

# 7.

## What are the possible financial consequences of divorce?

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*When it comes to building wealth or avoiding poverty, a stable marriage may be your most important asset.*

—Drs. Linda J. Waite & Maggie Gallagher, noted marriage researchers<sup>274</sup>

**Overview:** Divorce is financially stressful. Researchers estimate divorcing individuals would need more than a 30% increase in income, on average, to maintain the same standard of living they had prior to their divorce. About one in five women fall into poverty as a result of divorce. Three out of four divorced mothers don't receive full payment of child support. Most men experience a loss in their standard of living in the years after a divorce, as well, a loss generally about 10%–40%, depending on circumstances. Divorce impacts communities, as well. One study estimated the average cost to Utah taxpayers of a divorce to be more than \$18,000. At about 10,000 divorces a year, that adds up to more than \$180,000,000 of taxpayer money. Another national study estimated the cost of family breakdown in the United States at more than \$100 billion a year and, in Utah, about \$276 million a year.

Previous chapters have dealt with the social and psychological impacts of divorce for children and adults. This chapter focuses on the financial impact of divorce. Understandably, this is a worry for most people at the crossroads of divorce. In our interview, “Janet” described the financial dilemma she faced at the crossroads of her eventual divorce:

*[My husband] made good money and we had a house, and so the alternative to being there with this person who disliked me was being with two little kids on my own, trying to make it, or being in a comfortable home with a person who made a decent income and who loved my children.*

Financial challenges as a result of divorce are common. The process of divorce is expensive. The income that used to support one household is split and now must support two households. All possessions, money, financial assets, and debt acquired during (and sometimes before) marriage are divided between former spouses. Researchers estimate divorcing individuals would need more than a 30% increase in income, on average, to maintain the same standard of living they had prior to their divorce.<sup>275</sup> So divorce is financially stressful, especially for poorer couples. On the other hand, researchers have learned that a stable marriage is one of the best paths to building and maintaining wealth.<sup>276</sup> We also know that women, men, and children experience the financial consequences of divorce differently.

## **A. What are the possible financial consequences of divorce for women and children?**

Most children—five out of six—live with their mothers after a divorce, so the financial effects of divorce on women and children are largely the same.<sup>277</sup> Generally, women suffer more from financial losses than men because of unequal wages for men and women and because women usually have more expenses associated with the physical custody of children after divorce.<sup>278</sup> Research has found:

- ❖ About one in five women fall into poverty as a result of divorce.<sup>279</sup>
- ❖ About one in three women who own a home and have children at home when they divorce lose their homes.<sup>280</sup>
- ❖ Three out of four divorced mothers don't receive full payment of child support.<sup>281</sup>

The financial burden is greatest during the first year after divorce and varies for each woman depending on how much money she contributed to the family income before divorce and the ability and willingness of her former husband to make support payments. If she was already earning a decent income and her husband can be relied on to make full child-support payments, then the financial stress of divorce will not be as great. But many women are not prepared financially for life as a single parent. As a result, they often need to rely on public assistance (welfare) programs to supplement their family finances. This financial support is crucial for many women, although it is still unlikely to cover all financial needs. Women at the crossroads of divorce should evaluate their financial situation carefully. Good preparation for the financial challenges of divorce is important to minimize its negative effects. You may benefit from some thinking, planning, and calculations based on the activities and questions in exercise 7.1, “Exploring the Financial Impact of Divorce,” at the end of this chapter.

One woman we know struggled after divorce when she realized it would be impossible for her to stay home with her children, which is something she really valued and enjoyed. The financial consequences of divorce showed her that it was very expensive to run two households for a family. She was not granted alimony payments to support her desire to be at home full time with her children—alimony is not as common these days.

Even with careful preparation for the financial impact of divorce, however, money problems will still be common. Research suggests that women usually don't recover fully from the financial consequences of divorce until they remarry.<sup>282</sup> (There is more information about remarriage in Chapter 4 of this guidebook.) Alimony payments are less common, but if a spouse does receive them, they stop when the paying spouse dies or the receiving spouse remarries.

## **B. What are the possible financial consequences of divorce for men?**

Some people seem to believe that men are financially better off after a divorce than they were during their marriage. Good research shows that this is a myth. Because most families now have two incomes, most men experience a loss in their standard of living in the years after a divorce, a loss generally between 10%–40%, depending on circumstances.<sup>283</sup> Two factors contribute

It is a myth that men are financially better off after a divorce.

to this financial loss. First, if his ex-wife contributed a substantial income to the family, he will struggle to make up for this lost second income. Second, he is likely to be required to make child-support and other payments.<sup>284</sup> This comes on top of having to pay for a separate home or apartment. In addition, if a father has custody or shares custody of his children, there will be additional expenses.

