

FINANCIAL STRATEGIES FROM **KURT ROSENTRETER**

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Surviving Divorce

By Kurt Rosentreter, CA, CFP, National Best Selling Author

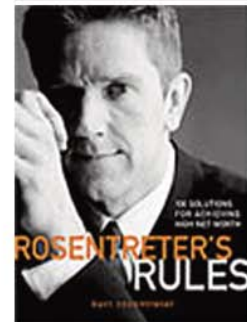
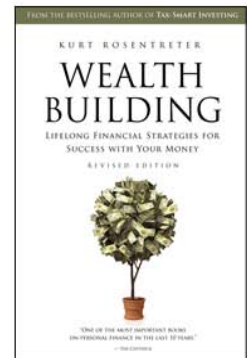
The breakdown of a longstanding relationship can be one of the most emotionally and financially devastating events of anyone's lifetime. It may cause tremendous short term agony on many levels and the potential for permanent long term scars. This article is designed to help you cope with some of the financial aspects of relationship separation and divorce. It is by no means a complete list, nor do we address any legal planning.

Pre-separation

If you know the relationship is over and it is just a matter of time until separation is announced, there are a few financial steps to take now:

- Hoard cash – a lot of money will be needed for legal fees, a new home for one of you and generally double the many living costs paid as a family prior to separation. If you are the primary income provider for the family then much or all of this cost will come out of your pocket – for example, you will likely pay the legal fees for both sides.
- Engage a lawyer now to understand if there are any pre-separation strategies to be wary of (e.g. If your spouse is the sole legal owner of your home how that can hurt you).
- If you had a prenuptial agreement, or you brought assets or cash into the relationship prior to the marriage or living together, find documents that support these claims and have them ready.
- If you can control the timing of the separation date, time it to occur around your dental practice year end (to save professional fees around the valuation you are going to need) or prior to any significant financial gains on the horizon.
- If your spouse is the family homemaker, encouraging him or her to resume a paying career prior to you separating could ease your spousal support payments provided his or her employment continues after separation.
- Beware that prolonging separation (e.g. until the kids are older) can cost you more. After a certain number of years of marriage, support commitments can rise greatly.

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Separation Date

Once announced, the separation date becomes the valuation date of the family assets. You will need the following financial valuations as of this date:

- Market value of your home, your practice, your investment portfolios and all other assets that will be subject to division based on the current market value. This requires bringing all your accounting and tax reporting up to date and likely the hiring of valuation specialists.



After Separation

Realize that there will be two separations of finance that will occur with your spouse – a separation of your financial assets (house, RRSPs, investments, practice, etc.) using values as of the separation date, and a second separation of your incomes – it is this second separation that could result in you making spousal support payments for the rest of your life. Often dentists are surprised by this – thinking they can write a single equalization cheque and be done – but a savvy ex-spouse can seek to attach him or herself to your income permanently, forcing you to make substantial, even six figure support payments to them for life.

Planning Points for a Smoother Divorce

- The financial complexity of divorce means you may need far more help from your tax accountant and a financial planner than you do from a lawyer – financial divorce is a numbers game. Budget as much as five hours a week for six months in terms of time you will need to commit to going over your finances in excruciating detail in order to prep for legal meetings with the other side. Enlist your advisors to help early on and make sure they have divorce experience.
- It is best if you and your spouse do not share any advisors from this point forward – have him or her find their own accountant, life insurance agent and investment advisor immediately. All of these folks are potentially in a conflict of interest position if they deal with both of you.
- If you and your ex believe you can come to a swift conclusion on how to part ways financially, look into the collaborative law association as a softer, gentler, cheaper method of the legal process of divorce. If this is going to be a battle to end all battles, then cut to the point and find yourself a good divorce litigator. Plan to spend \$400/hour at a minimum. Plus HST. It is not uncommon for legal fees to cost over \$100,000 and you may have to pay both spouse's bills.

