



Re-adjusting Finances after Divorce

EXTENSION

February 2024

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Divorce brings about troublesome and emotional changes to a person's life. Changes to place of residence, child custody and visitation, the division of assets and debt and living on less money can take its toll on a divorcing person's emotional and physical health. For some, the adjustment to financial changes may be difficult.

One of the most important things a divorcing or divorced person needs to do is re-adjust their finances. Whether married or divorced, everyone should have a budget, pay off debt, save for emergencies, be aware of their credit reports and scores, keep adequate insurance and set (new) financial goals. However, the changes to a divorced person's finances and emotional state may cause them to feel hopeless, and they fail to make the adjustments the situation demands.

Divorce Brings Change

In most cases, the divorced person will be living on less money. If they were part of a dual-income couple, there will now only be one salary to work with instead of two. In the case of a one-income household, the non-working person may have to get a job, since divorce settlements award alimony less frequently now than in the past. This may add child care expenses for the newly working parent and adjustments for pre-school and younger school-aged children. If children are involved, the non-custodial parent will most likely have to pay child support. In addition, setting up another household for the person who moves from the family home will add new expenses. In many cases, both spouses move from the home to establish two less-expensive households.

Divorce Adds Expenses

Added expenses during and after a divorce might include the legal fees of the divorce, child support or alimony required by the court, setting up a new household with additional rent or house payments, utilities, deposits, additional travel expenses to visit children and child care expenses, among others.

The actual expense of lawyers, court fees and other associated expenses of a divorce can add to the monthly expenses. According to Forbes Magazine (Forbes.com), the

Suggested Actions for People Getting Divorced

- Separate all joint financial accounts.
- Create a budget that reflects new financial obligations.
- If necessary, seek additional income or cut expenses and apply for financial assistance from agencies where you qualify.
- Review beneficiaries of bank and retirement accounts and insurance policies.
- Seek the advice of an attorney if you have co-signed a loan.
- Check the credit report and take steps to correct any errors.
- If you have no credit history, establish one by applying for a secured (prepaid) credit card.
- Have adequate insurance.
- Set new financial goals.
- Avoid credit problems by paying bills on time and contacting the creditor if you can't.
- Seek more financial education if necessary.

national average cost of divorce was approximately \$15,000 in 2019, although the cost can vary greatly. Some variables to the cost are whether the divorce is contested, if the lawyer charges an hourly rate versus a retainer fee, the location and local filing fees, child custody and a child custody evaluation, alimony and if mediation is used. The more the divorcing

Revised from a fact sheet prepared by Cindy Clampet.

couple can agree on the divorce issues, the less the divorce will cost. If the divorcing couple wants to minimize the cost of the divorce, they can ask their attorneys about cost-cutting practices. The judge may direct one of the spouses to pay for the entire divorce or each of the divorcing persons might pay a portion of the expense. Unless paid for up-front, the expenses of the divorce will need to be added to the monthly budget.

Importance of Budgeting

The divorcing person should take stock of their financial situation. Make a list of all income and all expenses—this will serve as a starting budget. Be sure to include debt (including the divorce debt), child support, alimony, emergency savings and expenses related to setting up a new household in addition to the standard monthly bills. In a “zero-based budget,” all income is designated to a category so all money is accounted for, including savings, entertainment and dining out.

Monthly bills can vary according to the time of the year, the weather and a person’s lifestyle. Setting up a “reserve account” can help people save money for periodic expenses



Figure 1. Divorcing person should take stock of their financial situation.

such as insurance, vacations, a higher-than-normal electric bill, back-to-school shopping or gifts. Estimate the amount of money needed for each of those periodic expenses and divide by 12. Deposit that amount of money into a reserve account so you can pay cash for those expenses when the time comes.

Some divorcing people will find their expenses exceed their income. In this case, there are two key solutions: find more income or trim expenses. That person could ask for extra hours at work, try to find a higher paying job or take a second job. They could look at ways to turn a hobby or skill into money by offering that skill to others.

Trimming expenses can usually be done. Selling expensive items and replacing with less expensive items can help lower costs if needed. (for example: selling an expensive car and purchasing an inexpensive car can save on the monthly payment, the insurance, the gas and maintenance). Carefully look at all expenditures and only buy what is essential. Avoid fees associated with bank or credit cards, quit clubs in which you no longer participate, cancel unused subscriptions, unplug appliances (toaster, TV, microwave) and set the thermostat to an energy-saving setting to save money. Another way to trim expenses is to share housing and expenses (e.g. electricity, water, trash service) with a roommate. Limiting meals out, taking fewer trips to the salon or barber, choosing low-cost or free entertainment choices and going with basic phone and

cable service also can save money.

If there is not enough money for the essentials of life, a person might check with their local Department of Human Services to see if they qualify for TANF or SNAP, Medicaid or other government benefits. Local agencies sometimes have food sources such as emergency food banks that can be used if a person qualifies. Do not hesitate to seek help.

Separate Financial Accounts

If the divorcing couple had joint banking accounts, those accounts will need to be closed and the balances divided according to the divorce decree. New individual accounts should be set up in the newly single person’s name. A newly divorced person should be sure to have a savings account for emergencies and a retirement fund. If a spouse’s retirement fund, such as a 401k is part of the divorce decree, that money will likely have to be placed in a similar account to avoid tax implications. If this is the case, the person should consult an attorney, financial planner or banker who can give them the best advice.

Any debt in the couple’s marriage will likely be divided or assigned to one of the divorcing people. That person needs to plan to pay off the debt. The debt payment should be included in the monthly budget. It is important to remember that a loan agreement with a bank or other credit provider overrides the divorce decree—even if awarded to one spouse. If it is a joint account, both are still equally responsible until the debt is re-financed or paid off.

