How separating couples must fix their money matters after divorce

By Hiral Thanawal

Bill and Melinda Gates are headed for a divorce after being married for 27 years. But separations are not just limited to the wealthier class. Anecdotal evidence suggests that the COVID-19 pandemic has also added to the stress. Whatever be the reason, separating financial lives and for both the husband and the wife, especially the dependent spouse, is extremely important.

But a big-picture financial plan must be put in place.

Get a list of assets and liabilities

To make sure that assets are divided equitably, it's necessary to make a list of what you have. Your spouse needs to do the same. Often, one partner may not have the complete picture of the family's joint finances. The Supreme Court has mandated compulsory disclosure of all income, liabilities and assets in the form of an affidavit while filing for divorce. "These is done to avoid ambiguity and aid transparency in arriving at realistic figures and avoiding disproportionate liabilities," says Zulfiquar Memon, Managing Partner at MZM Legal. Get yourself a financial advisor and lawyer, as they are well-equipped with the nuts and bolts of how to prepare a financial statement.

"Mutual understanding on handling assets and liabilities is different from what is in the bank and income tax return statements. These need to be recorded well by preparing the financial statements," says Viresh Patel, CFP, founder of Financial North. Otherwise, doubts may persist post-divorce and haunt either of the spouses with fresh demands.

At the same time, it's important to put any major planned purchases on hold. "**Don't jump into impulse shopping**, considering it as some sort of therapy for overcoming emotional crisis after divorce," says Vishal Dhawan, Certified financial planner and founder of Plan Ahead Wealth Advisors. Repaying loans is critical and should be budgeted for first. More so, if it's a home loan that you and your spouse had been jointly repaying. Depending on how your joint asset gets settled, a part of that loan might also be yours now to repay.

"You should not solely rely on the court to sort out your finances, as divorce proceedings are time-consuming, the partners should try to sort out the financial matters transparently and prudently with the help of Alternative Dispute Resolution (ADR) mechanism" says Kartik Yadav, Partner at DSK Legal.

Your insurance is your own liability

Often, housewives depend on their spouses for health insurance needs. But a legal separation disqualifies you from being covered of the family's insurance policy. Buy a basic health insurance policy and a separate critical illness cover, soon. Make sure the sum assured is reasonably high.

Nominate your child as a beneficiary in life insurance policies. In case of untimely demise, the insurance proceeds will take care of child's education and living expenses. Appoint, a guardian while writing a Will, if your child in minor.

Got the alimony? Don't rush into investment decisions

Take some time off after your divorce proceedings are over. If you receive alimony as part of the divorce settlement, it's important to first let it all sink in, before you take any important investment decisions. "Keep the lump-sum alimony money away in fixed deposits or liquid funds for at least six months," says Dhawan. Once you re-set your money goals with your financial advisor, you can start investing.

Have an emergency corpus with six months' expenses.

Plan your alimony payment

Alimony is either paid as a lump-sum or as monthly instalments. If you have to pay alimony on an on-going basis, make sure you budget for it in your new financial plan. "If you don't budget for paying alimony after divorce, then it can dent your finances in a big way," says Mumbai-based adviser Priyesh Sampat. Prathiba Girish, Certified financial planner and Founder of Finwise Personal Finance Solutions suggests mutual fund schemes for saving, with a systematic withdrawal plan (SWP) to enable periodic payout.

"Young couples taking a divorce should pay alimony in monthly instalments. This is because the moment she remarries after divorce, the husband is no longer required to pay her monthly maintenance," says Devika Deshmukh - Doshi, an independent counsel.

Apply for change of nominee

Make sure you change your nominations in all your investments, including your provident fund. "Your EPF gets deducted by your employer, so that might escape your attention," says Girish. Change the nominee for the insurance benefits given by your employer, provident fund account, Employees Deposit Linked Insurance Scheme (EDLI), etc.

If you have a term insurance plan under the Married Women's Property Act 1874 (MWP Act), then, after divorce, you must discontinue and buy a new term insurance plan and nominate your parents as the beneficiaries. “If you continue with the existing term plan and pass away suddenly, then the insurance proceeds will go to your divorced wife, when it’s claimed by the family as per the MWP act,” says Girish.