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NAVIGATING THE CONFLICTED AND EMOTIONAL STAGES OF DIVORCE THROUGH THOUGHTFUL PLANNING

How skilled advisors collaborate to bring stability during uncertain times.

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In his role at The Summa Group, Robert Dalie oversees wealth-planning capabilities, one of the core pillars on which the group was founded. Dalie's specific expertise and experience lend themselves to entrepreneurs, senior executives, fiduciaries, and founders who have recently experienced or are about to experience a life-changing financial event. This proficiency has allowed him to play an integral role within the core advisory teams that deal with pre- and post-liquidity events. He has developed a reputation for specialized work with sudden wealth from inheritance, divorce, stock sales, estate planning, and closely held business sales. To effectively offer this depth of service and experience, his practice is limited to a select group of individuals and families for maximum impact. *Forbes, Barron's,* and *Research Magazine* have recognized The Summa Group in their annual advisor rankings as a top wealth management team. Dalie has been a central part of The Summa Group since its founding in 2003.

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Ask anyone who has been through the painful and emotional trauma of a divorce, and they will tell you that it was one of the more agonizing, disjointed, and conflicted experiences of their lifetime. While there is no silver bullet to make these challenges disappear, retaining a financial advisor who has experience working closely with the client's key advisors will help alleviate many of the difficult issues and should result in a reasonable outcome.

Wherever you are in the divorce process, it is important to have someone with financial expertise to guide you. A financial planning expert can reduce the time, anxiety, and expense of a divorce by helping explore complex planning issues commonly faced by many high-net-worth couples. There are various types of financial advisors, but a certified divorce financial analyst (CDFA) is particularly familiar with issues such as tax and retirement planning, financial modeling, and budgeting. The goal of a divorce financial planner is to find common ground, minimize conflict, and eliminate unnecessary expenses while collaborating with all parties involved. Here are some of the key issues addressed during the process.

Financial Issues of Divorce

- Real property
- Financial planning, budgeting, and forecasting
- Family businesses
- Pensions and qualified retirement plans
- Debts and liabilities
- Maintenance (alimony)
- Child support and custody
- Healthcare benefits
- Investments and life insurance
- Social security
- Estate and tax planning
- Philanthropic continuity

While every divorce is unique, the planning process that follows is standard and uniform. During the initial stages it's critical to ask probing questions and gather as much information as possible. Often this involves getting copies of trusts from an estate lawyer, mortgage statements from the bank, tax returns from the CPA, and investment statements from the wealth advisor. Once the information is obtained and verified it should be categorized by title, cost basis, and tax characteristics. A shortcut often used to obtain this information is finding copies of former refinance applications, tax returns, or (if the divorce has officially started) the financial affidavit already mandated by the court.
Next, it's critical to create a comprehensive

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balance sheet listing all current assets and liabilities. Some assets may be worth less than they appear once taxes are taken into account. Keeping the home may require special considerations: Refinancing is needed, in tandem with retitling, to take a spouse's name off the mortgage. Owning a home also requires a certain amount of cash flow, thus refinancing may not be feasible in certain cases. If there are children, the parents may want to discuss support obligations as well. How are they going to pay for private school and/or future college expenses? The end game here is to create a planning document that serves as a blueprint for mission-critical decision-making.

A holistic plan should incorporate financial modeling that includes income, expenses, assets, and liabilities. It should account for salary increases, inflation, return on investments, and taxes on maintenance, while incorporating new tax-law changes such as those enacted post-2018. The output should include financial status, cash flow, and net worth to represent a variety of settlement scenarios over a full life span, presented in columnar and graphic formats. We have found that many people can relate to these graphical outputs more easily than reading through the boilerplate spreadsheets that many software packages currently provide.

Now the challenging stage begins: determining the potential long-term effects of the settlement while understanding the potential economic consequences. During this stage it's imperative to collaborate with the family lawyer, CPA, and other divorce professionals to run multiple scenarios based on the long-term goals and desired outcome of each party. We often talk about "safety-net planning" during this period, which is the concept of creating a baseline plan with enough financial resources to maintain a certain lifestyle. In a sample planning model, one might hypothetically assume a baseline amount of alimony that will continue for the next 15 years, at which point an accumulated investment portfolio would provide the desired income to maintain that lifestyle as a worst-case scenario. Any plan utilizing a safety net should always use conservative and realistic return assumptions. We often see an insurance policy placed on the life of the ex-spouse as a backdoor safety net. Under this scenario, if the ex-spouse dies, the payee is made whole based on a net present-value calculation. If this strategy is utilized, it's important to monitor the life insurance policy once per year to make sure it's still in force with the correct beneficiaries listed.

Once a scenario is agreed upon and the divorce decree is finalized, the next step is to split and transfer assets. Designated beneficiary forms need to be updated, a new CPA possibly hired, tax returns filed, and trust documents reviewed by the estate lawyer. For personal assets it's typically easy with standard title transfers or quit claim deeds. For retirement assets, this often requires a qualified domestic relations order (QDRO). Absent a QDRO , the divorce decree can be final and recorded with wording that allows for division of retirement property. We have seen some legacy divorces come back to haunt one of the parties decades after the fact. Think of a settlement a little bit like a trust—you can make it say or do anything, but it must be written and part of the court record. If it isn't in there, it doesn't exist. I have seen folks agree to changes outside the court-approved agreement only to be burned later when the other party reneged on the unofficial side arrangement. Once assets are transferred and a plan is in place, an ongoing system should be implemented to monitor and make adjustments as life changes.

A skilled financial planner with the proper credentials and experience can intercede at any stage in the divorce process for specific client needs. They can inform and educate, advocate on your behalf, and interface with the family attorney, accountant, business manager, and other professionals. In some instances, the financial planner enters the process after the divorce decree is signed to help manage the asset-transfer process.

Bottom line, when working on divorce cases, a planner should always look for ways to minimize taxes, streamline investments, and put together a plan the client understands. Ultimately, engaging a skilled advisor with divorce experience will not only provide confidence in the process, but also save potentially significant expense. **END**

Robert Dalie is a Financial Advisor with Oppenheimer & Co. Inc. His opinions do not necessarily reflect those of the firm. This article is not and is under no circumstances to be construed as an offer to sell or buy any securities. The information set forth herein has been derived from sources believed to be reliable but is not guaranteed as to accuracy and does not purport to be a complete analysis. Opinions expressed herein are subject to change without notice. Oppenheimer & Co. Inc. Transacts Business on all Principal Exchanges and Member SIPC.