

Divorce can devastate your finances if handled poorly. Understanding asset division rules, properly splitting retirement accounts and working with a financial advisor helps you protect your wealth and rebuild stronger.

DISSOLVING THE MARITAL CONTRACT

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Overview

Divorce is rarely simple. Beyond the emotional toll, it can create long-lasting financial consequences that impact your retirement plans, daily budget and overall wealth for years to come. And even if you do remarry, many people enter second marriages without fully resolving the financial fallout from their first divorce.

Fortunately, with planning and guidance, you can navigate a divorce without derailing your financial future. Working with a financial advisor during this transition can help ensure both parties emerge with more clarity, stability and a solid foundation for moving forward.

Understanding How Assets Get Divided

The way your assets are divided in a divorce largely depends on where you live. The U.S. uses two main systems: common law property and community property.¹

Common Law Property States

In most states, assets are divided based on who holds legal title. If your name is on the deed or account, it's yours. If both names appear, you each own half.

During a divorce, couples can agree on how to split things up. If they can't agree, a judge will decide based on what seems fair, though "fair" doesn't always mean equal.

Community Property States

Nine U.S. states — Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin — follow community property rules. Tennessee, South Dakota, Alaska and Puerto Rico have "elective" community property rules that allow this type of division, as long as both parties agree.

Everything earned or purchased during the marriage belongs equally to both spouses, regardless of whose name is on the title. Separate property, like assets you owned before marriage or inheritances you received, stays with the original owner. Everything else gets split 50/50.



Why “Equal” Doesn’t Always Mean Fair

Let’s say one spouse maintains ownership of the family home while the other gets an investment portfolio of equal value. Sounds fair, right? Not necessarily.

The house comes with ongoing costs: property taxes, insurance, maintenance and repairs. When it’s eventually sold, there may be significant capital gains taxes. Meanwhile, the investment portfolio might have lower ongoing costs and more flexibility.

This is where a financial advisor becomes invaluable. They can help you understand the true long-term value and cost of different assets so you’re not surprised by hidden expenses down the road.

Dividing Retirement Accounts the Right Way

For many couples, especially those who have been married for decades, retirement accounts represent a significant portion of their net worth. Dividing these accounts requires following specific legal procedures to avoid taxes and penalties.

Qualified Domestic Relations Orders²

If you or your spouse has a 401(k), pension or other employer-sponsored retirement plan, you’ll need a qualified domestic relations order (QDRO) to split those assets. A QDRO is a legal document that tells the plan administrator how to divide the account without triggering early withdrawal penalties.

What many people don’t realize is that the QDRO must be submitted to and approved by the plan sponsor before your divorce is finalized. If you skip this step, you could lose your rights to those retirement benefits entirely — and you might not discover the problem until your ex-spouse retires years later.

Note that QDROs apply only to private employer plans. Federal employees need a court order acceptable for processing instead.

Splitting IRAs³

IRAs don’t require a QDRO, but they come with their own rules. To avoid taxes and penalties, you must notify the IRA custodian that you’re transferring assets as part of a divorce decree. The funds should be rolled directly into another IRA rather than distributed to you first.

When you work with a financial advisor, they can help ensure these transfers happen correctly so you don’t accidentally trigger a taxable event or early withdrawal penalty.



The Hidden Costs of Going Solo

Many people underestimate the financial impact of maintaining a household on one income. Housing costs, utilities, insurance and everyday expenses don't decrease proportionally when you're living alone. In fact, you might find yourself paying nearly the same amount but without a second income to offset costs.

This is why developing a realistic budget before finalizing your divorce settlement is important. Consider:

- Can you afford to keep the house, or should you sell and downsize?
- Will your income cover your expenses, or do you need to request alimony?
- If you have children, are child support payments sufficient to cover their needs?

A financial advisor can model different scenarios so you understand exactly what your post-divorce finances will look like.

Alimony and Child Support Considerations⁴

Alimony (also called spousal support) and child support can significantly impact both parties' financial situations. The paying spouse needs to budget for these ongoing obligations, while the receiving spouse needs to understand how long payments will last and plan accordingly.

Keep in mind that alimony is taxable income for the recipient and tax-deductible for the payer for divorces finalized before 2019. For divorces finalized after that date, alimony payments are no longer deductible or taxable due to changes in tax law.

Child support, by contrast, is never taxable or deductible.

Building Your New Financial Foundation

Once the divorce is finalized, you have an opportunity to create a financial plan tailored to your new life and goals. This fresh start is an ideal time to work with a financial advisor to:

1. Review all beneficiary designations.

This is one of the most commonly overlooked tasks after divorce. Review and update beneficiaries on:

- Retirement accounts (401(k)s, IRAs, pensions)
- Life insurance policies
- Bank and investment accounts
- Annuities
- Transfer-on-death deeds



If you don't update these designations, your ex-spouse may still receive these assets when you die, regardless of what your will says.

2. Revise your estate plan.

Your divorce likely invalidates parts of your existing estate plan. Work with an attorney to update your will, designate a new health care proxy and name a new power of attorney. If you have minor children, you'll also want to confirm or update who would serve as their guardian.

3. Rebuild your emergency fund.

If your divorce depleted your savings, prioritize rebuilding an emergency fund covering three to six months of expenses. This financial cushion provides confidence and helps you avoid going into debt if unexpected costs arise.

4. Reassess your investment strategy.

Your investment approach should reflect your new circumstances. Think about your revised retirement timeline, your risk tolerance as a single person, whether you need to adjust your asset allocation and how much you can realistically save each month. These factors may have changed significantly from when you were married, so a thorough review with your financial advisor can help ensure your strategy aligns with your current situation.

When Each Spouse Needs Their Own Advisor

In contentious divorces where both parties have separate attorneys, having each spouse work with their own financial advisor often makes sense. While your lawyer understands the legal aspects of divorce, your financial advisor can:

- Analyze the long-term value of different asset division scenarios
- Identify tax implications you might not have considered
- Help you understand how various settlement options affect your retirement plans
- Represent your individual financial interests throughout the process

This is especially important when dividing complex assets like business interests, stock options or multiple properties.



The Bottom Line

Divorce is undeniably challenging, but with proper financial planning and professional guidance, you can emerge with your financial future intact. The key is addressing these issues proactively rather than discovering problems years later when your options are limited.

Whether you are contemplating divorce, in the middle of proceedings or have recently finalized your separation, a financial advisor can help you understand your options, make informed decisions and help build a solid plan for your financial future.

Sources:

¹ MP McQueen. Investopedia. Sep. 27, 2025. "Marital Property: Common Law vs. Community States Explained." <https://www.investopedia.com/terms/m/maritalproperty.asp>. Accessed Oct. 2, 2025.

² IRS. Aug. 26, 2025. "Retirement topics — QDRO: Qualified domestic relations order." <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-qdro-qualified-domestic-relations-order>. Accessed Oct. 2, 2025.

³ IRS. Aug. 26, 2025. "Retirement topics — Divorce." <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-divorce>. Accessed Oct. 2, 2025.

⁴ IRS. Oct. 3, 2025. "Topic no. 452, Alimony and separate maintenance." <https://www.irs.gov/taxtopics/tc452>. Accessed Oct. 16, 2025.

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