



Surviving Divorce

It takes a lot longer to divorce than it does to marry. And it costs much more. But some pre-divorce planning can ensure that your interests, and those of your children, are well-protected.



The breakdown of a longstanding relationship can be one of the most emotionally and financially devastating events of anyone's life. It may cause tremendous short-term distress on many levels and the potential for 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 does this article address legal planning.

Pre-separation

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

- Build up your cash savings. You will need a lot of money for legal fees, a new home for one of you and potentially twice the living costs, such as, two sets of property taxes, utility bills, etc.). If you are the primary income-provider for the family, then much, or all, of this cost may come out of your pocket.
- Engage a lawyer now to understand if there are any pre-separation

strategies to be aware of, from a legal point of view (for example, if your spouse is the sole owner of your home, you need to know how that can affect you).

- If you had a pre-nuptial agreement or brought assets or cash into the relationship prior to the marriage or living together, find documents that support these facts and have them available.
- If you can influence the timing of the separation date, time it to occur around your practice year-end (to save professional fees around the valuation you may need), and be sensitive to the impact the date selected may have on major financial assets you have (for example, if you are buying a second practice). Note that the exact date may be a contentious point.
- 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.

Valuation Date

The separation date often becomes a focus point for valuations of the family assets to determine how to divide them. You may need the following financial valuations as of this date: the market value of your home, your practice, your investment portfolios, insurance policies, personal assets and more. It's best to bring all your accounting and tax reporting up to date and look into the hiring of valuation specialists for your practice and other assets.

After Separation

Two divisions of finance will occur with your spouse: division of your financial assets (these include house, RRSPs, investments, practice, etc.), and division of your incomes (this 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 demanding ex-spouse can seek to attach himself or herself to your income permanently, forcing you to make substantial support payments for life.

Planning Points for a Smoother Divorce

- The financial complexity of divorce means **you may need as much help from your tax accountant and a financial planner as you do from a lawyer**; financial divorce is a numbers game. Budget as much as five hours a week for six months to cover the time you will need in order to go over your finances in detail to prepare 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 on; **your spouse should have his or her own accountant, life insurance agent and investment advisor**. All of these advisors 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 and fairly amicable conclusion on how to part ways financially, look into the collaborative law association as a softer, gentler, potentially cheaper method of traversing the legal process. But if yours is going to be a battle to end all battles, then find yourself a good divorce litigator. Plan to spend \$400/hour at a minimum. It is not uncommon for legal fees to exceed \$100,000, and you may have to pay both spouses' 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 bookkeeper 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, and it needs to be accurate and timely.
- You will need your bookkeeping brought up to date, financial state-

ments prepared and, likely, to get a business valuation done. Personally **you will need to prepare a detailed spending budget**, including future costs, such as 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. Tip: when you are preparing your future expense budget, don't forget to include future costs such as new cars, home repairs and the mortgage on a new home purchase.

- Then there is child care — there are laws for levels of child support; for instance, if you have three kids and your income is \$XXX, then you pay \$YYY per month). These

child-support costs may continue until the child is an adult, and could likely cover at least partial sharing of post-secondary education costs.

- If you are someone who is used to having significant cash flow, it will seem odd to have to **watch how you spend money after a divorce**, but you likely will have to. If your ex-spouse ends up with the family home, you will need to buy a new one and likely take on a mortgage again. You may be paying hefty child support and spousal maintenance for many 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.

STONEGATE PRIVATE COUNSEL
1/3 SQUARE AD
B&W
(REF AD # 14)

- It is not uncommon for a dentist to come out of divorce with a lot 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 your practice, a careful review of what salary level you can now afford, how much mortgage you can handle if you intend to 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 to get back on your feet, you will need a new financial plan, prepared by a professional planner, for your new life.
- When negotiating financial terms of your divorce, **explore a clean break if possible**. This term refers to a permanent and final one-

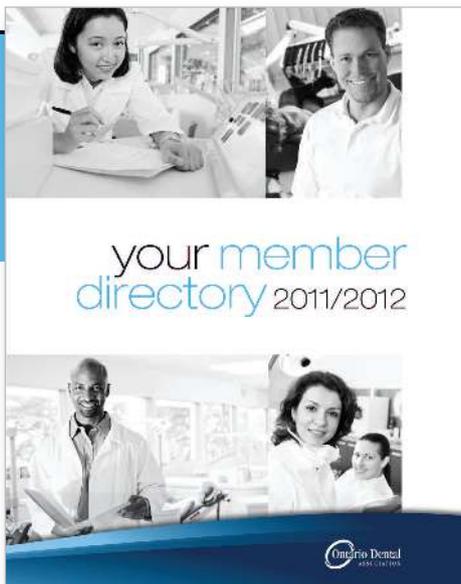
payment settlement that ends the financial commitment to your ex-spouse now. This will give you greater ability to plan your future financial goals. If you fail to get a clean break (and even sometimes when you do), you could have your ex-spouse showing up years later, looking for more money.

- Be aware that as your life unfolds, **various events can affect your past divorce settlement**; you should discuss all of the following events with your lawyer if they occur: your ex remarries; you remarry; your children from graduate high school or post-secondary school; your spouse restarts a career or obtains a better career; your financial circumstances change; you retire; disability or death occurs, or other material events occur.
- While all this complexity may have you thinking twice about divorce or contemplating deferring it until

later in life, take heed: the older you get the more wealth you will likely build and the more complex the divorce may be, since there could be more to divide. As well, a longer marriage could mean you will owe a greater financial commitment to your ex-spouse for a longer time.

Divorce can be emotionally and financially draining, but there can be light at the end of the tunnel; if your goal and your spouse's goal are 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. 

Kurt Rosentreter, CA, CFP, CLU, TEP, FMA, FCSI, CIMA, CIM, is a Senior Financial Advisor with Manulife Securities Incorporated in Toronto. He is the author of seven books on personal finance and teaches wealth-management courses for the Ontario Institute of Chartered Accountants. For more information visit: www.kurtismycfo.com.



The 2011/2012 ODA Member Directory ANOTHER ODA MEMBER BENEFIT.

The 2011/2012 ODA Member Directory Is your information correct?

The ODA is producing a member directory containing a listing of ODA members' names, business/office address(es), business/office telephone number(s) and specialty information.

Ensure your information is correct — before September 15, 2011.

Review your online profile to verify and update your information — oda.ca/member — and click on Your ODA Profile. Edit, add or delete your addresses and telephone numbers in a few simple steps.

You can also email your updates to the ODA at member@oda.ca. Or, call **416-922-3900** or **1-800-387-1393** (within Ontario) to speak with an ODA representative to update your information over the telephone.

If you DO NOT wish your information to be published in the ODA Member Directory, please contact any Member Service Representative at the ODA by calling **1-800-387-1393** or email member@oda.ca.