

# Reset: Financial recovery after divorce

## Theo Marinis outlines a 7-step plan for those facing the financial reality of a divorce.

Divorce is the equivalent of a death in the family. It is a highly emotional event, and one that can leave us extremely vulnerable.

There is no more certain way to destroy wealth than a relationship break up. In reality, it will happen to one-third of us. The question is, "What do we do to recover?"

With the help of professional advisers, and the ability to be honest with yourself, a financial future can be rebuilt after divorce.

You can ensure that you are not left to struggle in your later years just because of a relationship breakup.

These steps to post-divorce financial recovery were designed primarily with a 'female partner and two children' scenario in mind, but the same messages can be applied equally to males.

**Step one.** See the very best divorce lawyer you *can't* afford. This is a strategy which will ensure that you can come out of it in the best possible financial position – and it will be worth every cent.

**Step two.** Put away the fantasy of a white knight riding in to save your financial dilemma. It is you who must be the white knight to step up and take responsibility for your long-term plans. If someone else comes along, that's great – and so is the dream of winning the lottery.

**Step three.** Take a half day to yourself, sit down with a piece of paper with a line down the middle. On the left-hand side, write down all forms of income that are available to you – child support, social security, employment income, investment income etc. On the right-hand side, jot down your outgoings and liabilities – rent, mortgage repayments, food, school fees, car, insurances, any loans (including credit cards), telephone, Foxtel/Netflix, clothing, socialising etc.

On the reverse side, list the assets you own outright – perhaps your home, some shares, super, a car. Disregard the 'value' of household goods.

They are essentially worthless, and unless you have a Picasso, no one really wants to buy a 9-year-old couch or a fridge.

You will now have an honest snapshot of where you are, and for most of us, it will not be a pretty sight.

The liability equation will usually be far higher than the details listed on the reverse side of the page, so it is time to get advice – and make some hard decisions.

And while some people will say, "I'm ok, I have really good child support income" – remember, a lot of dead-beat ex-partners ignore their responsibilities.

They can lose their jobs or get ill – and sometimes they go to jail – therefore this arrangement may not be as reliable as you think.

After doing steps 1-3, then tackle **step four**, which is speaking with a financial counsellor or a financial planner. Be prepared to take the hard advice. In my view, there are three priorities. Looking

after your children (their health, education, being able to provide them with reasonable food and clothing), owning your home outright, and, planning for your *own* retirement.

As a single person, your retirement plan should include a goal to have a minimum of \$240,000 in super which, if correctly structured, will ensure you can also receive a full Age Pension from age 67.

In today's dollars, this will provide a tax-free income of approximately \$34,000 pa (or the equivalent of a gross income of around \$40,000 pa).

While this amount will not provide an extravagant lifestyle, if you own your own home, it can still fund a reasonable retirement. It is also higher than the most recently available ASFA Retirement Standard\* of \$27,648 (being the annual income requirement for a single person to fund a 'modest' retirement lifestyle).

If there is the prospect of a small part-time job, particularly early in retirement, tax-free income of up to \$6500 per annum can also be earned with no adverse Centrelink impact (courtesy of the Work Bonus Scheme) thus increasing your net retirement income to approximately \$41,000 pa.

This equates to an approximate gross income of \$51,000 per annum, and a much more comfortable standard of living.

It also produces a scenario which is very close to the ASFA Retirement Standard of \$43,317 (being the annual income requirement for a single person to fund a 'comfortable' retirement lifestyle).

The tough choices will be around your children and the home.

Depending on agreements and family situations, you may have to take the tough decision to change schools. The simple reality is that private schools cost a fortune and state schools cost a little.

In Sydney and Melbourne for example, funding a private education for two children can require an annual outlay \$60,000.

The decision to change schools is an obvious area for huge savings, but it is an emotional one. Speak to your children and explain why such a decision must be made.

They won't be happy, but they will survive – and perhaps become more resilient as a result.

Your home is also an area for tough decisions. The female partner and the children may often end up remaining in the marital home, but houses (along with associated rates and insurance) cost serious money to maintain.

This cost can be around \$10,000 pa even for a modest home. Then there is another question – is the property larger than you really need?

An option may be to downsize and move to a less expensive suburb or a regional area, as a means of freeing up some cash. Don't be tempted to blow it on a cruise or a business class holiday. Use it for investment, and to rebuild your financial future.

You may plan to live in the family home until your youngest child is 18. If the time is right – bearing in mind that super is not accessible until attainment of preservation age (currently 56, increasing progressively to age 60) downsizing to an apartment and making a super contribution of up to \$300,000 with the balance of the sale proceeds is a great option.

If you are over 65 and have lived in the home for more than a decade, tapping into the Downsizer Contribution can also be a tax-effective strategy.

**Step five**, don't forget to plan for your *own* retirement.

All too often, I see a female partner end up with the house while the former partner gets the family super. *Both* partners should have an equal opportunity to plan for their retirement.

Superannuation can, and often, will be split by a Family Court Order. When it comes to dividing up the family wealth, ensure that you get advice to help you make the decision that is right for you.

When it comes to your superannuation contributions, you should aim to get as much in as quickly as you can, and for as long as you can. Superannuation Guarantee (SG) contributions at the current rate 9.25 per cent of your earnings from a part-time job are not going to be enough.

To really be able to retire well, you would have needed 15 per cent of a full-time wage over a lifetime.

This means making more tough decisions.

If possible, you should aim to contribute \$25,000 per year to your super (inclusive of your employer SG) as you are most likely to be in 'catch-up' mode. This objective is, however, a stretch for most women raising children on their own.

That brings us to **step six**. You *must* draft a new will – primarily to protect your estate for your children. If it is no longer your intention to direct the proceeds of your superannuation and life insurance to your former partner, it is also imperative that you change your binding beneficiary nominations.

Finally, the penultimate **step seven**, which comes with the question, what do you do if a potential new partner arrives on the scene? The emotional side is up to you. The financial side should be secured by speaking with your lawyer and your financial planner. A pre-nuptial agreement, or if you are not married, a co-habitation agreement is vital.

And a word of warning. Do not make any private loans, or guarantee loans for anyone. Be very careful with your personal credit cards, and any joint ones, or you may risk the financial rebuild of your life.

Make sure your financial situation is well documented – then, if you enter a 'marriage-like' arrangement it will be clear what you brought to the arrangement, and on what date. Should it be necessary to untangle the finances a second time, things will be far clearer.

*\*The ASFA Retirement Standard benchmarks the annual budget needed by Australians to fund either a 'comfortable' or 'modest' standard of living in the post-work years. It is updated quarterly to reflect inflation, and provides detailed budgets of what singles and couples would need to spend to support their chosen lifestyle. The figures quoted above were the latest available at the time of writing, and relate to the December 2018 quarter.*

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