divorce matters

Managing income and expenses

Divorce creates many kinds of stress for all those involved. Potential exists for serious financial stress. Even when resources are adequate, and especially when they are limited, careful planning can enable individuals to make the best of their financial situation and avoid costly errors as they move forward after divorce.

Change

During any time of change, families can best stay in control of their finances through careful planning and tracking. This principle certainly applies to divorce situations, which usually involve many changes — in household composition, in income, sometimes in moving to different housing, work, or school.

To be as satisfied as possible within the new financial situation, it is important to **assess values, goals, and priorities carefully**. In fact, because adjustments continue to occur over time during and after divorce, it will be important to continue to review the established goals and priorities on a regular basis.

Individuals cannot be satisfied with where their money is going unless they are spending it in ways that match their highest priorities. What was important during the marriage now may be less important.

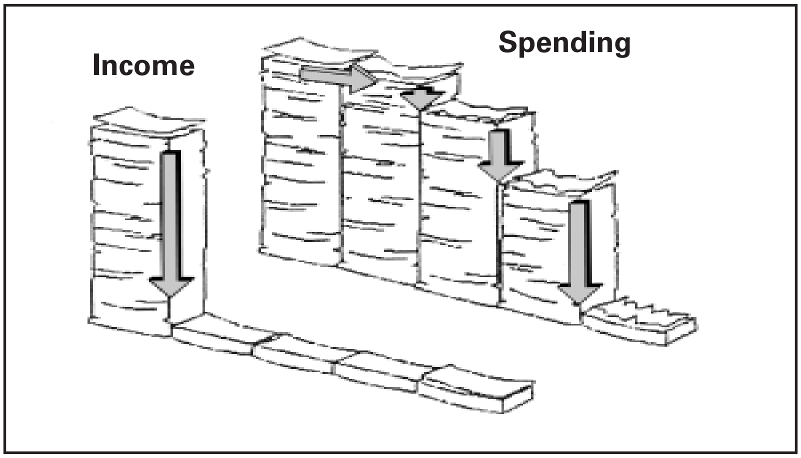

Figure 1. Comparison of Income and Spending Decreases

Income-expense gap

Because it takes more money to operate two households than one, it is usually a challenge to keep expenses within income following a divorce. Income may decrease suddenly, and it is important to adjust spending as quickly as possible (see Figure 1). For some people change is difficult; they want to keep things the same as they have always been. People who more quickly change their spending or consider different options are usually more satisfied with the adjustments they need to make.

To stay in control of finances, start with a written budget or **spending plan**. Since most bills come once a month, it makes sense to look at income and expenses month by month. (See the box below and the worksheet on page 4 for help in budget preparation.)

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For many people, the budget stays about the same from month to month. However, income and expenses can change dramatically throughout the divorce, so it is wise to ***review and adjust your spending plan carefully at least once each month.***

Budget basics

First, you need to write down how much income you can expect and when you can expect it.

Tips: Begin with only the income you can count on. (Later, you can write down what you will do with any additional income you receive.)

Next, write down your expenses. Start with those that are regular bills each month; then write down the amounts you spend on flexible expenses (food, fun, household items, gas, etc.).

Tips: Spend some time as you write your expenses, so you can come up with a complete list. Expenses will be different during and after divorce than they were before. Make your best realistic estimate of what your expenses might be. If you have records of past spending patterns, use them to help form your estimates.

Don't forget:

1) Include some savings, even if only a little. Without some savings, every small problem can become a major emergency.
2) Plan for irregular expenses. These are the expenses that don't occur every month, such as car insurance that is due twice a year, back-to-school costs, holiday costs, memberships or subscriptions.

Balance income and expenses. When you add up your income and your expenses, they probably will not match. You'll need to increase one side or decrease the other. When income is too low for expenses, the choices can be tough. But they will be your choices. (See worksheet on page 4.)

Several types of **one-time expenses** may be incurred during a divorce process, including legal fees, moving expenses, utility service connection charges and deposits, additional home furnishings, or equipment. It is critical to include these one-time expenses in your plan. If possible, plan to cover those expenses from savings or current income. If that is not possible, carefully examine low-cost options for borrowing or making installment payments.

As you make your budget, remember to plan for short-term or long-term **goals** that are important to you. Whether your goal is a college education or a short family vacation, saving is usually the most effective way to reach the goal.

It is always wise to **include all family members in spending plan discussions** and to make the plan reflect family members' needs and priorities as much as possible. If family members understand and have a voice in the tough choices that must be made, they will be more willing to act within the plan.