An important factor to remember is “forgotten-about” possible debt. An example of this would be if the couple co-signed a loan to a friend or family member. If the person who took out the loan defaults, the lender will come after both of the co-signers for payment and the delinquency will show up on both credit reports. Even if it was not your nephew you co-signed for, but your spouse’s, you will still owe the money. Consult your attorney if there are any co-signer situations.

Close joint debt accounts. A divorcing person would not want to be surprised by a credit card bill for things they did not purchase. In most cases, the accounts will need to be paid off to close them, but the person assigned by the divorce decree to be responsible can usually get the account frozen so that no more debt can be added. Contact the credit card company and explain the situation — they can help.

Avoid New Debt and Monitor Credit Reports

Until the divorced person is well established as single and has their budget under control, they should avoid taking on new debt. New debt can lower a person’s credit score, which may be checked when applying for a new job, new housing or new utilities.

The divorced person should check their credit reports regularly and attempt to raise a poor credit score. The credit report itself is used to calculate the credit score, which is used to determine interest rates, deposits and fees that might be charged on new credit or even if new credit will be offered. Improve a poor credit score by:

1. Making sure to make all payments on time and do not exceed the credit limit;
2. Keeping balances on credit cards low and make progress towards getting them paid in full;

3. Keeping an older account open rather than closing it and opening a new one. A good credit report will provide better interest rates on credit and fewer or lower deposits for housing and utilities.

A newly divorced person with no credit history should attempt to establish credit as soon as possible, if not before the divorce. A person with a banking history but no credit history might ask their banker for a letter of recommendation to be sent to a credit card company when applying for a credit card. Taking out a small loan with a local financial institution, making the payments on time and quickly paying the loan off can help establish a credit history. Obtaining a secured credit card is faster and can be done with as little as \$300. Make sure the lender is reporting to a credit reporting agency.

A person can check his or her credit report for free once a year from each of three credit-reporting agencies by visiting annualcreditreport.com. By staggering the requests, a person can get three reports a year and check on credit usage across the year. Look for mistakes on the report. Dispute any mistakes and ask for them to be corrected. To report mistakes in your credit report, first gather the information and proof you have of the error. Download a dispute letter template from cfpb.gov/askcfpb/1303. Mail the dispute letter to the credit reporting company and the company (the creditor) that provided the information you think is wrong. Include copies (not originals) of the documentation you have and the credit report with the error highlighted or circled.

Protect Assets

The divorced person should be sure they are adequately insured but not over-insured. Health insurance, life insurance, homeowners or renter's insurance and car insurance are expenses sometimes forgotten in setting up a budget, but all are important. Take a hard look at all insurance policies and compare them to other companies; you might get a better rate. The divorcing person should check the beneficiary listed on any existing policies. If the former spouse is listed as a beneficiary, is that still the person they intend to list as the beneficiary? If not, the listed beneficiary needs to be changed. Also, check retirement accounts such as 401k, Social Security and any bank accounts for possible beneficiary changes.

Set New Goals

If the divorced person has taken care of all the above recommendations, they might want to start planning for life as a single person. They may have some new short- or medium-term financial goals. Travel, education, the purchase of a new car or house are large goals that will need some planning and saving to accomplish. It is important to think about long-term goals as well. Children's education, a wedding or starting a business someday will require planning. To plan for these large future expenses, do some research on the typical costs. Think about how long you have to save for that event. Divide the number of months until the event into the typical cost to find the amount of money you would need to save monthly for

that event. If the amount needed is unreasonable, lengthen the amount of time you have to save or lower the amount of money you are willing to spend on the event.

Avoid Problems

It is important to remember that anytime a person cannot pay a bill or make a payment, they should contact the lender as soon as possible. Explain the situation. A little help may be available, but ignoring the situation will only make it worse. If there are several bills that cannot be paid, prioritize those bills and pay the most important ones first. For example, there are certain things that a person must have to keep a job such as transportation, child care or tools. To keep a roof over your head, rent or mortgage, property taxes and utilities must be paid. Various kinds of insurance are needed for protection of health, assets and liability, and in most states, car insurance is required or a person might lose their driver's license. Court ordered obligations such as child support or other fines must be paid or the person might be jailed. It may take some juggling to handle all these bills if a person is short on income, but prioritizing them will help them keep what is most important.

For more Help

If a divorcing person needs further financial education, a good place to start is to contact the local Extension office in your county. Many offices offer financial education free of charge. If a person is already in financial trouble, they might contact a non-profit credit-counseling agency. A non-profit agency will charge lower fees than a for-profit agency. Non-profits won't try to sell you a product. To find out more about non-profit credit counselors, visit consumerfinance.gov/nfcc.org or use the Internet to search for a non-profit credit counselor in your area. If you are being sued or may be in danger of foreclosure, you can check your state's legal aid directory at cfpb.gov/askcfpb/1549 or call the Homeowner's HOPE Hotline at 888.995.HOPE.

Divorce is a trying situation filled with emotion and worry. It is a time when individuals can make sure they are making the best decisions for the future by planning ahead, protecting themselves and their assets, and moving forward with a clear purpose. Knowing potential issues and available resources can help determine the best path.

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Issued in furtherance of Cooperative Extension work, acts of May 8 and June 30, 1914, in cooperation with the U.S. Department of Agriculture, Director of Oklahoma Cooperative Extension Service, Oklahoma State University, Stillwater, Oklahoma. This publication is printed and issued by Oklahoma State University as authorized by the Vice President for Agricultural Programs and has been prepared and distributed at a cost of 20 cents per copy. February 2024 AM.