

Divorce In Hard Economic Times

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The prospect of divorce is a difficult and painful prospect at any time. Add to that the financial challenge of anticipating the needs of two households and you have a recipe for stress and despair. Emotionally you can't stay together, and financially you cannot afford to separate.

Divorce is so much more than physical separation and legal paperwork. Even if you can't separate right now, there are practical financial steps you can take to get the divorce process started. Let's look at some positive things you can do now to prepare so when the time is right financially, you'll be ready to make a smooth transition.

Begin to gather information

Even though you are not yet physically separating, you can begin to pull together the information that you will need as you move through the divorce process.

Here is a list to get you started:

1. Gather and organize information regarding your assets and debts.
2. Keep and organize chronologically bank statements for any and all accounts
3. Assemble and organize your credit card statements by date
4. Also assemble and organize retirement, IRA, 401K, pension statements or plan documents
5. Locate any and all deed, mortgage and closing documents or any judgments or liens on your property
6. Put together in one place any health, life, or property insurance policies
7. Gather tax returns for the past 3 years and tax-related documents for this year
8. Pay attention to your expenses—what are you spending on food, utilities, transportation, regular monthly payments? Go through your checkbook, your bank and credit card statements and begin tracking where the money goes each month.
9. Develop a budget that reflects your current essential, non-discretionary expenditures, and another budget that estimates what your expenses are likely to be when you are separated

Beginning the financial separation process

You can begin the process of becoming financially separated, even while you are still living together. Adding up your expenses, and allocating between you who will be responsible for paying which bills on a trial basis is an excellent place to start. You will each need to have your own separate bank accounts to proceed.

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Transitioning from Joint Account to Separate Accounts

If you have always used a joint account, once you have your individual separate accounts in place and decide who is going to have the responsibility for paying each of the monthly bills, you can fund the separate accounts with money from your joint account as is necessary to make those payments. You might start gradually at first, with certain specific payments, such as the PG&E bill, cable and the telephone landline. Make sure that the funds necessary to cover these responsibilities are transferred from the joint account to the individual account for the person you've agreed will be responsible for paying these charges in time to make payments on time. Each month, decide upon who is going to pay another one of your remaining monthly bills and make sure the money to cover that bill from the joint account is moved to the right individual account until you have done this for all expenses that can easily be separated out.

Paying Joint Bills from Separate Accounts

Some of your bills, such as cell phones on a family plan and auto insurance may be joint bills. Eventually, you will each establish your own cell phone account and auto insurance in your name alone, but for now, since you are still living together, you may want to pay these and any other joint bills from your joint account for the sake of economy. If that is the case for you, you can decide to break down the charges on each bill so that each of you knows what your part of auto insurance or your cell phone bill costs. Then you can write a check for your part out of your own account, and mail both of your checks in together when the insurance or cell phone payment is due.

As you continue this process of paying more and more expenses from your separate accounts, the joint account will dwindle in size and importance.

Automatic Withdrawals from the Joint Account

Perhaps there are certain expenses that have been covered by automatic withdrawals from the joint account. You may decide to keep the joint account open to cover only those expenses, and allocate the rest of the money coming into the household between your two separate accounts.

Separating Credit Cards

You can do the same thing with credit cards. Each of you can make a partial credit card payment from your separate account and send the two checks in together with the payment stub, writing the credit card account number in the memo line. If you use a credit card to pay expenses for food, clothing and the like, you can agree on who will take over responsibility for which card, and use only the card for which you have taken on responsibility. If credit card debt is an issue between you, make sure to gather current statements for all credit cards and keep all future statements, tracking what charges were made by who and for what. All of this is practice and preparation for when you will be living apart, managing your own finances.

Cash Flow Equalization—Stepping Stones to Spousal and Child Support

Marriage is a partnership that usually involves a division of labor. One spouse may have taken on the role of main breadwinner, while the other spouse may have contributed more to the non-income producing work of the marriage. In order to separate financially, it will be necessary to fund the separate account of the spouse with the lesser or no income. This can be done by adding up the expenses that the non-earning spouse is taking on, plus a relatively equal allocation of money for personal use to both spouses from the discretionary funds left after all regular and necessary expenses have been covered.

For this part to work, both of you will need to prepare budgets, showing both necessary and discretionary expenses and then dividing the income between you while coordinating your two budgets. If you are able to do this on your own, great. If you need help with this part, you might consult with an attorney or a financial professional experienced in helping people to develop workable budgets. Personal thriftiness, if you can manage it, will be helpful and will tend to build an atmosphere of mutual trust.

Any thing you can do now to prepare for your eventual separation will be useful down the road, and may even relieve some of the tension you are living with now.