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Staying married to save cash

By Karen Haywood Queen • Bankrate.com



Highlights

- A simple divorce can cost \$5,000 to \$25,000 in attorney fees.
- Sometimes women in divorce make a bad trade.
- Some divorcing couples keep the family home and also get an apartment.

Couples at odds may find that solving their differences instead of dissolving their marriage saves thousands of dollars. Even if your marriage stands no chance of recovery, ending amicably instead of fighting can save you money.

"People don't realize how much divorce is going to decimate their net worth," says New Mexico Certified Financial Planner Cary Carbonaro. "If your net worth was \$2 million, after last year, you're lucky if you have \$1.2 million now. If you get divorced and cut it in half from there, you go to \$600,000. Your lifestyle is going to change dramatically. I got divorced once. Not only is it going to hurt your net worth, but you're behind the financial eight ball from that point on. It's the worst thing you can do financially."

Even though tight finances can put stress on a marriage, fewer couples split in a bad economy. In a recent survey of the American Academy of Matrimonial Lawyers, 37 percent report they see a decrease in divorcing couples during an economic downturn, compared to 19 percent who see an increase.

Biggest expenses

Attorney fees and court costs compete with setting up a second household as the largest expense in a divorce. A simple divorce can cost \$5,000 to \$25,000 in attorney fees and court costs while the average complex divorce runs \$20,000 to \$100,000, says Bruce Hughes, an attorney and certified public accountant in Tustin, Calif.

The discovery process -- the gathering of information related to each party's assets and liabilities -- can pile on expenses. "It's not unusual for fees to exceed \$100,000 when people fight each other, fight the system, don't want to produce records and have to hire experts to value assets," Hughes says. "We had one case where people were fighting over only one issue: whether the mother could move with the daughter 35 miles away. It took 64 court appearances and cost over \$400,000."

But court isn't always more expensive. "We had another case that just closed last year that started in 1998," Hughes says. "The husband wanted to settle and the wife didn't. Those cases generate huge fees and they're never proportionate to the benefit. Cases that don't settle quickly should be sent to trial to cut the cost."

Anger adds up

Fighting during divorce sends expenses soaring as people spend more money bickering over items -- from collectibles to houses -- than the items are worth. "If you really want to fight over the Precious Moments collection -- I had a client who did -- it can cost you more in legal bills than it would to just buy some more," says Brette McWhorter Sember, a former divorce attorney and author of "The Complete Divorce Handbook."

The other big financial bite is setting up a second household. The same amount of income you have now must cover two mortgage or rent payments, two electric bills, two phone bills, two water bills and more.

"When you divorce, the pot of money stays the same, or may be less due to legal bills, and you essentially double the household costs," Sember says. "This is a massive financial shift in everyone's life ... and a complete nuclear bomb for your finances."

That financial impact surprised marriage and family therapist Melody Brooke, author of "Oh, WOW! This Changes Everything."

"You both have to have separate households that will fit all the children," says Brooke, who divorced after her husband refused counseling. "From the fathers' point of view -- not only are they going to have to pay child support, but they also have to provide a separate place for their children, whether they have the child there or not."

If one spouse has been covered on the other spouse's health insurance, the noncovered spouse now must find other health insurance. "Typically it's COBRA insurance and it covers you for 18 months," says New York attorney Sari Friedman. "It's more expensive and it's limited in its duration."

Retirement suffers

Even if you're 20 years away from retirement, divorce will hurt your golden years. That nest egg and pension will now have to support two households. A divorced spouse can claim a share of the other spouse's pension based on a formula that factors in the number of years married and the number of years at that employer.

"I've done financial plans for people when they were together," Carbonaro says. "I got them in their 30s and the plan was to retire at 50. They were perfectly on target. Now that they're divorcing, they'll be lucky to retire at 65. Whatever your plans were for retirement -- it's all blown up."

Sometimes women in divorce make a bad trade -- opting to keep the family home in exchange for any claim to the retirement account. "The problem with that is the house is a very expensive asset," Carbonaro says. "It's not tax-deferred. I've had people who couldn't even afford the taxes on the house and they just gave up their claim to the retirement money."

Divorcing women with no experience either in a career or in handling finances get hit hard with divorce.

"Women have this fantasy idea that they can get rid of the man and keep the lifestyle," says Marilyn Barnicke Belleghem, a registered marriage and family therapist in Ontario. "It doesn't work that way. Oftentimes, they can't get so much as a gas credit card or hook up their telephone because they haven't established credit in their own names. Some of them even call their husbands 'Daddy.' They don't realize they have to grow up and become adults."

Invest in the marriage

For some couples, therapy to save the marriage can save money. "At once a week for \$80 to \$150 an hour; that's only a fraction of what an attorney charges," Brooke says. "Even if it takes two to five years of weekly therapy, that's only \$5,000 a year for therapy. In financial costs alone, it's way worth it."

Still divorcing? How to save

If you must divorce, set your anger and hurt aside, pursue an amicable divorce and save big. In an amicable divorce, both parties usually agree to voluntarily provide financial information, which saves court costs. Negotiations are completed out of court before the complaint for divorce is even filed, again saving money and allowing couples to be more creative in dealing with the current economy, says Randy Pitler, of Pitler Family Law and Mediation in Royal Oak, Mich.

Parents -- not kids -- shuttle

Another way to save money is not to set up two complete households. Some divorcing couples keep the family home and also get a small apartment. The children stay in the family home instead of switching back and forth, while the divorcing parents take turns in the small apartment, Belleghem says.

"Each spouse lives in the apartment when they're not in the house," Belleghem says. "Nobody's trying to run an entire life from the little apartment." Some divorcing couples save even more by creating that apartment in the basement of the family home, she says.

Sometimes divorce makes sense

Finally, sometimes divorce makes sense in a bad economy.

"Housing values have dropped. Retirement values have dropped. Thus, there is less 'asset' to divide," says Fresno, Calif., attorney Jerry Childs. Divorce can be win-win financially. A spouse buying out the other spouse's share of homeownership or interest in a retirement account pays less. The spouse who is being bought out often can count on that same home or retirement account increasing in value again over time, Childs says.

And if your spouse is running up spending and won't stop, now is the time to pull the plug, Childs says. "Credit can be wiped out by an irresponsible spouse," he says. "In the past, it was OK -- spending didn't matter because wealth grew to match it. This is no longer the case. Now may be the time to get out."

Location of article:

<http://www.bankrate.com/finance/personal-finance/staying-married-to-save-cash-1.aspx>