Suddenly Single?

How women can thrive after divorce or spousal loss

Key takeaways

- Aside from being a huge life change personally and emotionally, being divorced or widowed can seem overwhelming from a planning and financial standpoint
- Fortunately, there are several steps women can take with the help of an advisor to make the process less daunting

While divorce or loss of a spouse is challenging for everyone involved, it's often a tougher burden for women who may not have been intimately involved in the family's finances, actively participating in a family business, or even privy to the various professionals who helped manage and protect the family's wealth.

When couples face divorce, there are myriad issues and concerns that need to be navigated. When a wealthy couple divorces, these issues become imminently more complex. In the divorce setting, even women who do serve as matriarchs of their families—successfully heading the household and stewarding the family's wealth—face significant challenges when it comes to creating an equitable distribution of assets.

Women who find themselves newly and unexpectedly single, whether as a result of divorce or death or other separation, should take concrete steps to position themselves for success.

Key areas for all suddenly single women

Getting a handle on all assets and cash flows

Wealth is usually accompanied by a complex balance sheet. The first step after becoming single unexpectedly is to get organized to get a clear picture of your finances. You might not be aware of all of the assets/accounts or cash flow needs that supported your lifestyle if you have been more passive on the financial/investment front. Often, a financial advisor will help you get your finances organized and, in the divorce setting, evaluate different settlement options and support scenarios.

Creating a sustainable financial plan

If you are receiving a lump sum settlement/alimony or inheritance as your only major cash inflow, it's important to have a thoughtful long-term plan in place to help ensure that the settlement proceeds or inheritance funds will sustain your lifestyle. A financial advisor, in addition to helping you get organized, can also assist in running cash flow projections, stress testing a portfolio, and modeling projected rates of returns, inflation assumptions, and upcoming outlays to give you peace of mind for the future.

Updating estate planning and other important documents

During times of transition, particularly involving a divorce or death, it's critical to review all your estate planning documents and beneficiary designations to ensure they reflect your current wishes. Powers of attorney and health care directives should also be updated so the right individuals are poised to make important financial and health care decisions for you

Revisiting insurance coverage

When major life changes happen, it is important to review your insurance policies—both life insurance and property & casualty/umbrella insurance—to make sure you are adequately covered at a competitive cost, that the insurance is titled in the right names, and that the premiums continue to be paid by the responsible party. An independent insurance advisor can review policies to make sure they are performing as intended, and evaluate the scope of coverage, depending on your particular situation.

Utilizing an irrevocable life insurance trust (ILIT) may be an advantageous way to purchase and maintain life insurance for women who are newly single after a death or divorce. During divorce negotiations, a life insurance policy could be required to secure alimony or child support payments in the event the breadwinner ex-spouse was to pass. The primary benefit of using an ILIT is that, upon the death of the insured, policy proceeds pass to heirs free of estate taxes.

Requiring experts

Hiring experts to assist with appraisals, valuations, and a review of complex assets can help you acquire a complete understanding of your financial picture and is often necessary if an estate tax return is being filed. If there is a closely-held business, you will likely need a business valuation expert. Appraisers can value antiques, jewelry, cars, yachts, horses, art, and other collections. In the divorce setting, a forensic accountant can help you trace funds, while additional experts may be needed to value real estate, pension assets, and other employee benefits, such as stock options and bonuses. Again, a financial advisor can model assets and cash flows now and for the future and, for women getting divorced, present different settlement scenarios.

Mistakes and pitfalls to avoid for women facing divorce

Not having a prenuptial agreement

Prenuptial agreements can give both parties peace of mind and help ensure a marriage begins with open communication and disclosure. In the absence of a prenup, community property states will generally divide the assets acquired during marriage in half. Other states generally make subjective assignments of ownership of assets based on years of marriage, children, lifestyle, and other factors.

Being uninvolved in financial matters/leaving all financial decisions to your spouse

A spouse uninvolved in financial matters can be particularly vulnerable when it comes to dividing assets or understanding cash flow needs. It is especially important if you do not have financial experience that you work with skilled advisors who can educate you and guide you through the decision-making process.

Falling into income tax traps

Division of property by value alone can be misleading if some property has a high basis and some has a low basis—the value might be the same but appreciated property will have built-in gains that could significantly impact the true value.

For those getting divorced beginning in 2019, alimony is no longer deductible to the person paying it (who was generally in the higher income tax bracket) or includible in the income of the recipient (who was generally in the lower income tax bracket). This change in the taxation of alimony effectively shifts alimony payments to be taxed at the payor's higher bracket, meaning higher taxes for the couple, less money for both.

There has also been a significant change in the taxation of trust income for those getting divorced beginning in 2019. For many trusts created during the marriage—including some staple techniques of marital estate planning—the spouse who created the trust may be liable to pay the taxes on distributions made to an ex-spouse after the divorce—forever! It is crucial to be sure that matrimonial attorneys collaborate with financial advisors and trusts & estates attorneys to identify trusts that were created during the marriage, evaluate the future tax impact, and consider options to change an unanticipated tax result.

