Financial Literacy and Divorce

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Divorce requires people to clearly understand their financial circumstances, something many do not take time to do as a matter of course. In some families, this can be complicated especially when incomes may be derived from numerous sources, or assets are difficult to value, such as a business or professional practice.  In families who have W-2 incomes, a handful of bank accounts and retirement assets, and perhaps a mortgage or car loan, this can be much simpler.  Still, the challenge for all families is two-fold:  identify and obtain comprehensive information, and then make sense of it so either a reasonable settlement can be reached, or, if there is a trial, the judge can understand it.

Whether finances are simple or complex, New Jersey courts use a form called a Family Part Case Information Statement (CIS), which provides a format for divorcing parties to describe the family finances, detailing incomes, itemizing monthly budgets and identifying and valuing all assets and debts.  Many people do not have a clear sense of all this, so when divorce suddenly requires examination of your financial picture, it can be a daunting task. It is wise to familiarize yourself with your family finances even when divorce is not an issue.  Whether single, contemplating marriage, or happily married, your financial health is critical.

If you are heading to divorce, you will need to begin gathering financial information.  Documents to help you get started, whether with a lawyer, mediator, or meeting with your spouse to work out a settlement, include, at a minimum:  recent tax returns, W-2s and 1099s; pay stubs showing current and year-to-date income/deductions; statements for all bank, investment and retirement accounts; and statements for all debts (mortgage, car loan, credit cards).

One of the most challenging tasks in the process is calculating your budget.  This is critical as support is based, in part, on the marital lifestyle. How have you spent money?  What is essential?  What can you do without?  After the divorce, you may move to more affordable housing and significantly reduce your shelter expenses. Transportation and personal expenses such as car insurance, the cost of fuel and maintenance for your car, your prescriptions, your groceries, and necessary child care may not change. At the same time, other expenses such as securing separate health insurance coverage if you have been covered under a spouse’s policy might increase.  To establish your existing budget, as well as your future budget, it is important to review your bank statements and credit card bills at least over the past year (longer if the past year does not adequately represent on-going spending patterns).  If you haven’t retained statements, you can request them from your bank and credit card companies.  Reviewing these records can be tedious, but it is incredibly valuable when you must make decisions that will determine your financial future.  If you use cash to pay for smaller expenses, start keeping a journal of what you buy.  You would be amazed at how much money is expended. For example, a cup of coffee at Starbucks 5 days a week may amount to nearly $100 per month!

Do your homework. Having a solid understanding of your finances will serve you greatly in settling your divorce and planning your future.