Life events with financial impact

Dealing with a divorce

North American Company for Life and Health Insurance | *Annuity*

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Life events with financial impact

From the joyous to the tragic, major life events can impact your finances in expected and sometimes unexpected ways. This series of guides helps you prepare and, where necessary, adjust your family's financial plans – easing the transition to life's next chapter.

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Dealing with a divorce

Going through a divorce or a separation after a long-term relationship can be one of the most emotionally trying experiences in a person's life. At its base level, it can be overwhelming.

When it comes to your family's retirement plans, North American offers this checklist to shed light on what you may need to consider and the potential decisions ahead. Specific to North American products, at NorthAmericanCompany.com, we also have a flyer detailing the options available to current customers going through a divorce.

As it was while you were married, your age, years to retirement, and retirement savings will determine how simple or major the changes are you'll need to consider to help ensure you still meet your goals. These are especially important to think about if your partner primarily dealt with the family's finances and you're not fully up to speed on what the plan was prior to your separation.

Obviously, retirement planning is just one aspect to consider as there are many other important topics that this guide doesn't cover. The intent of this list is to simply offer guidance to help ensure your retirement plans are appropriately handled through this transition.

In discussing any financial matters, start with your lawyer

Because divorce can get complicated, the timing of when to engage in discussions on financial matters can be just as important as what's discussed and the way you go about pursuing your chosen path. Be sure to talk to your lawyer for advice on timing and the preferred approach on any of these topics, then loop in your financial professional, accountant, or anyone else on your team who needs to be involved based on your lawyer's recommendations.

LIFE events

What could be impacted

Divorce may impact both your larger financial plan and the function of individual products. While we can't cover everything that may need to be addressed in your individual circumstances, we've listed some considerations you may wish to discuss with your lawyer, financial professional, and/or tax advisor if they apply to your situation.

Product or service	What to consider	Notes
Employer-based retirement plans [401(k), 403(b), etc.]	• Gather recent statements for your plan and your partner's. • Consider adjusting your deferral amounts if you and your partner both contributed or if one of you was saving for your combined retirement needs. • No matter what a divorce decree stipulates, so there's no room for confusion, you'll also want to review your beneficiaries on any plans or products that have them. • For minor children who could inherit a large sum of money if you were to pass away, you may want to consider setting up a trust. There are many varieties to explore, and you'll want to find a lawyer and tax advisor who specializes in trust work to advise you on the best approach. Typically, that's not going to be the same person as your divorce attorney, though they may need to work together.	
Investments (stocks, mutual funds, etc.)	• Get familiar with any investments you didn't know about previously. • Have your financial professional reassess whether current investments fit your individual risk tolerance and goals. • Consider what happens to these more liquid assets relative to retirement savings that's in longer-term products that could incur penalties if you were to take money out early.	

Product or service	What to consider	
Annuities (IRA, Roth IRA, etc.)	• Review beneficiaries. • Be sure you (and your lawyer) fully understand the contractual benefits and requirements that apply to these products before making any agreements about how they will be "split" between you and your partner, if at all. For example, ask whether a contract can be split at all, whether penalties for early surrender may apply, and how any rider benefits may be affected. • Have your financial professional reassess whether changes to products like these impact your projected savings growth and retirement income. • Talk to your accountant or tax advisor about the tax implications.	Notes
Retirement income	• If you're either in retirement or with just a few years to go until retirement, divorce can produce an income shortfall. Instead of a single home's expenses, you're now looking to spread roughly the same income between you and your ex to cover expenses for two homes. Keep your post-divorce budget in mind when planning how much you'll have to put toward retirement. • No matter your age, depending on how plans were originally set up, finding an equitable solution within long-term products can be a challenge. And transitioning out of such products early can sometimes trigger taxes or penalties, so be sure to consider all the moving parts before making a decision.	Notes

Product or service	What to consider	
Social Security[1]	• For unmarried individuals approaching eligibility age for Social Security who were married more than 10 years, benefits may be available to an ex-spouse based on his or her record. • If you remarry or your benefits on your own record would be higher, you may not be eligible based on your spouse's record. • Whether or not you get benefits based on an ex-spouse's record, the ex-spouse's benefits (and those of their current spouse) would not be impacted.	Notes
College savings[2]	• College savings are, by nature, intended for your kids, but the courts don't always see it that way. There are a lot of potential nuances to consider in addressing them in a divorce or separation. • The finer points include whether the savings is in a dedicated 529 plan, whether the beneficiary is treated as the owner of the assets, the adult(s) listed on the account(s), who gets custody, and how existing and future contributions are treated in the divorce decree.	Notes
Life insurance	• Review beneficiaries. In most cases, spouses list each other as primary beneficiaries on life insurance policies, and you may want to make changes. • Life policies which include a cash value component could be treated as an asset. • If you get custody of minor children and are receiving alimony, you may want to consider insuring your ex since you could be relying on that income for the kids' upbringing and to help pay for college. • You also may need to reevaluate how you are insured, so your kids are protected if you're ever not around to care for them.	Notes
Other insurance policies (health, disability income, etc.)	• If you're on your partner's health insurance and don't have coverage available to you otherwise, consider COBRA until you can secure an affordable alternative. • If yours was a two-income household, you would have had more of a hedge against loss of one income due to severe illness or injury. On your own, you may want to consider a disability income policy.	Notes

In a divorce, sometimes what's allowed by an insurance or financial services company may not perfectly align with what's negotiated in official court proceedings. Some of your current products and services could make it to the other side of a divorce without changes while others may need serious reevaluation. It's important to be aware of the parameters you're working within and keep all parties in the loop so you can come to an acceptable and workable solution.

By starting to do your research today, you've taken an important first step to helping ensure your financial plans continue to meet your needs.

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1. "Ex-spouse benefits and how they affect you," Social Security Matters, https://blog.ssa.gov/ex-spouse-benefits-and-how-they-affect-you/

2. "Divorce can derail college savings," Savingforcollege.com, https://www.savingforcollege.com/article/divorce-can-derail-college-savings

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The Life events series are general summaries that can be used when considering your financial future at various life stages. The information presented is for educational purposes only and is meant to help supplement additional information specific to your situation.

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