

WEALTH MANAGEMENT

Navigating a High Net Worth Divorce

By Debra Taylor, CPA/PFS, Esq.

*Wealth Manager and Investment Advisor Representative, LPL Financial
Taylor Financial Group, LLC*

In 2007, Michael and Juanita Jordan called it quits after nearly 18 years of marriage. The cost: approximately \$168 million. Their divorce became the most expensive in celebrity history. Michael is in good company however with Harrison Ford, Tiger Woods, Steven Spielberg and Neil Diamond all coming in with divorces costing more than \$100 million.

A high net worth divorce case is essentially the same as a standard divorce case, with a primary difference being the complexity of dividing substantial marital property and assets. Any monetary advantage an affluent spouse may have for their life after the divorce can quickly be diminished through excessive litigation and substantial legal fees. Action must be taken in order to ensure that the assets of the parties involved are not compromised or unnecessarily diminished.

What would you tell a client are the main points of attention in a divorce?

In navigating a high net worth divorce, it is important to pay strict attention to: the characterization of property as "marital" or "separate," enforcement or protesting a prenuptial agreement, treatment of inheritance, division of retirement assets, and valuation of businesses or interests in closely-held corporations. Throughout the process, one must also be sensitive to the "aftermath" of a settlement, namely how the settlement will affect spousal support, child support, and taxes.

What are some of the top mistakes you have seen in divorce settlements?

In short, the top mistakes I have seen in divorce proceedings are not seeking financial advice early enough in the process, not segregating assets, being emotional, and fighting for the home. Also, I typically see women backing down.

The home is often a hotly debated asset in a divorce proceeding. Why do you say it is a mistake to fight over the home?

More often than not, women seek to maintain the home. They feel that outside of the overwhelming task of finding a new place to live, the divorce will be made more difficult on the children by uprooting them. We all remember *The War of the Roses*. Now I am not saying that a fight over the home will have the same ending as it did for the Rose's, but women often underestimate the tremendous expenses that are associated with their homes. In addition, women will often give up a great deal in negotiating a settlement in order to retain the home and then not have enough cash flow to maintain it. Further, a home has a low return on investment. It is often a better plan to sell the home while still married, take a tax-free \$500,000 capital gain on the sale and split the proceeds.

What do you mean by segregating assets?

In a divorce proceeding you want to be as financially independent as possible. In an ugly divorce it is not uncommon for a spouse to run up high credit card balances and not make payments in order to hurt the

credit score of their spouse. By having your own credit card, you will have established your own account to use in building up your credit score. In concert with this, pay off all of your marital obligations. Before the divorce settlement is finalized you want to address any unsettled obligations, even if they are assets you did not want to liquidate such as vacation homes or cars. If your spouse fails to honor his debts after the divorce, you could end up with creditors looking to you to make those payments.

How can one take the emotions out of a divorce?

A divorce is naturally an emotional event. However, emotions often cloud judgment, particularly for some women who are not accustomed to dealing with this type of stress. A divorce, although a major life event, should be viewed as much as possible as a business transaction. You must be prepared, hire a team of professionals, and be prepared for the worst. If that entails spending \$50,000 on a forensic accountant, so be it. In these cases, the woman will either pay now or pay later.

Why should someone going through a divorce enlist the help of a financial advisor?

In a divorce, many make the gross mistake of agreeing to just dividing assets in half and having a "clean break." This simple way of dividing assets can be far from "clean." When dividing assets you need to take into account the tax implications of assets. The true enemy in any divorce is not your soon-to-be ex, but Uncle Sam. A financial and tax professional can explain how much a 401(k) and regular brokerage account are worth today, and what they could be worth tomorrow after the IRS takes their share. Likewise, a financial professional can be employed to give a fair valuation of what any business assets or interests in closely-held corporations may be worth. You do not want to take your spouse's word as to what they are worth, as in the end they can underestimate and keep more than their fair share.

A divorce, although often necessary, is a terrible thing for anyone to have to endure. When following through with your decision to call it quits, it is important to enlist the assistance of professionals who will work hard for your best interests. In the end you must be prepared, and treat a divorce as a business transaction: leave emotions out of the process, stand firm, and ensure you receive your fair share.

Debra Taylor, CPA/PFS, Esq., is a principal of Taylor Financial Group, LLC, a full service wealth management firm located in Franklin Lakes, NJ. She has been recognized for her dedication to her clients, having been named to the LPL Financial Chairman's Council*, a distinction that less than 2 percent of the 12,027 LPL Advisors hold.

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