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Divorce Consulting

HOW TO AVOID 10 CRITICAL FINANCIAL MISTAKES IN DIVORCE



Avoiding financial missteps in the divorce process.

The emotional pain of a divorce is difficult enough. The burden of financial concerns makes it even more challenging. To ease the transition and help you take control of your financial future, our experienced divorce consulting team has highlighted 10 common mistakes and how you can avoid them.



1

Underestimating Lifestyle Costs Post-Divorce

Many individuals fail to properly estimate what it will take to maintain their lifestyle after divorce. High-net-worth lifestyles are often complex and expensive.

Solution: Do a detailed lifestyle analysis early on in the process.

2

Disregarding the impact of taxes on assets in a divorce settlement

The bottom-line result from your settlement equates to the share of marital assets you get after the IRS gets their share. A 50/50 equitable distribution may seem fair initially yet may produce unexpected tax consequences.

Solution: Examine the value of the assets relative to your spouse on an after-tax basis before accepting a settlement.

3

Not determining the consequences of your next tax filing

Several lines on your tax return change as a result of divorce, including:

- Filing status
- Number of personal deductions
- Tax bracket/tax rate
- Itemized deductions
- Alimony as taxable income which may require quarterly estimated taxes

Solution: Consult a Certified Divorce Financial Analyst™ or tax advisor to determine the tax impact before accepting a settlement.

4

Bringing emotional attachment to assets into divorce negotiations

Discussing the marital residence, retirement accounts, and other assets purchased during the marriage can often lead to emotionally charged negotiations. Yet, many people cannot afford the expenses of keeping the marital home post-divorce and give too low a priority to retirement planning.

Solution: Fully account for post-divorce expenses and long-term goals to determine the assets you will be willing to keep and those you can part with before agreeing to separation of assets.

5

Disregarding the long-term impact of inflation

Inflation can have a dramatic effect on the cost of a child's college education, or the income needed in retirement 15 or 20 years from now.

Solution: Use the Rule of 72 as a simple way to judge the impact of inflation. If the inflation rate is 3%, the Rule of 72 states that prices will double in 24 years ($72/3=24$). College costs at 5% inflation will double in 14.5 years ($72/5=14.5$). Make sure a settlement that looks good today will support your needs in the future.

6

Forgetting to update estate documents

After divorce, many people forget to change the beneficiaries on their IRAs, wills, life insurance policies, and qualified pension plans. If they die before these changes are made, their ex-spouse ends up inheriting their estate.

Solution: Review your documents with a Certified Divorce Financial Analyst™ or attorney immediately after the divorce to initiate needed changes.

7

Inadequately insuring the divorce settlement

Premature death or disability of your ex-spouse can result in loss of maintenance, child support, college tuition, or property settlement.

Solution: Life and disability insurance can guarantee your payments and your family's security.

8

Failing to develop a post-divorce financial plan

Two households cost more than one. But the income post-divorce may be the same. Many people forget that their divorce settlement must last a significant amount of time, perhaps even the rest of their lives.

Solution: Financial planning can help in transitioning to a single lifestyle by prioritizing financial goals, developing realistic expectations, and producing written plans for allocation of financial resources.

9

Not using IRS code section 72t(2)c to get distributions from qualified plans

Couples often face serious cash flow issues during divorce. Changing or downsizing often requires a cash infusion to purchase, set up, or carry a second residence.

Solution: Section 72t(2)c allows the spouse who is not the employee to take distributions from a qualified plan (not an IRA) without paying the 10% early distribution penalty. The distribution is still subject to income tax. If the funds are first rolled over into an IRA, then the preferred distribution rules no longer apply.

10

Rushing to Settle Before Uncovering Hidden Income Streams

High-net-worth compensation often includes bonuses, RSUs [Restricted Stock Units], deferred comp, K-1s, and other non-salary income that's easy to overlook. Settling before full financial discovery can mean leaving substantial assets on the table.

Solution: Don't rush—ensure all income sources are identified and valued before agreeing to terms.

Talk with us for a brighter, more confident future.

At GenCrest Capital Partners, our experienced divorce consulting team works with individuals and their attorneys through each step of the divorce process. We look at every financial aspect, every detail for an outcome that closely aligns with our clients' long-term goals.



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