GUIDE

# Financial Considerations During a Divorce

This document contains important information and you should read it carefully and keep it safe for future reference.

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## IMPORTANT INFORMATION

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# Contents

Divorce can be one of the most challenging experiences in life, both emotionally and financially. Beyond the personal toll, the process of separating assets, liabilities and income can have long-lasting effects on your financial future. Understanding the financial aspects of divorce and making informed decisions will help you to protect your interests and move forward with greater financial stability.

This guide covers key financial considerations that you need to be aware of during a divorce, helping you to navigate the process more confidently while ensuring that your financial future remains secure.

# Understanding the financial impact of divorce

Divorce can significantly alter your financial situation, often requiring adjustments to your lifestyle and financial plans. It's important to have a clear understanding of how your income, assets, debts and living costs will change after separation.

**Division of assets**

In the UK, divorce law follows the principle of fair division rather than an equal 50/50 split. This means that the court will consider various factors to ensure a fair outcome, such as the length of the marriage, each partner's financial needs and contributions (financial or otherwise) to the marriage.

The family home often represents one of the largest assets in a marriage. Options include selling the property and splitting the proceeds, or one spouse buying out the other. The challenge here is determining how to manage the mortgage or finding alternative housing arrangements.

Savings and investments include cash, stocks, bonds and any other financial holdings. In many cases, these assets are considered joint property if they have grown during the marriage and may need to be split, even if they were held in separate accounts.

Pensions, including workplace or personal pension schemes, are often overlooked but can be a substantial marital asset. Courts can issue pension sharing orders, which allocate a portion of one spouse's pension to the other, potentially altering long-term retirement plans. After the divorce, review your pension plan to assess whether additional contributions are needed to secure your retirement. You may also want to update beneficiaries if your ex-spouse was listed as a recipient.

There are a few ways in which you can settle your finances during divorce. A clean break order ensures that, once the assets have been divided, there are no future financial claims against each other. This can provide clarity and peace of mind. However, in some cases, ongoing financial support (spousal maintenance) may be agreed upon, particularly if one partner has been financially dependent on the other due to being a stay-at-home parent.

**Living costs**

Divorce typically increases the cost of maintaining separate households, which can be financially burdensome for both parties. Running two separate households often means each spouse has higher rent or mortgage payments, utility bills and maintenance costs which can be difficult on one salary, thus decreasing the available disposable income.

In cases involving children, childcare costs may also increase due to adjustments in work schedules, shared custody or education-related expenses.

# Handling debt during the divorce

Just as assets are divided in a divorce, so too are debts. You and your spouse are both responsible for debts incurred during the marriage, regardless of whose name is on the account, in some cases.

**Joint debt:**

Any debts in both names (e.g., a joint mortgage or loan) will need to be divided fairly, which could mean one person takes on the entire debt or it is split.

**Individual debt:**

If a debt is solely in one partner's name, that partner will usually be responsible for it, though the court may still consider it when dividing assets, for example if one party took out a loan for a house improvement.

**Secured debt:**

Debts secured against a home or other asset (like a mortgage) need careful consideration. If one partner keeps the home, they may also assume responsibility for the mortgage.

If possible, aim to clear joint debts before the divorce is finalised to avoid future complications. Once the divorce is finalised, you will need to close joint bank accounts or credit cards and transfer balances into individual accounts in order to help prevent future liabilities.

# Spousal maintenance and child support

Depending on the financial circumstances, one spouse may be required to pay spousal maintenance or child support after the divorce.

Spousal maintenance is typically paid by the higher-earning spouse to the lower-earning spouse, especially if the latter gave up work to care for children or was otherwise financially dependent. Payments can be temporary (e.g., to allow time for the lower-earning spouse to retrain or find employment) or long-term, depending on the circumstances, for example, if they need to continue caring for children. It can be reviewed and adjusted if either party's financial situation changes.

Child maintenance is a legal obligation and is based on the paying parent's income, the number of children and how much time the children spend with each parent. It's usually paid to the parent who has primary custody. The UK government provides a Child Maintenance Service (CMS) to calculate the amount payable, but parents can also agree on a different amount privately. Even in the event of one parent having no further contact with a child after a divorce, they are still responsible for the costs of raising them.

# Tax implications

Divorce can have several tax implications, so it's important to be aware of these and plan accordingly.

If assets such as property or shares are transferred between spouses as part of the divorce, capital gains tax (CGT) may be payable. However, transfers that take place before the final divorce date can be tax-free. If you sell property or investments as part of the settlement, you may be liable for CGT, depending on how much the assets have increased in value.

If you divorce, your ex-spouse will no longer be exempt from inheritance tax on assets if you still decide to leave to them in your will. You should consider updating your will after the divorce to reflect your new circumstances, if your wishes have changed.

# Financial planning for the future after divorce

Divorce can significantly impact your financial outlook, necessitating a re-evaluation of both immediate and long-term financial plans. Careful planning is crucial to ensure stability and set new financial goals that reflect your changed circumstances.

Divorce often leads to a shift in priorities, making it essential to reassess your financial goals such as your retirement plans. If pensions or retirement savings were part of the divorce settlement, you may need to adjust your retirement timeline or contributions. You may now have less saved than expected, so you may need to increase contributions to your pension or seek additional income sources.

To do this you need to understand the type of pension that you have. A defined benefit plan, known as a final salary pension, might need to be split through a pension sharing order. A defined contribution plan, which is more common, may require adjusting investment strategies post-divorce. You need to also ensure that you're aware of your national insurance record, as gaps in contributions can reduce your entitlement to the full State Pension when you hit state pension age.

Your investment portfolio may have been affected by asset division. It's important to review your investments and ensure they align with your new financial goals and risk tolerance. Post-divorce, you may need to adopt a more conservative investment strategy, especially if you're now solely responsible for your financial future.

**Investments carry risk. The value of your investments (and income from them) can go down as well as up, and you may get back less than you invested. Past performance is not a reliable indicator of future results.**

# Insurance adjustments

**Your insurance needs will change after divorce, as many policies may have been tied to your marriage or joint financial arrangements, such as life insurance being linked to your joint mortgage. Updating or obtaining appropriate insurance coverage is vital for protecting your financial future.**

Review all insurance policies to update beneficiaries if your now ex-spouse was a beneficiary. If you have children, you may want to designate them as beneficiaries or create a trust to manage any payout.

If you relied on your spouse for financial support, it may be worth considering income protection insurance. This can provide a safety net in case illness or injury prevents you from working.

Divorce is a complex and emotional process, but with careful planning and professional guidance, you can navigate the financial challenges and emerge in a stable position. By understanding the division of assets, managing debts and planning for the future, you can ensure that your financial health is protected during and after divorce. Seeking advice from legal and financial professionals can make the process smoother and help you to make informed decisions that will benefit you in the long term.

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