PROFESSIONAL FINANCIAL
Purposeful Wealth Management

Wealth Planning Report

Solo After 50: Navigating a "Gray Divorce"

Bill and Melinda Gates weren't a typical couple. But they are part of an increasingly common trend: divorce among people over the age of 50.

"Gray divorces" among older and (usually) long-married couples have been on the rise for some time. While the divorce rate is falling among younger Americans, the rate for those age 50 and older has *doubled* since the 1990s.

The upshot: There's a fair chance that many people age 50 or older will experience a gray divorce themselves, or have friends or family members who go through one. So it can be helpful to recognize some key financial issues that older couples getting divorced potentially may have.

For starters, consider the potentially massive negative financial impact of a divorce in middle age or beyond:

- People who separate after age 50 can reasonably expect their wealth to plummet by an astounding 77 percent.
- After a gray divorce, women experienced a 45 percent drop in their standard of living (based on income-to-needs ratio) and men experienced a 21 percent reduction.

To mitigate potential damage, it's important for 50-plus divorcing couples to recognize the considerable financial (and other) challenges they'll face and account for them in wealth planning. Some of the key issues to consider:

Gray divorce issues to address

1. Estate planning. Long-married couples with significant assets generally have estate plans in place that might include trusts, family limited partnerships or other complex structures. When couples separate, their goals often change or even diverge when it comes to providing for heirs and how to fund those objectives. Trusts, partnerships and other agreements should be revisited to determine what changes need to be made (or even can be made) in terms of specific goals, tax mitigation or other factors due to an impending divorce.

2. The home. A family home is often an important and emotionally charged asset in a divorce. When deciding who will keep it, the true ability of either person to afford costs like the mortgage payment, property taxes and maintenance need to be seriously considered. What's more, a long-married couple's primary residence may have appreciated significantly in value over the years. If so, a decision should be made about whether to sell the house while still married or wait until after the divorce—as the choice could generate more or less capital gains tax impact for the couple, depending on the route taken.

3. Rental or commercial property. On top of obvious tax concerns, couple-owned rental or commercial property comes with decisions to make about post-divorce control and management. A divorced couple could potentially need to make multiple decisions together for years—and therefore never really "split up" financially. In some instances, it can make sense to allocate some properties completely to one spouse and allocate some properties to the other.

4. Retirement/pension plans. How types of retirement accounts are divided depends on whether the couple live in a separate property or a community property state. But understanding the benefits, and how they can be best divided, is a critical step in planning futures separately. The benefit packages of one or both spouses need to be carefully examined in a gray divorce—particularly if complex incentive benefits are involved (such as restricted stock, stock options, phantom stock and so on) and the future timing of large distributions from deferred compensation packages.

5. A family-owned business. Issues around who keeps a small company (or how co-ownership is determined and who is in control) and the different roles that each will play post-divorce can create uncomfortable and potentially harmful tensions effecting the financial health of the business. Clients, suppliers and even employees may jump ship if they become worried about the firm's longevity—even if the firm is viable today.

If the couple decides to sell the company in part or whole, appraisals will have to be done and—the sticky part—value agreed on by both parties, especially if one will still be employed with the firm and one will lose their job.

6. Health insurance and life insurance. With people living ever longer, there will be an increased need for medical procedures and other health care spending during aging—requiring good health insurance before cheaper Medicare and supplemental coverage is available. If one spouse loses health coverage pre-Medicare due to the divorce, options such as COBRA and ACA-based plans could bridge gaps in coverage before age 65. Providing a temporary allowance to maintain suitable coverage should be negotiated.

Similarly, life insurance policies may need to be disentangled or even canceled. That said, buying new policies at older ages, if part of family planning, can be difficult depending on whether a spouse's health has declined over the years.

7. Cognitive factors. Existing or potential (based on family history) cognitive impairments should be considered when arranging the terms of a gray divorce—and guardrails (such as conservatorships) should be discussed, if necessary, as well as the temperament of both with handling large sums of money.

Moving forward

The rules and regulations pertaining to property and asset division in a gray divorce depend on numerous factors—complicated by the state laws where a couple gets divorced. It's imperative for couples who are 50-plus who are considering separating to separately consult with trusted professionals to stress test their projected financial situations post divorce before going to court.

We suggest each spouse consult with a qualified CFP® professional to determine whether a painful financial future could be a possible divorce aftermath. While property may be divided 50/50, future living expenses most likely will be much higher than either will expect. Many couples could be motivated to work out their marital issues after soberly looking at the true cost of gray divorce. More than one couple doing that has concluded that their personal differences weren't quite so irreconcilable. Even if the negative impact is acceptable, we recommend having a comprehensive financial plan in place well before taking legal action due to the financial intricacies of irrevocable tough decisions.

This is an executive summary of our wealth management ebook.
For a complimentary copy of our complete report, please contact us.

Paul Byron Hill, MBA, MFP, MSFS, ChFC®, RICP®, CFP® is a nationally recognized Wealth Management Certified Professional™ and Certified Financial Planner™ professional, written about in *Fortune, Forbes, Bloomberg Businessweek,* and *Money*. Paul is the co-author of *Retire Abundantly*. Reuters AdvisePoint once recognized Mr. Hill as one of 500 "Top Advisers" in the U.S. and featured him in an interview on their website.

Paul founded Professional Financial Strategies, Inc. in 1993 as one of the first fiduciary planning firms that specializes in retirement and wealth management for affluent and aspiring families. Paul is a personal chief financial officer acting in best interest of clients. He brings together a proven process and a network of specialists for making informed decisions for systematic strategies, secure income, mitigating taxes, protecting assets, and preserving wealth for family and purposeful causes.

Mr. Hill received a BA with distinction from the University of Rochester and later an MBA in finance from its Simon School of Business. He earned an MS in financial services from The American College along with his Chartered Financial Consultant and Retirement Income Certified Professional designations, and then received an MS in financial planning from the College for Financial Planning (now at the University of Phoenix). The College for Financial Planning appointed him as adjunct faculty, and he taught at St. John Fisher College. Who's Who presented Paul with the Albert Nelson Marquis Lifetime Achievement Award, and featured him with others in *The Wall Street Journal* and other publications.

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