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The financial considerations of divorce

By Angie O'Leary, head of Wealth Planning for RBC Wealth Management

Divorce rates are expected to spike again in the aftermath of the pandemic. After spending 24/7 together—with little outside social contact—some couples are taking a hard look at their marriage. For certain empty-nesters, the pandemic was a preview of what retirement with their spouse might look like, and they didn't like what they saw.

A later-in-life divorce, known as a "gray divorce", is complicated and requires careful planning. Decades of building wealth and raising a family make it more challenging to divide assets in a mutually agreed upon and equitable manner. For most divorcing couples, hiring an experienced attorney to represent and protect each individual's interest is wise, especially since divorce laws and insurance laws vary from state to state.

When thinking about the financial considerations, there are three areas to focus on:

1. Tackling the big questions

Absent a prenup, there are several big questions that will surface right away. If a couple can agree on these areas, it can help expedite the matter and save on attorney fees.

- If children are in the picture, what are your wishes regarding custody, visitation, child support, health care and education funding?
- Do you have adult children expecting support for weddings or help with the purchase of a first home? How are funds set aside for this type of commitment?
- Do you earn enough money to adequately support yourself, or should alimony be considered?
- What and where are all the financial assets and how are they titled? Which assets do you want, and which are you willing to let your spouse keep? Make sure you have an asset inventory and understand the value of each asset.
- Are there retirement plans for each spouse?
- Is there enough money to pay any outstanding debt on whatever assets you keep?

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- How do you feel about the family home? Do you feel strongly about living there, or should it be sold or allotted to your spouse?
- Are there separate or personal assets of each spouse, including trust funds and inheritances? How does state law affect the impact of separate or inherited assets when determining alimony or the division of property?

2. Definite do’s and don’ts

Divorce is an emotional, highly charged life transition that often leads to rash and unwise decisions. Here are some definite do’s and don’ts when it comes to your finances:

- Do prepare a financial plan and budget to help guide you until your divorce is final.
- Do review monthly bank and financial statements and make copies for your attorney.
- Do review all tax returns that have been filed jointly or separately and make sure all taxes have been paid to date.
- Do get help from a financial advisor, especially if you don’t currently have the skills and energy to do this on your own.
- Don’t make large purchases or create additional debt that might later cause financial hardship.
- Don’t quit your job or move out of the house before consulting your financial advisor and attorney.
- Don’t transfer or give away assets that are owned jointly.

3. Financial considerations

In a gray divorce, there are often additional financial considerations that may be overlooked. Being aware of these considerations will help you think comprehensively about your settlement.

Taxes

Remember that alimony is no longer deductible for the spouse paying it, and it’s not taxable to the person receiving it. Child support payments aren’t taxable, either.

Insurance

Naming your ex-spouse as beneficiary of life insurance may be required as part of your divorce. When alimony terminates at the death of the payer, the life insurance proceeds may become a stream of income for the surviving ex-spouse. The divorce decree may require life insurance on the individual paying alimony and/or child support in the event of their death. Disability and long-term care insurance are also considerations for post-divorce protection and should be addressed if appropriate in the divorce settlement.

Retirement assets

Splitting retirement assets comes with some special considerations—and often a second step. A qualified domestic relations order, or QDRO, is typically used to divide certain employer retirement and pension plans. A QDRO recognizes joint marital interest in the retirement assets, giving the ex-spouse a share of those assets.

Employer stock options

If either spouse works for a corporation, there may be employer stock incentives that will require additional analysis before these assets can be divvied up. Valuing stock options is complex, as they typically have vesting periods, unique tax considerations and carry various risks, including market and employment risk. Often corporate executives will get full access to their options at retirement, which is another point to consider. As the value of the stock or option typically fluctuates over time, it is important to understand the risk-reward and trade-offs when determining the value.

