MASECO

Stepping Towards A New Life

A financial roadmap for managing divorce

About Stepping Towards A New Life

Divorce has become an unhappy fact for many couples in the UK. Given that people become vulnerable to loss of income during a divorce, MASECO Private Wealth has put together a financial roadmap for those going through a divorce.

Funding a divorce is often a primary concern throughout the proceedings. Steps on how to prioritise financially, manage the household budget, and gain financial independence for the future can be found in the following Whitepaper, **Stepping Towards A New Life.**

Stepping Towards A New Life

- Introduction
- Step 1: Funding a new divorce
- Step 2: Living through a divorce
- Step 3: A good divorce
- Step 4: Financial independence

Divorce has become an unhappy fact for many couples in the UK – approximately 42% of all marriages break apart. The typical divorcées are 40ish, tied the knot more than ten years ago, and are generally parents.[1]

For those who have chosen to give up their professional careers to care for their children and spouses, divorce poses singular financial and emotional challenges. Over the years, MASECO Private Wealth has advised a number of people in this situation, helping them to manage the financial side of a process that can often take years to settle. Everyone's story is unique. But when it comes to wealth planning, the stories share commonalities: many are scared. Some don't know much about their assets – where they are and in whose name. Their spouse holds the power of the purse. We regularly hear these kinds of questions:

- How do I find the funds to pay for a lawyer?
- How will I handle emergency repairs on the family home?
- Will I be able to pay for the things that matter most to me:
  - i. Clothes and essentials for the kids?
  - ii. The annual family gathering or the weekly lunch with close friends?

Each step in the series provides the necessary information for getting through and past this difficult time.

Both men and women can be vulnerable to loss of income during a divorce. Then, they may suddenly find themselves with a lump sum settlement. In **Stepping Towards A New Life,** we at MASECO Private Wealth hope to enable those going through a divorce to make well-informed choices about their finances so they can maintain the relationships they hold dear.

MASECO is neither a tax adviser nor a lawyer and you should consult specialists in this area before making a decision on your own individual needs.

This **Stepping Towards A New Life** whitepaper covers four critical steps:

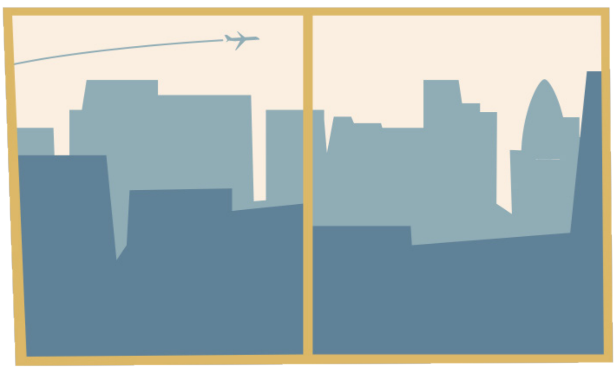
Step 1: Funding your divorce – Establishing priorities and planning ahead

Step 2: Living through a divorce – Tips on managing the household budget

Step 3: A good divorce – A common-sense guide to dividing the family assets

Step 4: Financial independence – Preparing for your new future after your divorce

[1] Divorces in England and Wales, 2012 - Office of National Statistics



Funding a divorce

Funding a divorce can be a challenge for people who are newly separated. In this part of **Stepping Towards A New Life,** MASECO Private Wealth offers practical tips on financial issues that both men and women typically encounter in the early days of divorce proceedings. The first step is ensuring you have adequate resources for a lawyer. In the UK, lawyers (solicitors) nearly always require upfront payment of some sort. They generally never wait to be paid after a settlement, as this can often be two or three years down the road. This immediate need for payment can be a nasty surprise.

"In situations where just one party is running the household and managing the children but not "earning" necessarily and are therefore, for want of a better term, "not the breadwinner", if the "breadwinner cuts off funds, it's a very emotionally challenging time," says Rory Dorman, MASECO Private Wealth. Suddenly becoming solely responsible for the family's daily expenses can be a nightmare.