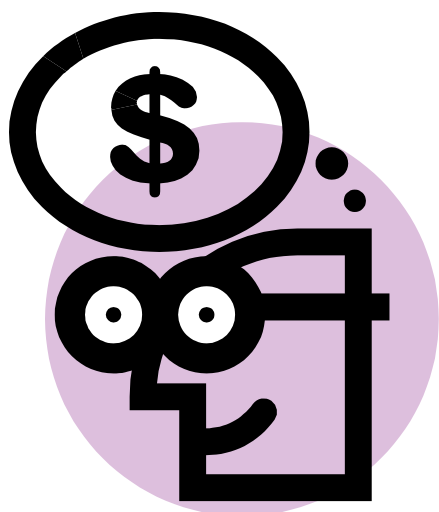


- As part of the disclosure required by the lawyers, both sides will need to disclose all of their assets, debts, revenues, expenses and potential expenses. If you have not been the financial book keeper of the family, you will suddenly find yourself shoulder deep in your bank statements and much more – you need to pull all this data together fast – it needs to be accurate and timely. If the separation date is not your dental practice year end, you will need all of your book keeping brought up to date, financial statements prepared and likely a third party business valuation done. Personally

you will need to prepare a very detailed spending budget, including future costs like rent if you are moving out. Don't shortcut this process – the lawyers will be negotiating with your data to set your financial future. They'll also want to see as much as three years of past tax returns, all insurance policies and investment portfolio statements from every account you have everywhere. One tip when you are preparing your future expense budget: don't forget to include future costs like new cars, home repairs and the mortgage on a new home purchase.

- Then there is child care – this is the easy part as the support cost of children is laid out in a government schedule. Have three kids and your income is \$\$\$, then you pay \$\$\$ per month. These child support costs will continue until the child is an adult and will likely cover at least partial sharing of post secondary costs. It is not uncommon however for the higher income spouse to pay most/all of the private school, post secondary costs for the kids.

- As a dentist who had ample cash flow in the past, it will seem odd to have to watch how you spend money in the future – but you will. If your ex ends up with the family home, you will need to buy a new one and likely take on a mortgage again. You could be paying hefty child support and spousal maintenance for years and years. The legal fees of the divorce may clean out your short term savings. And yes, you may have to buy half the value of your practice from your ex – a potential cost of \$500,000 or more. It is not uncommon for a dentist to come out of divorce with a million dollars or more of debt, no liquid savings, no home and visiting rights to see the kids a few days a week. To recover from this, you will need to budget – I recommend a monthly tracking of your incoming profit from the practice, a careful review of what salary level you can now afford, how much mortgage you can afford if you buy a new home, review of car leases, costs of vacations and much more. You need to have detailed knowledge of money in and money out after a divorce – there will be far less to go around now and we need to get you back on your feet. You need a new financial plan, prepared by a professional planner, for your new life.



- When negotiating financial terms of the divorce, consider asking for a clean break if possible. This term refers to a permanent and final settlement that end the financial commitments to your ex now. One payment and that's it. This gives you greater clarity in being able to plan your future financial goals. Fail to get a clean break and even sometimes when you do and you could have your ex showing up at your door when you are age 70 looking for more money then. It happens.
- Be aware that as your life unfolds, various events can have good and bad effects on your past divorce settlement – all of these should at least warrant a discussion with your lawyer if they occur: your ex remarries, you remarry, children graduate high school or post secondary, your spouse restarts a career or obtains a better career,

your financial circumstances change, you retire, disability or death occurs or other material events.

I have painted a scary picture financially if you get divorced – if your goal and your spouse’s goal is to be fair to each other, then this is just a lot of process to follow until you are both on your way to a new life. While all this complexity may have you think twice about divorce or defer it until later in life – take heed: the older you get, the more wealth you build, the more complex the divorce may be.

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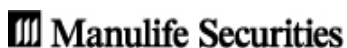
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The Wealth Management Practice of Kurt Rosentreter

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