Estate matters

Make sure you meet your legal obligations while exercising as much control over your assets as possible. There are a few things you can do prior to the divorce, but you should update your estate plan as soon as legally possible. You will want to update your health care proxy, power of attorney and will. Estate planning is also necessary before you remarry in order to protect and preserve assets for your intended beneficiaries.

Financial implications for women

According to a report from the U.S. Government Accountability Office, women’s household income fell by 41% following a divorce or separation after age 50, while men only had a 23% drop. With women living longer than men, that dip in income can have serious consequences. With divorce being such an emotionally and financially challenging time with a lot of important decisions to be made, easing the burden with trusted legal and financial advice will help you take a comprehensive approach to this significant life transition and feel more secure about your future.

Make the most of benefits season

Medicare schedules open enrollment for health care benefits during the final two months of the year. Many companies in the United States follow suit. Companies use the calendar year to track benefits, therefore requiring employees to "sign up" for what they need.

When open enrollment season comes along, some families hit the "renew" button and consider the task done for the year. But if your family has multiple health care offerings available, when open enrollment seasons overlap, it's a great opportunity to review everything that's offered to help make the most economical choice for the entire family. And if you qualify for Medicare, it adds additional comparison options to include.

Making a good plan comparison

Insurance offerings change every year as companies negotiate better rates and offerings. For this reason alone, it's a good idea to review the plan before pressing the "renew" button.

Some health insurance plans offer better coverage, but charge a higher premium. The big items to compare side-by-side include:

- Premium cost
- Deductible cost
- Out of pocket maximum
- Copay costs
- How are prescriptions covered?
- Can you use your doctors?

If your family has access to what you spent on doctor visits, prescriptions and other medical treatments this year, it may be helpful to compare it to next year's offerings. For example, if you paid for higher-priced prescriptions like insulin or some cancer treatments, and you know you'll be needing to continue using those items next year, you have accurate data to plug into all plans available, giving you a better comparison.

When comparing plans, if there are children in the picture, be sure to calculate estimated costs for each spouse on their own individual plan; the costs for each spouse adding all the children to their plan; and if it's less expensive for the entire family to be on one plan. Employers often deduct premiums for employee-only plans, so the costs for having your spouse and/or children on your plan could add up quickly.

If you have independent dental and vision coverage offerings, it's a good idea to also put those through the comparison test as well. Sometimes company health insurance plans include vision exams or dental cleanings, and by reviewing and comparing your options, it gives you better information to avoid signing up for double insurance if you don't need or want it.

Don't forget other benefits

During open enrollment, you can meet with your financial advisor to review company benefit options like long-term care or life insurance, if offered. You can discuss if your family could benefit from these insurances now, or incorporate them into your wealth planning for the future. You can also review if the insurances provided through your company benefits would be a good solution to any anticipated needs.

Your financial advisor is a good resource to help plan your family's financial future. Set up a meeting during open enrollment season to discuss your family's insurance coverage needs, both for next year, and into the future.

ESG—a helpful tool for discussing family wealth

When it comes to talking with younger generations about money, for most families, it's a difficult topic to discuss. But that lack of conversation often leaves younger generations unprepared when they receive the family wealth. They often don't have the engagement or passion for managing the money like their parents did.

"Children—of any age— don't like being talked down to," says Angie O'Leary, head of Wealth Planning for RBC Wealth Management. "Having mom, dad, grandma or grandpa tell them how they should handle the family wealth might not be an easy discussion to have."

However, when it comes to investing, a Cerulli Associates[1] report shows that younger generations, like millennials and Gen X, have a high level of interest in values-based investing. That interest provides families a way to bridge the money conversation and give the younger generation a way to engage with the family wealth.