Similar to women, how much men lose financially from divorce varies depending on the amount of money he contributed to the family's income. Men who provided less than 80% of a family's income before divorce suffer more financially from divorce. This is the case for most men nowadays. Men who provided more than 80% of a family's income before a divorce do not suffer as much financial loss, and may even improve their financial situation somewhat.<sup>285</sup>

One man we know who was divorced three times was underemployed and felt the financial burden of paying child support to all three families. Most of his paycheck was garnished (taken directly from his check before it got to him) by the state's Office of Recovery Services. He could barely live on the remaining amount and was angry that he had no control over how much child support he could pay since the amount is determined by a preset formula that often does not take account of special circumstances.

You may benefit from doing exercise 7.1, "Exploring the Financial Consequences of Divorce," at the end of the chapter, to get a better idea of how divorce would affect you. Of course, if you are able to repair your marriage rather than divorce, you will likely be better off financially in both the short and long run.

## C. What is the financial impact of divorce on communities and taxpayers?

Women and men at the crossroads of divorce have a lot of financial issues to think about. It's understandable that they are focused on their personal financial concerns. But divorce is more than a personal issue; it is also a very public issue. This may be hard for individuals at the crossroads of divorce to remember. Divorce is one of the most common ways that people, especially women and children, fall into poverty.<sup>286</sup> When people fall into poverty, they usually take advantage of government programs, services, and supports, all paid for with taxes. In addition, children from divorced homes are more likely to get involved in deviant behavior and crime, which cost governments a great deal of taxpayer money.<sup>287</sup> Also, there are more long-term, hard-to-quantify financial impacts on society. Children from divorced homes struggle more in school and are less likely to be able to go to college.<sup>288</sup> Our economy depends more and more on a well-educated workforce. And of course, personal incomes increase with education.

Utah State University researchers estimated that the average cost to Utah taxpayers of a divorce is more than \$18,000. At about 10,000 divorces a year, that adds up to more than \$180,000,000 of taxpayer money each year. And this doesn't count an even bigger public tab picked up by the federal government (and paid for by federal taxes).<sup>289</sup> An even more rigorous, national study conservatively estimated the cost of divorce and unwed childbearing in Utah to be \$276 million a year. Nationwide the cost to taxpayers each year was \$112 billion.<sup>290</sup>

Divorce is sometimes necessary. And a free and just society recognizes this necessity and compassionately provides some financial help to those negatively affected by divorce. But we should also recognize that society takes on a heavy financial burden when marriages fail. Marriage and divorce are public issues as well as private concerns.<sup>291</sup> The success and failure of our marriages have consequences beyond our personal lives. Individuals at the crossroads of divorce help not just themselves and their families but their neighborhoods, communities, and nation when they are able to repair their relationships and establish a healthy, stable marriage.

## Exercises for Chapter 7

### 7.1: Exploring the Financial Impact of Divorce.

Dividing the family finances when a couple divorces can be much more complicated and stressful than people often realize, even if you and your spouse can be cooperative and civil. It takes a lot of time and detailed work to separate your financial lives. This exercise encourages you to detail your family finances and think more about what effect divorce will have.

**A. EMPLOYMENT DETAILS.** List employment details for yourself and your spouse.

Your Employer:	Your Job Title:
Your Gross Annual Income:	Your Gross Monthly Income:
Your Net Monthly Income:	Your Other Income (pensions, rents, child support, second job, etc.):
Spouse's Employer:	Spouse's Job Title:
Spouse's Gross Annual Income:	Spouse's Gross Monthly Income:
Spouse's Net Monthly Income:	Spouse's Other Income (pensions, rents, child support, second job, etc.):

**B. FINANCIAL ASSETS.** List property and automobiles and fill in the information requested.

Real Property (homes, land, etc.):
Property #1 (list):
Address:
Date of Purchase:
Purchase Price:
Down Payment:
Source of Down Payment:
Owing Balance on First Mortgage:
Owing Balance on Second Mortgage:
Current Appraisal Value:
Monthly Payment:
Title Held By:
Equity:
Lot Description (Must have this for legal paperwork.):
Property #2 (list):
Address:
Date of Purchase:
Purchase Price:
Down Payment:
Source of Down Payment:

Owing Balance on First Mortgage:
Owing Balance on Second Mortgage:
Current Appraisal Value:
Monthly Payment:
Title Held By:
Equity:
Lot Description (Must have this for legal paperwork.):
Do you have property that you will inherit? Value?
Do you have timeshare property? Value?
Automobiles, Recreational Vehicles, etc.
Vehicle #1
Year:
Model and Make:
Title Held By:
Balance Owed:
Monthly Payment:
Current Bluebook Value:
Equity:
Present Possession:
Vehicle #2
Year:
Model and Make:
Title Held By:
Balance Owed:
Monthly Payment:
Current Bluebook Value:
Equity:
Present Possession:
Vehicle #3
Year:
Model and Make:
Title Held By:
Balance Owed:

Monthly Payment:
Current Bluebook Value:
Equity:
Present Possession:

**C. PERSONAL PROPERTY.** List your valuable personal property items (e.g., jewelry, computer), their financial worth, and any money you may owe on that item.

