MASECO
PRIVATE WEALTH

A financial roadmap for managing divorce

StepppingTowardsANewLife Series

Preparing for your new future after your divorce

At last, your divorce has been finalised. The moment can carry a mix of emotions – from euphoria to melancholy. It certainly is a turning point. The years of wrangling are over and now you have important financial and personal decisions to make.

In this series, **Stepping Towards A New Life**, we have tried to help eople going through a divorce anticipate financial challenges they will face during the divorce process. This final piece confronts the responsibilities that come with financial independence.

What does financial independence really mean?

"Not being beholden to anyone else and not being a burden on anybody else, including your ex-spouse," says Rory Dorman, MASECO Private Wealth. As Thomas Jefferson once wrote: The price of liberty is eternal vigilance. "At this point it's very easy to make bad decisions because, suddenly, you have five million pounds in the bank. It seems like all the money in the world." There is nothing wrong with enjoying a weekend splurge to commemorate the final divorce decree. But that shouldn't launch a lifestyle of splurges – that would lead to economic disaster.

Throughout this series, we have urged thoe going through a divorce to take an active role in managing their finances, to gain, if not fluency, at least a working knowledge in the language of money. Your financial independence hinges on your ability to choose well now. It is about working out how you live the rest of your life; living within a budget, and knowing where your wealth is going. It is about sustainability and adjustment and the ho-hum management of day-to-day life.

Developing a financial plan for the future

A financial plan is a bit like a recipe – you need to consider the ingredients at hand and your desired outcome. Professional financial planners like to say that they "interrogate" assets and liabilities. What do you own? Are your assets income producing? How much income can they produce now and into the future? Are some assets liable to higher tax rates than others? The next

logical questions then become how much you currently spend and how much you see yourself spending in the next five, ten or even thirty years. Now is the time to review your budget and consider scenarios that match your family needs and values:

- If I buy the five-bedroom house I want, will I be satisfied with just two annual trips to visit grandkids in the U.S. rather than three?
- If I continue to be a full-time parent, what will I need to sacrifice? The personal trainer? The car service?
- What will I gain if I downsize? If I return to the workforce?

Creating the right framework for your investments

It starts with asking the right questions about your short-term and long-term goals. If the kids will be in the house for only another five years, should you rent a large house and then buy a smaller one when they leave? In that instance, your investment portfolio would need to produce enough income to pay rent for five years and then provide you with the resources to buy a home later. "The investment decisions become almost cause and effect. If I want to do this, then I need to do that. It creates a framework for advice," says MASECO's Dorman. When clients are engaged in the process, they feel comfortable making key strategic judgments.

You may have more sources of income than you realise

Even those who receive large cash settlements in divorce worry about how they will manage going forward. At some point, almost everyone worries they will become penniless.

The fear is so widespread that there is even a name for it – Bag Lady Syndrome. The best way to counter this fear is to understand all possible sources of income and to stick to a plan. You have three main sources for cash:

» Investment income from a lump sum settlement
» Social Security/National Insurance
» Employment

Although the size of the settlement may outweigh anything you receive from Social Security or even from a job, do not underestimate the power of the second two sources of income to materially affect your lifestyle.

Many people consider a return to the workplace. But they hesitate, especially if their earning powers seem minuscule when compared to their ex-spouse's. But the payoff can be bigger than you think. The relatively low-paying job could suddenly make possible an extra trip to see friends in far-flung spots or mean an extra week's vacation rental for the extended family. Similarly, those monthly cheques from the government during the retirement years could fund weekly lunches with friends or subscription to the theatre – activities that enrich life.

Risk and reward: Getting the balance right and sleeping at night

Investing is all about risk: How much, for how long, and when. The relationship between risk and reward is immutable. No matter what anyone may say to you, higher returns signal higher risk in a portfolio. Moving forward entails risk; a risk-free life will leave you with very little in return. But how much risk is right for you? Financial planners will offer different ways for you to assess your risk tolerance. Which scenario makes you feel that you will be able to sleep well at night? Which scenario will enable you to feel that you are okay even if the stock market blows up again? "Under any scenario, investments could perform better or less well. What's nice for a newly independent man or woman is to know that there is a plan that accounts for the bumps in the road. If something temporarily goes wrong, at least they will know that in the long run they will be okay," says Dorman of MASECO. And that's the goal of long-term financial planning and the true path to independence.

Risk Warnings and Important Information

The above article does not take into account the specific goals or requirements of individual users. You should carefully consider the suitability of any strategies along with your financial situation prior to making any decisions on an appropriate strategy. You should remember that the value of an investment and the income from it could go down as well as up. The return at the end of the investment period is not guaranteed and you may get back less than you originally invested.

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