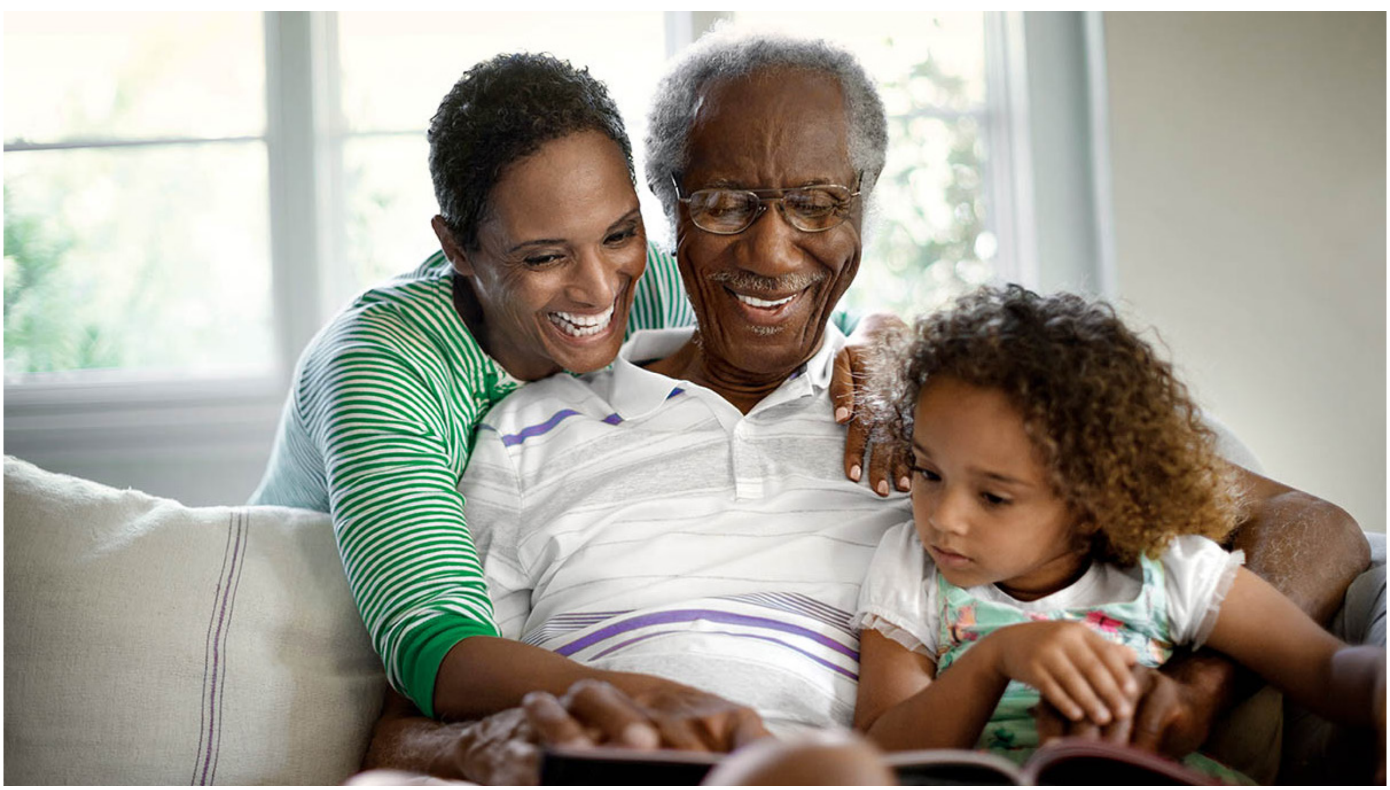
If you're interested in involving your children in a conversation about the transfer of family wealth, and your children don't have an interest in discussing how to invest the portfolio or keep growing it, consider if values-based investing can open the door to that conversation.

"Some families may be surprised by how much their children can teach them about investing—from an ESG point of view," says Kent McClanahan, Vice President of Responsible Investing for RBC Wealth Management. "Usually it's the parents who know all about investing in portfolios, but we've seen many cases where children take the lead in creating responsible investing portfolios to serve the greater good."

The world of responsible investing has grown tremendously in recent years, from investment options to reporting structures, helping families track both how their investments are performing and the impact they are making.