PERSONAL PROPERTY	
ITEM: WORTH: BALANCE OWING:	ITEM: WORTH: BALANCE OWING:
ITEM: WORTH: BALANCE OWING:	ITEM: WORTH: BALANCE OWING:
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**D. FINANCIAL ACCOUNTS.** List your (and your spouse's) financial accounts, including checking, savings, retirement, stocks, etc.

CHECKING ACCOUNT AMOUNT:	SAVINGS ACCOUNT AMOUNT:
PENSION #1 WORTH:	PENSION #2 WORTH:
401K #1 WORTH:	401K #2 WORTH:
STOCK 1: CURRENT VALUE:	STOCK 2: CURRENT VALUE:





**F. ANTICIPATED MONTHLY EXPENSES AFTER THE DIVORCE.** Do

some financial planning about how you will meet your monthly financial expenses if you divorce. Estimate the amount for each expense (if it applies to your situation). Then add up the expenses. Finally, try to estimate your anticipated monthly income. Then compare your expenses to your income.

MONTHLY EXPENSES	ESTIMATED \$	COMMENTS
Mortgage/Rent		
Property Tax		
House/Rental Insurance		
Food/Household Supplies		
Utilities		
Clothing		
Uninsured Medical Expenses		
Uninsured Dental Expenses		
Child Care		
Health Insurance Premiums		
Education Expenses		
Automobile Loan Payment		
Automobile Gas, Maintenance, Insurance		
Donations to Church and other Charities		
Entertainment funds		
Misc. for Children:		
Other: Retirement Savings (401k, employer pension plan, IRA)		
Other:		
Other:		
<b>TOTAL EXPENSES:</b>		
<b>MONTHLY INCOME</b>		
Employment		
Interest income		
Support payments from spouse		
Other income:		
Other income:		
<b>TOTAL INCOME:</b>		
<b>DIFFERENCE (INCOME–EXPENSES):</b>		

**G. THINKING AHEAD FINANCIALLY.** It has probably taken a lot of time and effort to fill out the information in the forms above. But if you have done this, you are in a better position to answer the following questions that are important to consider when you are considering divorce. Review some of your calculations above and try your best to answer honestly the following questions.<sup>292</sup> Some of the questions may not be applicable to your situation.

1. Do you have adequate money saved that would support yourself and your children after the divorce, especially in the first few years when money can be extra tight?

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2. Do you have home furnishings, a car, and other possessions you will need after the divorce, or will you need to purchase them?

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3. Have you paid off your debt as much as possible? How much debt will be assigned to you after the divorce?

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4. Who will count the children as withholding exemptions for income tax purposes? Often, the exemption is alternated yearly between mother and father.

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5. Also for federal (and some state) tax purposes, the custodial parent should claim the Earned Income Tax Credit (EITC) for heads of household with dependents. See the instructions to Form 1040 about dependents, withholding exemptions, support as it relates to custody arrangements, and the EITC.

6. Do you have adequate education or training necessary to provide for your children and yourself after the divorce? If not, how will you get that education or training?

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7. Will you need and can you afford childcare if you have to go to work full time after the divorce?

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8. Will your work provide healthcare benefits for yourself and your children? Will your spouse's work cover health benefits for your children if they don't live with him/her?

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9. Does your work provide pension/retirement plans or can you invest for retirement as an individual? In order to receive half the value of your ex-spouse's retirement accounts (based on the years when you were married) at the time of his or her retirement, you may need to provide a form called a QUADRO (Qualified Domestic Relations Order) to the administrator of each of your ex-spouse's retirement accounts at the time of the divorce. You will need an experienced lawyer's help with this.

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10. If you don't have all the things you will need to provide for yourself and your children after the divorce, how long will it take you to get them, and how will you get them?

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11. Is it possible that you and your ex-spouse could set up college savings funds for your children, so they will not be disadvantaged by the divorce, but still receive help with college? If possible, try to make this payment a part of the final divorce decree, separate from child support payments.

12. It is difficult to maintain your financial lifestyle after divorce. What are some things that you could give up to save money?

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13. There are many other smaller family expenses that we sometimes forget about, such as lessons for piano, ballet, karate, etc., extra-curricular school activity fees (e.g., sports, choir, etc.), summer camp, scouting, and many more. How would you cover these kinds of more minor expenses (but important expenses for your children)?

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**H. WHAT DOES ALL THIS MEAN?** Now, having considered all these things, what do you think about the possible financial consequences of a divorce? Are you optimistic that you can make things work? Are you concerned? Why? Write down your thoughts and feelings:

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