Follow the plan

A plan is useless if it isn't followed. Track your spending to make sure you follow your plan. Pay close attention to how well your actual spending matches your plan. Because you are in a new financial situation, you will undoubtedly discover spending categories in which your first estimates were incorrect. By catching those quickly, you can ***adjust your plans.*** The choices may be difficult, but you will be happier with the results if you ***make choices*** instead of simply allowing chance to determine where your money goes.

Get everyone in the family involved and ask these questions:

- Can we substitute a less costly item?
- How can we conserve what we have and avoid waste?
- Are there opportunities to cooperate with others by trading or sharing what we can do or learn to do?
- Can we save if we do it ourselves?
- Can we do without or do it less often?

Financial security

When a household has only one wage-earner, it takes greater effort to establish a level of financial security. Along with changing spending patterns to fit available income, decisions in three other areas will affect financial security.

An **emergency savings fund** may be used for such minor emergencies as car repair or medical bills, but its main purpose is to protect against the ultimate emergency: loss of income. The ideal emergency fund provides enough money to cover household expenses for three to six months. If you are starting from scratch, it may take years to build an emergency fund to that level, but it still pays to start gradually building that savings cushion. Every dollar saved is a dollar that keeps you more than "a paycheck away" from financial disaster.

Insurance — health, auto, homeowner's/renter's, and life insurance — is a second important component of financial security. You may need to work with your former spouse to ensure continued health insurance coverage for children. In addition, if you were covered under your spouse's employer-sponsored health insurance, in most cases federal law allows you to continue coverage (at your own expense) for up to 36 months.

Besides considering life insurance for yourself, you also may want life insurance coverage on your former spouse if he or she contributes support for you or your children. Consult with a legal or financial professional to determine the ownership of policies as well as beneficiary designations.

An often-forgotten type of insurance that is critical to single wage-earners is **disability insurance.** If a disability made you unable to work, either temporarily or permanently, disability insurance would replace part of your income. Find out what type of disability insurance is available through your employer, or explore other options for coverage. Making sure that your former spouse is covered by a disability policy may be important protection if you or your children are counting on income support from him or her.

Decisions about **credit** also affect your financial security. Credit is a valuable resource; it is wise to make sure you can obtain credit if you need it. Some ways to ensure your access to credit — have credit in your own name, pay your bills on time, and avoid taking on more debt than you can reasonably handle.

As you build a new life during and after a divorce, you will find that taking control of your income and expenses will pay off financially. It also will help you build self-confidence, feel secure, and be proud of the decisions you are making. By keeping financial stress to a minimum, you can give energy and attention to other important areas of your life.

Balancing income and expenses

	Before Divorce	During Divorce	After Divorce	
Step 1 — Your monthly income (take-home)*				
Salary, wages	$ ____	$ ____	$ ____	
Unemployment compensation	$ ____	$ ____	$ ____	
Child support	$ ____	$ ____	$ ____	
FIP	$ ____	$ ____	$ ____	
Food stamps	$ ____	$ ____	$ ____	
Spousal maintenance	$ ____	$ ____	$ ____	
Other	$ ____	$ ____	$ ____	
A. Total monthly income	$ ____	$ ____	$ ____	(A)
Step 2 — Monthly expenses				
Housing (mortgage or rent)	$ ____	$ ____	$ ____	
Utilities (electric, gas, phone, etc.)	$ ____	$ ____	$ ____	
Food (at home and away)	$ ____	$ ____	$ ____	
Transportation (gas, car repairs)	$ ____	$ ____	$ ____	
Medical care (doctor, dentist, hospital, prescriptions)	$ ____	$ ____	$ ____	
Credit payments (loans, credit cards)	$ ____	$ ____	$ ____	
Insurance (life, health, disability, car, property, house)	$ ____	$ ____	$ ____	
Household operations and maintenance (repairs, cleaning, laundry supplies, etc.)	$ ____	$ ____	$ ____	
Clothing and personal care (clothes, laundry, toiletries, etc.)	$ ____	$ ____	$ ____	
Child care	$ ____	$ ____	$ ____	
Education and recreation	$ ____	$ ____	$ ____	
Miscellaneous (gifts, allowances)	$ ____	$ ____	$ ____	
Funds set aside for seasonal and occasional expenses	$ ____	$ ____	$ ____	
B. Total monthly expenses	$ ____	$ ____	$ ____	(B)

Step 3 — Balance income and expenses

Total monthly income (A) $________ = $ ________ *Total monthly expenses (B)*

*Because most bills are monthly, it's easiest to look at income and expenses on a monthly basis. Multiply weekly income by 4.33 and bi-weekly income by 2.17 to convert them to monthly amounts.

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