Getting the home, but failing to account for the cost of maintaining it

If you are pursuing the family home in the divorce settlement, you should carefully consider the expense of maintaining the house and property. The $40,000 cap on the deduction for state and local taxes (SALT) can increase the cost of maintaining the home, which may also have a mortgage obligation. Mortgage interest is only deductible up to a maximum mortgage threshold of $750,000. Worse still, if the mortgage was in joint names and now needs to be refinanced in your name alone, are you certain you can even qualify independently for a mortgage? You may not have established a credit history if you've been dependent on a breadwinner spouse. And, if the marital home is ultimately sold, there may be substantial capital gains taxes to pay.

Failing to factor in additional expenses for children

Children often have expensive hobbies, tutors, summer camps, and private school tuitions. Those expenses must be accounted for. No matter how wealthy you are, it is important to review educational funding options and planning techniques to pay for education most efficiently—and, very importantly, to have those obligations clearly spelled out in a divorce decree or settlement agreement. For business owners—not having a buy-sell agreement

A buy-sell agreement is a contract that establishes when, to whom, and at what price an owner, partner, or shareholder can sell or transfer his or her interest in a business. Business owners typically want to be sure an ex-spouse does not become a partner in the business. To keep a family business within a certain family line, it is often key to memorialize business owner/succession rights in a prenuptial agreement, and to have a buy-sell agreement and other estate planning documents that dovetail with that plan.

Letting vengeance fuel divorce proceedings… and attorney fees
Even though it is easier said than done, you should try to manage your emotions during divorce negotiations to amicably dissolve the marriage and minimize fees and stress. Playing out bitter feelings for retribution can lead to substantial increased costs and anxiety levels; attorney fees can build quickly. When searching for advisors, a key consideration is to look for an advisor who can guide with compassion but impartiality as to what is a constructive (versus destructive) strategy.

Additional financial challenges
If you have been out of the workforce for an extended time caring for your children, it may be difficult to reenter the workforce after a divorce if needed, and even if you do, you will often earn less than your breadwinner ex-spouse. Being in this position can make you dependent on an ex-spouse for financial support and should be factored into settlement negotiations.

Post-divorce income decline can be particularly harsh, and especially problematic since women have longer life expectancies. You might need to establish or improve credit, become educated on all aspects of financial planning, and most importantly find your own financial advisors who will advocate for you. A thoughtful financial advisor who takes the time to listen and educate can be key.

Mistakes and pitfalls to avoid for women coping with spousal loss

Being led by friends and family members
During such an emotionally difficult time in your life, the support of family members and friends can be invaluable. Despite being well-intentioned, however, friends and family members are often not equipped to deal with the complex tax, legal, and investment elections and decisions that confront a widow, and can easily lead you astray. During this unsettling time, a team of seasoned professional advisors is generally best positioned to provide guidance and support as you navigate unfamiliar territory.

Don't go it alone
Especially if you did not manage the finances and left much financial decision making to your spouse, it can seem overwhelming to get a handle on your current and future financial needs. You don't need to go it alone. Skilled advisors can partner with you to alleviate the burden.

Making decisions too quickly
Prior to making irrevocable financial decisions, like retitling assets or rebalancing your portfolio, it may be in your best interest to consult a team of financial professionals who can help you understand the planning and tax consequences of your actions. There are post-mortem planning techniques that can potentially reduce estate and income taxes dramatically and facilitate the tax-efficient transfer of wealth to your heirs, but it will not generally be possible to leverage those techniques after assets have been distributed, sold, or retitled. Post-mortem planning techniques often also have strict and unextendible deadlines associated with them, so it is key to secure qualified advice quickly after a loss in order to evaluate your options.

Not having all the financial information on which to base your decisions
It is important to understand what your living expenses will be in this new stage of life to make sure you can sustain your current lifestyle. A financial advisor can run cash flow projections to illustrate different scenarios, including buying or selling property. For example, if you are looking into selling the marital home, purchasing another property in a warmer climate, or want to relocate to be closer to your children, a skilled advisor can factor the different tax implications and costs to assist you in making an educated decision. Since the basis of most inherited assets is "stepped up" to its value on your spouse's date of death, that can eliminate otherwise significant capital gains, giving you freer rein to sell assets without being burdened by a big capital gains tax hit.

If you receive a large sum of money from your deceased spouse's life insurance policy, a financial advisor can provide holistic advice regarding how to plan tax efficiently with the funds for yourself and your heirs, and how to invest the funds based on your overall financial needs.

Not having the right executor and trustee

It can be a significant benefit to you and your family members to enlist the assistance of a professional to serve as executor of your spouse's will and/or act as a trustee of any trusts your spouse created. A corporate trustee has professional knowledge and expertise with the legal, tax, and administrative complexities of administering estates and trusts, and has the time, resources and financial wherewithal to address the needs of the beneficiaries and protect their interests. A corporate executor or trustee will also act impartially, providing an objective voice that can resolve and minimize conflict. Many wills and trusts include the ability to appoint a corporate executor or trustee in addition to a family member, and a corporate fiduciary can also be engaged as agent for the named executor to perform executorial services.

The bottom line for suddenly single women: it's all about the team

Whether divorced, widowed, or otherwise separated, a trusted team of experts can help make the process of being suddenly single less daunting. Working with a family law or estate planning attorney, an accountant, and insurance or other experts, your financial advisor will typically be a central member of your team in helping you navigate the process and provide guidance, education, and support with compassion and sensitivity to your situation.

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