- How do you feed the family?
- How do you clothe the family?
- How do you pay the bills?
- Where will you find the extra cash for the children's weekly piano lessons?
- What about luxuries like your gym membership?

"Ensuring that you've got enough financial fire power to live, to fund your lifestyle and, very importantly at this time, to fund legal bills during a divorce, needs to be squared away right at the get-go so that you can make important decisions from a place of strength, not duress," Dorman advises.

Take control

Take control and work out your expenses. Divide expenses into different categories, for example:

Immutable expenses that are fairly predictable – your mortgage or children's tuition, insurance, legal bills etc. Another category might include items that are the glue of your life: hobbies, charities, family vacations, children's activities. The third category could be a catch-all for emergencies, like a medical crisis, a major household repair; even a new muffler for the car. Here is what your expense categories might look like:

Health & Home

- Mortgage
- Car
- Tuition
- Food & Clothing
- Household help
- Professional services
- Taxes
- Insurance
- Utilities

Emergencies

- Repairs
- Medical
- Divorce fees

My Community

- Memberships
- Charities
- Celebrations
- Hobbies/culture
- Children's activities
- Socialising
- Vacations
- Personal care

Set your priorities

Set your priorities and estimate the costs to the best of your ability. This is important in terms of both making your claim for assets during the divorce proceedings and for determining how much money you may need to borrow until/if there is a settlement. As you go through this exercise, ask yourself: What holds your core together? There is no right or wrong answer about what you find important.

Track your finances

Establish a system for tracking your money. An accountant or financial adviser can help with this. But generally, people who take on this responsibility if they are not doing it already, are better at sticking to their budget and feel more empowered. There are many different websites like Money Dashboard or phone apps like Toshl that can be invaluable tools in helping anyone who needs to carefully track spending.

Consider a short-term loan

Borrowing funds can be very costly. With planning, you may be able to minimise those costs so that when you emerge on the other side of the divorce, you don't find you have unnecessarily drained assets. "Financing can be a big challenge if everything is in your spouse's name," comments MASECO's Dorman. "A good Adviser may even be able to help you arrange a loan, but great care needs to be taken in this area and expert advice is key. You don't want to end up loading up your credit card with exorbitantly priced debt."

In our experience, these are the four most commonly mentioned vehicles for short-term borrowing:

1. **Family, friends:** These funds may seem to be the cheapest from a financial point of view, but they may be very costly to your relationships. Think carefully what the price might be and if you are willing to pay it.

2. **Refinancing real estate:** Using your home or a vacation property as collateral. This might not be straightforward if the assets are held in joint names and remember, all loans have to be repaid!

3. **Bridge financing or bank loans:** These may come at a very steep price and with many terms and conditions.

4. **Crowdsourcing:** Online websites like Ratesetter.com or Zopa.com provide this service.

It is important to understand that your home may be repossessed if you do not keep up repayments on a mortgage or any other debt which is secured on it.

On the positive side, this can be a time of great creativity as your finances change. If you are willing to focus on these tasks in the early, painful days of your divorce, you may be able to capitalise on opportunities to build financial security for yourself and your children.

Living through a divorce

When a married couple split up, either party may find themselves suddenly taking charge of the household finances - a task they may not have assumed since their single days. Even those who have been involved in household finances can get caught in an emotional maelstrom and sometimes make the wrong decisions.

In this part of **Stepping Towards A New Life**, MASECO Private Wealth offers an overview of what to expect during the period of separation, when your personal life is in a state of flux, but you need to make important decisions about your money. In Step One: Funding a Divorce, we covered challenges you need to address straight away; it also included a rubric for thinking about your finances. Living Through a Divorce is designed to help those going through a divorce manage during a period that can last up to several years.

Be clear about who you are

Even if estranged spouses are generous, some people hesitate to maintain their lifestyles. They often feel guilty about spending money that isn't "theirs." So they cut back. This could be a mistake.

"In the English courts especially, the job of looking after the children and home is seen as equal to going to the office. This is the law," says Alexandra Tribe, a partner at Expatriate Law, family law specialists in Dubai. Cutting back spending can be bad for the parent and his/her children. It may set a bad precedent."

