Divorce Can Cost You Over And Over

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When most couples say “I do” they never imagine that their happily-ever-after could turn into a disaster that could end up costing a lot more than just heartbreak. For those potentially parting ways, there are some important pecuniary points to ponder.

Litigate or Mediate?

“The actual costs of the divorce generally surprise most people,” says Brette Sember, family attorney and author of two books on the subject. The Divorce Handbook and The Divorce Organizer and Planner. “They don't have enough for the retainer for the attorney and are surprised by the amounts of the bills thereafter. I highly recommend considering mediation since it is a very cost effective way to resolve your divorce.”

When couples pursue traditional litigation, two attorneys are paid to negotiate and then, possibly, go to trial. In mediation, a neutral third party works through decisions with the couple.

"You can plan on mediation costing somewhere between a few thousand and $7,000, whereas if you litigate, you could spend $50,000," says Sember

Victoria Di Santo, of Berkeley Heights, NJ, says she and her ex-husband were able to keep costs to a minimum by doing a lot of careful planning before visiting their mediator.

“By going in prepared and having discussed how everything would be divided, we were able to keep our visits to a minimum and at $350 an hour, that’s huge,” says Di Santo. “I’ve had lawyers tell me that they’ve seen couples rack up $3,000 in legal fees because they spend their time in the lawyer’s office fighting over a $1,500 living room set. If you can take a practical approach, remove the emotions and try to think of it as a business transaction, you’ll save a lot of time energy and money.”

House Or Home

For most couples, the biggest asset they own jointly is a home. In most cases, either one person leaves or the property is sold to pay for new housing. That alone can make a big difference.

"When you're married, there's one pot of money that pays for all your household expenses," says Sember. "When you divorce, the pot of money stays the same but suddenly must support two households. It is difficult or impossible to maintain your standard of living.”

Two homes. Two cars. Twice as many utility bills.

For those who can’t afford to maintain two residences, a new, albeit uncomfortable situation has arisen in which divorced couples are living together rather than suffer additional financial hardships.

Linda E. Cole, author of "Living Together in Divorce", found so many couples forced into this predicament that she started the blog "Separated But Living Together. A New Trend for the 21st Century."

“A young couple with children wanting to divorce may not have the money to pay for it,” says Cole. “An average divorce in the [U.S.] can be around $15,000 and if you add to that the expense of a partner moving into a new residence, it is not surprising couples continue to live together.”

Cole adds that the slow recovery in the housing market is another reason couples can be divorced and living in the same house.

“The sale of it [the house] could bring, for many, more independence in their single future. Houses are not selling well in most parts of the world and this is slowing down a lot of divorces. On top of that a house may no longer be worth the amount a couple paid for it. Rather than sell it for less a lot of separated and divorced couples figure it is smarter to live in the same house and hold out for things to improve,” she says.

Education & Health

That family house is often used as a source for college funds.

Sember acknowledges that few people discuss how to pay for college when they have young children.

Di Santo said she and her former husband were careful to avoid that mistake and agreed to put away an equal amount each month for their daughter’s college tuition, even though it was still more than 15 years in the future.

There are also expensive necessities, like health care.

Prior to the **Patient Protection and Affordable Care Act**, also known as the Health Care Reform Bill, signed into law March 23, 2010, many spouses who were dependent on their partner for healthcare coverage found themselves scrambling to find private health insurance following a divorce. While COBRA (Consolidate Omnibus Budget Reconciliation Act) is an option, it is usually very expensive and is only available for 36 months after the divorce is final.

Spouses with pre-existing conditions often have a very difficult time getting insured and if they do, costs can be exorbitant. The bill provides immediate access to insurance for those who are uninsured because of a pre-existing condition through a temporary high-risk pool, making healthcare coverage less of an issue in terms of divorce.

Another area of contention is who is going to pay for the healthcare of adult children of divorcees, who find themselves unemployed, back at home and uninsured. Effective September 2010, the PPACA requires that group health or individual plans continue to provide dependent coverage until 26 years of age, making it a bit less pricey for parents who are divvying up the costs of co-parenting.

Small Change, Big Changes

Many couples are so focused on the obvious big-ticket items, they often forget about some of the smaller possessions they accumulated together in happier times. Things such as artwork, antiques, club memberships, season tickets and frequent flier miles are all considered marital property.

Hidden costs abound when it comes to divorce and can devour previous dollars. One little-discussed but very real expense is the cost of getting the children to and from each parent in shared custody situations.

“Make sure you document who is doing the dropping off and picking up,” says Di Santo, who drives a seven-passenger Ford Escape, and noted that with gas prices tipping $4 per gallon, the cost of shuttling children back and forth adds up quickly.

Other covert costs include counseling for spouses as well as children and the additional expense of extended day care, should parents needs to increase their work days to make ends meet.

Exit Plan

Coming up with a post-divorce financial plan is key. For some, a one-time settlement may have to last the rest of their lives. It is important to come up with a plan to figure out how to cut expenses while making the most of those resources.

Violet Woodhouse, a California-based family law attorney and author of "Divorce and Money", says divorce is really about managing risk both in terms of handling income from spousal or child support as well as dividing a portfolio of investments.

“When we have child or spousal support, these are very flimsy forms of income, because they can change,” says Woodhouse. “They end at death and yet the need for that income doesn’t change. The other part of that is disability because one can become disabled and in fact, the younger you are, you are more at risk for becoming disabled than you are for dying.”

Woodhouse advises those dependent on these forms of revenue to shift that risk to an insurance company by purchasing life insurance and loss of income or disability insurance.

“Very often when people are awarded spousal or child support, they’re not planning for when that ends—if they’re awarded a stream of income on a monthly basis, if they do not set aside funds that will be there to draw on when that resource ends,” Woodhouse said.

Stocks, bonds and mutual funds should not just be divided by default, cautions Wall. Even if the instruments might be valued equally, one party is usually less tolerant for risk and that should be taken into account when pulling apart a portfolio. Likewise, if one investment has a gain, while another has had a loss that should be distributed according to which party can best manage the tax consequences.

By going into divorce with eyes wide open, recognizing the costs and potential financial challenges that can occur, spouses can make smart financial decisions about how to proceed and plan for their single futures.

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