E: thea@glazerfa.com
www.glazerfinancialadvisors.com