Be thorough in reviewing your budget

Tribe laments that many people often don't spend enough time tallying their needs.

This is the time to be both thorough and assertive. "I often find people don't spend enough time. The lawyers put forward a schedule for the court to review and then two days before the hearing, the husband or wife may come running in: 'Oh, I need this.' If you're constantly changing what you want, the court won't take you seriously," Tribe says.

Both parties can often feel guilty about their spending. "You mustn't feel guilty. You're not being an unreasonable person by requesting to maintain your lifestyle," Tribe says. Economising can also set a bad precedent when comes the time to strike a final settlement. The judge will take into consideration how each partner has been managing in the days running up to the court date. If you've cut back on spending, the judge may benchmark the final decisions based on the skinnier budget.

Make tracking your spending a habit – and easy

An accountant or financial adviser can help with this. However, we find that those who take on this responsibility are better at sticking to their budget and feel more empowered. Websites like Money Dashboard or phone apps like Toshl may make the task less tedious.

Assert your financial rights

If your spouse controls the purse strings, try to avoid a situation where you are regularly asking for money. "Sometimes they'll drip feed money," says Tribe. That can create emotional turmoil. Even before the divorce is final, you have rights. Alert your solicitor straightaway if they are cutting off funds. The court should step in and order a temporary allowance to cover immediate needs.

Take advantage of online family resources

You can find support from the court system and divorce websites. In the UK, Cafcass.gov.uk offers information and advice for families and professionals. Resolution.org.uk features an expert on Money and Home. The Money Advice Service includes a free calculator for divorce and separation. Many divorce solicitors have published videos that preview what to expect in the divorce process.

Educate yourself

The uncertainty of the separation phase can make your life difficult. Fortunately, it is temporary. If you can, look ahead to what comes next: the final division of assets. Try now to think about that final settlement.

"You don't need to be an expert in finance to protect what is important to you. But you will find fewer surprises and feel better about the outcome the more you learn about investing and your assets," says James Sellon, managing partner at MASECO Private Wealth. Learnvest.com and Daily Worth provide educational tools geared towards women, whether novices or experienced hands at personal finance.

MASECO

A Good Divorce

Most people find finances a challenge if not a chore. During a divorce, the financial wrangling normally takes on additional emotional weight. This is particularly true for those who decided to leave the work force and manage the household instead. If you haven't been focused on the various investment accounts your spouse has set up or the intricacies of running multiple properties, you may be tempted to rush through the proceedings – accepting whatever the lawyers call "equitable distribution"- as long as you get the items that hold the most meaning for you. It's also easy to get caught in futile details, racking up enormous legal bills: "This eight-dollar dish will cost you a thousand dollars in phone calls to the legal firm of That's Mine, This Is Yours," warns the divorced hero of the movie "When Harry Met Sally."

This part of **Stepping Towards A New Life** offers those going through a divorce a common sense guide to dividing the family possessions. We're not lawyers or tax advisers – but we do understand the value of assets and how to distinguish between items that may seem to be comparable but are not.

- One million pounds in a taxable account is generally more vaulable than one million pounds in a retirement account.
- An investment such as a mutual fund has a very different market from a box of jewellery.
- A swanky second home on the beach could prove to be a cash sink hole and may be difficult to sell quickly.

In other words, the kinds of assets you walk away with matter greatly. Taking a complete inventory is critical; as is understanding how to categorise things you love versus things that will set you up towards financial security. Your lawyer, and possibly a forensic accountant, will help determine the total amount and kinds of assets available to you.

It's a daunting task to put all these items under a lens. We recommend that you think in terms of your life cycle and values: What gives meaning to your life – what makes sense for you to keep? What will facilitate growth in your next stage of life? Think strategically. What you need now when the kids are still in the house will change when they are grown and change yet again when you enter retirement. Are you prepared for the emergencies that will invariably come your way at any stage of life?