Values-based investing discussions are complicated. As your family gathers to discuss wealth transfer from a values-based investing angle, you may wish to develop a contract all members of the family jointly agree upon defining the beliefs—and the language supporting those beliefs. This could come in handy when investing in one value potentially comes into conflict with a second one. Having a contract provides a solid agreement all family members can return to when making portfolio decisions well into the future.

RBC Wealth Management has a new workbook called "A workbook for the values-driven investor: ESG and responsible investing" available to help families align their investments with their personal values. The workbook can help your family define your beliefs, the impact you wish to make on those values and your objectives for including ESG investing in your portfolio. Ask your financial advisor for a copy of the workbook to help you engage in the wealth transfer conversation.



1. The Cerulli Edge U.S. Advisor Edition 3Q 2021, Issue #72.

The financial squeeze of the Sandwich Generation

The magnitude of caregiving can be greater than the cost of paying for college, but families rarely plan ahead for long-term care

Caring for a loved one with cognitive decline can be difficult for anyone, but those in the Sandwich Generation face a unique set of challenges.

A study, The financial impact of cognitive decline, commissioned by RBC Wealth Management – U.S. and conducted by Aon, provides a new perspective on the financial squeeze the Sandwich Generation is feeling. The study is based on feedback from 1,000 caregivers of individuals with cognitive decline, including 253 caregivers under 60, who also have children.

The study found 36% of respondents left the workforce early to juggle caregiving and family life, and 60% of the Sandwich Generation dedicate a minimum of 40 hours per month to caregiving.

Calculating the financial impact

Of course, earning less has an impact on the present as well as on the future. As Sandwich Generation caregivers make difficult choices to fit in all their responsibilities, many face severe disruptions to their own retirement plans, as well as their current income. That's because the caregiver who cuts back on hours or takes a leave of absence is also contributing less to Social Security, contributing less to retirement savings and possibly missing out on employer-matching contributions to a retirement account.

In addition to thwarted retirement plans, caregivers often have out-of-pocket spending costs, from helping to cover the patient's household bills, paying for groceries, meals, gas and sitters. On average, most caregivers have out-of-pocket costs of about $748 per month, and that goes up to $906 per month for the Sandwich Generation, according to the RBC Wealth Management study.

Provide care and look after yourself

While the responsibility of caregiving can be overwhelming, there are options and help is available. Those who are currently feeling the Sandwich Generation squeeze—or want to plan ahead for that possibility—can start with these steps.

- Ask for help. Even if it seems like you may have to quit your job or reduce your hours to manage caregiving responsibilities, that's not always the case. Sometimes it makes more sense from a long-term perspective to pay for a sitter than to give up working or cut back at work.
- Start by letting your employer know you're a caregiver and find out if they offer benefits for caregivers. Consider asking for what you need, such as the opportunity to telework regularly or occasionally.
- Along with your employer, take advantage of family members, neighbors or community groups that can help share responsibilities or provide other services. It's OK to ask for help.
- Consider long-term care insurance. A typical dementia patient will spend three years at home after diagnosis and then five years in a long-term care community. The costs of skilled nursing care represent a large portion of the overall costs of caring for a person with cognitive loss, so long-term care insurance can be financially lifesaving. Take time to talk with the older adults in your life about long-term care insurance.
- Communicate with older family members in advance. If a parent or other older relative has been diagnosed with dementia, or even if they haven't, it's a good idea to talk with them about their desires for managing their care preferences and confirming they have a health care directive. When you've discussed your loved one's wishes, you can make decisions about their care with confidence, because you know the decisions you're making reflect what they want.
- Take care of yourself. Just as an airline passenger is instructed to put on their own oxygen mask before helping others, a family caregiver must also take care of themselves in order to do a good job caring for others.

Your financial advisor is prepared to help you plan financially for the future, including for long-term care events. Your advisor can also help you develop a wealth plan that includes the possibility of becoming a caretaker and think through the impact of your decisions as a caregiver over the long term.

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