



FINANCES OF DIVORCE

WARNING! DON'T SIGN YOUR DIVORCE SETTLEMENT WITHOUT A SETTLEMENT AUDIT

By John P. Cito, CDFP

After months or in some cases years, your divorce is finally coming to an end. Don't rush to sign the final documents until you have had a Settlement Audit. At Freedom Divorce Advisors, we apply lessons learned from consulting in over 1,000 high net worth and complex divorce cases to your specific situation. Our 28-point checklist is reviewed by our team of CPAs, JDs, and Certified Divorce Financial Analysts to uncover hidden opportunities to avoid taxes, improve your financial future and make sure you receive the best possible settlement.

Not everyone realizes that their divorce lawyer may not provide tax advice. The same is true for financial advice. If your attorney offers neither, then you need to make sure you have someone on your team to look out for the tax traps and financial opportunities that exist during divorce.

Just recently, a client came to us after she settled her case. She didn't see us before signing her agreement because she was so anxious to move on with her life and didn't want to "mess things up". Unfortunately, we uncovered a series of hidden financial traps but it was too late. By not having a Settlement Audit, it cost her big money in unnecessary taxes and missed opportunities. Let's go over a few of the things we found:

- 1. She should have done a Roth IRA conversion.** Based on our calculations, this alone would have created an additional \$800 per month in retirement income. What might you do with that extra money?
- 2. She let her husband keep a whole life insurance policy.** Neither she nor her attorney knew about whole life insurance other than it provided a death benefit. So, her agreement gave her a credit for 50% of the cash value of the policy. After explaining the benefits of owning the policy, she realized that the creditor protection, the guaranteed interest credited to the policy, the ability to take loans out against the cash value and pay no tax, plus other things would have all been desirable to her.
- 3. She used money from her 401k to pay her lawyer and got socked with a 10% tax penalty and still had to pay 25% in income taxes.** Had we conducted our Settlement Audit, we easily could have avoided the 10% penalty by naming her attorney as the "alternate payee" on a Qualified Domestic Relations Order (QDRO). Plus, we could have reduced her taxes if we did this in the year she was divorced. This alone cost her \$8,200.

This is just one example. Of course, you don't need to wait until your divorce is almost over to get our valuable advice. We also offer a Case Audit where we apply our same 28-point checklist to identify, in advance, any tax or financial issues you need to know about before you begin negotiating a resolution of your divorce. ■

Call us to find out if you might be making these three costly mistakes or feel uncertain about any of the 28 areas we evaluate as part of our comprehensive Settlement Audit.

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email John@FreedomAdv.com or visit us at
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John P. Cito, CDFP, is a partner in Freedom Divorce Advisors. Mr. Cito has obtained Collaborative Divorce training and has been actively involved in matrimonial cases for many years. He is the Chairman of the Divorce Financial Committee for the NJ Association of Family and Conciliatory Courts, a member of the Institute for Divorce Financial Analysts, a former Board Member of the Association for Divorce Financial Analysts, and the Financial Divorce Association. Mr. Cito has written numerous articles on financial issues pertaining to pre- and post-divorce planning and appeared on the Real Life with Mary Amoroso "Rebuilding Your Life After Divorce" episode and has been listed in the Peer Recommended Professionals section of Divorce Magazine.