Consider:

My life now	Retirement	Emergencies
• Where should we live? • Things that give my life meaning • Lifestyles	• Where do I see myself? • Where will my family be?	• Cash for one year • Health • Eldercare for my parents

Managing a lump sum settlement

The papers are signed. Suddenly, your bank account is swelling. Now what? Typically the first question revolves around your home: Should you keep the one you live in now? Some may say: "I know it's crazy to keep the house, it costs too much to maintain, but I feel that a move would do so much more harm to the kids than the loss of income" and it's fine to make that kind of choice, everyone is entitled to make decisions that may appear to be irrational to others. "Refusing the No 11 bus in favour of a taxi may be considered irrational, especially if facing a financial squeeze" says Rory Dorman of MASECO Private Wealth. "Sometimes you need to do things that will open the door to happiness – like keeping the family home. If that's the choice you need to make, do so with open eyes. Plan it out financially."

"The last thing you want to feel is suddenly everyone is saying to you 'No, you cannot stay in that house.' Or 'no, you can't go on that vacation,'" says Sellon. "By understanding the true value and costs of your assets, you will put yourself in the position of saying 'Yes, I will do this instead of that' because you appreciate the financial consequences."

By this stage in divorce, if you've been following the recommendations in **Stepping Towards A New Life,** you will have already established a budget and know with clarity how much you need to keep untouched in your investment portfolio over the next 20, 30, or 40 years. If you invest wisely, you may even find yourself with an occasional surplus to spend on an unplanned family excursion. The choice will be yours to make.

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 **Stepping Towards A New Life** we have tried to help people going through a divorce anticipate financial challenges they will face during the divorce process. This final part 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 whitepaper, we have urged those going through a divorce to take an active role in managing their finances to gain, if not fluency, at least a working knowledge of 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:

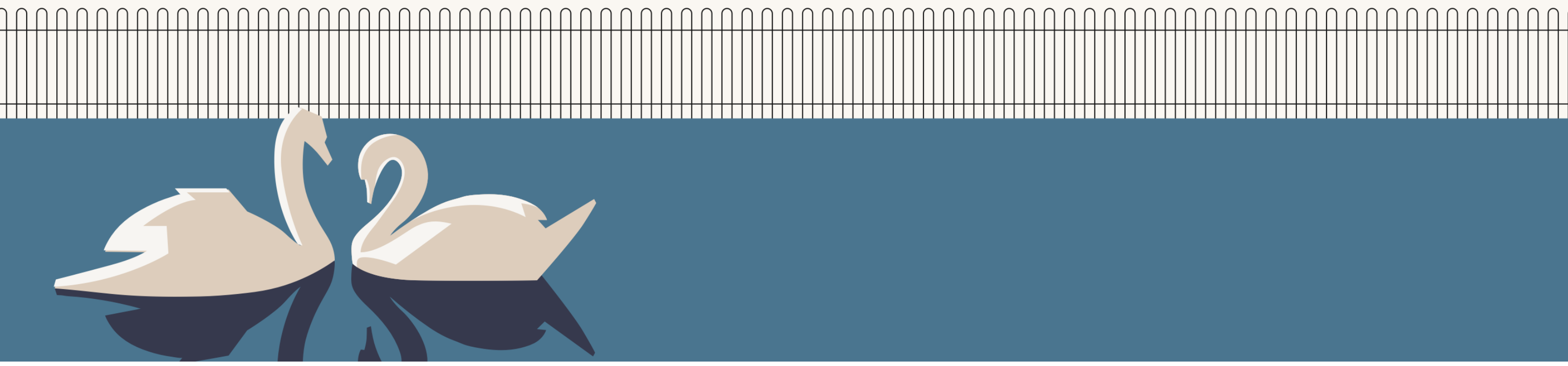
- Investment income from a lump sum settlement
- Social Security/National Insurance
- Employment

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.

MASECO LLP trading as MASECO Private Wealth is authorised and regulated by the Financial Conduct Authority, the Financial Conduct Authority does not regulate tax advice. MASECO Private Wealth is not a tax specialist. We strongly recommend that every client seeks their own tax advice prior to acting on any of the strategies described in this document.

enquiries@masecopw.com
+44 (0) 207 043 0455 | +1-888-MASECO1