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WealthHealth

A Monthly Financial Service Specifically for Physicians

Preparing for the Financial Impact of Divorce

The numbers don't look good. According to Statistics Canada, more than 100,000 Canadians get divorced every year, and 43% of marriages end in divorce before the 50th anniversary.

If you're among the 100,000 divorcing this year, or believe you're headed there soon, it makes sense to take some time to understand the financial implications of what that will mean for you and your family. While preparation won't make the emotional side of divorce any easier, figuring out how you'll make key financial decisions in the months ahead will leave both you and your spouse in a better position to move on with your lives.

DIVIDING ASSETS

Every province has its own rules for dividing marital property. Generally, most provinces assume each spouse contributed to the marriage. This means you'll be equalizing all your assets, regardless of whose name they're in.

Determining exactly how much each portion is can be difficult. Sometimes an equitable division of marital assets is not always the same thing as a fair division. Also, it may be tempting for some individuals to be less than transparent about the value of certain assets. This wastes time and money, and makes it harder for lawyers and other professionals you'll need to work with to reach resolution. On the surface, a 50/50 split seems logical – but sometimes there are more complex issues that must be factored in, such as:

- If one spouse advanced significantly in his or her career while the other stayed home and raised the children, the one spouse's future earnings potential is obviously much higher than the other's.
- If the marriage was short lived
- If one spouse brought substantial assets into the marriage
- If one spouse received a gift from a relative, an inheritance or a legal settlement and it is still traceable
- If one spouse owns shares in a company that are critical to maintaining their employment

Because division of assets always involves negotiation and there is more than one way to equalize assets, it makes sense to know how different assets fit with your long-term interests and financial comfort level.

You could, for example, be an aggressive investor who's comfortable taking over a stock portfolio. Or you could be more conservative, and prefer the option of keeping the family home. Consulting with your financial advisor before making these kinds of decisions is an important step in understanding the financial impact of your options.

DEAL WITH DEBTS

It's often harder to divide marital debt than it is to divide marital assets. That's because two people can manage a certain amount of debt, but one person may find it a burden. The most effective solution is to pay off marital debt before starting the separation process. This requires candid discussion with your spouse, and agreeing to accept joint responsibility for credit cards, car loans and other debts that can be paid off with some effort. For many couples, this isn't easy. Spending habits are a major contributor to marriage breakdowns, and can be a very emotional thing to talk about.

If it's not possible to talk things out, joint marital debt will need to be divided. Joint marital debt is debt you acquired to establish marital property (the family home, a car, a family-owned business, etc.). Debt incurred for the exclusive benefit of one spouse (a student loan, for example) typically won't be split. Keep in mind, creditors consider both spouses responsible for full payment of joint debts, regardless of any payment agreements you make with each other during the divorce. If you're concerned your ex-spouse might not live up to his or her obligations, consult your lawyer and have additional protections put into your separation agreement.

PREPARE FOR THE FUTURE

While even the most amicable divorce leaves emotional scars, some financial ones can be minimized. Here are some practical tips to mitigate financial damage for both of you.

Assess your financial situation – Dividing assets is often the most difficult (and contentious) part of the divorce process. If you can make a thorough inventory of assets, both financial and personal, before you file, you'll be that much further ahead.

Prepare for financial shock and adjustment – Many people suffer an income shock as they move from being a two-salary family to a one-salary family. Create a realistic personal budget and eliminate unnecessary or marginal expenses to prepare for your new reality.

Know the rules – If you're familiar with the rules and regulations on divorce in your province, this will minimize surprises and help you feel more comfortable as you go through negotiations and asset division.

Review your estate plan – Be sure to update your will and powers-of-attorney, as well as your beneficiary designations on life insurance policies, RRSPs and TFSAs to reflect any changes you want to make as a result of your divorce.

AN AMICABLE PARTING IS POSSIBLE

No question about it, divorce can be one of the most significant financial, and life, challenges you'll ever face. You can take on the challenge more easily by preventing your emotions from clouding logical financial decisions. You may want to consider getting some professional help. Instead of going to court, now there are more amicable options to help you navigate separation and divorce – without leaving you feeling broke and broken. For example, divorce mediation is quickly becoming the go-to choice for most divorcing couples. In this process, one neutral mediator helps both parties come to resolution on their issues with a focus of helping people preserve their assets and protect their relationships, particularly if they have children. This mediation strategy can save you significant money and time, and smooth the emotional impact of the process.

If at any time you feel that settling scores is taking priority over settling your property, it's time to take a step back and re-assess your approach. Remember, breaking up is hard work – getting angry only makes it harder, last longer and cost more.

IN FUTURE ISSUES

Retirement Income Planning

We put a lot of focus and planning on saving for our retirement. If you're in the last 10 to 15 years of your working career, it may also be time to think about planning for your retirement income needs. In a future issue, we'll talk about "how much is enough" for you and how you can start to get ready now for this next life stage.

Suite 1501
1111 West Georgia Street
Vancouver, British Columbia
Canada V6E 4M3