

FAMILY LAW ACCOUNTING NEWS

September 27, 2016

Will The Sun Come Out Tomorrow?

As it relates to permanent spousal maintenance, if you ask this of your client towards the end of the divorce process, the answer is usually something along the lines of....thunderstorms ahead, I may never be going outside again. The professionals usually know that this is not the case, but it is often very difficult to convey this to your client, especially if you represent the out-spouse (non-earning spouse).

Getting to this point is sometimes the easy part. The business valuation has been done, a separate property tracing was finished, community waste claims were established, a marital standard of living was completed, we know the parties respective incomes (or lack thereof), child support is in place and now it is time to determine spousal maintenance moving forward. Let's get the raincoats on.....

Let's assume that our client is the out-spouse. Whether we will be presenting the case to the Judge in trial or the client in settlement discussions, there are certain facts and/or assumptions that must be presented. It is having this foundation of information and assumptions

In This Issue:

How to educate your client about the post-divorce financial future, or more importantly, that the sky is not falling and the sun will in fact come up tomorrow.

followed up by educated projections that will reflect perhaps the most reasonable expectation relating to the future.

In this newsletter, I'll discuss how to address financial proposals in the settlement process related to spousal maintenance.



David Cantor, CPA/ABV has been working almost exclusively in Family Law Accounting since 1990 in both Arizona and California.

He has worked on over 1,000 Family Law cases and has experience in all aspects of Family Law Accounting including Business Valuations, Separate Property Tracings, Calculation of Income for Purposes of Determining Maintenance and Support as well as many other financial issues.

Mr. Cantor has testified in Court over 100 times as an expert witness.



Some items NOT reflected on AFI or Standard of Living to Consider

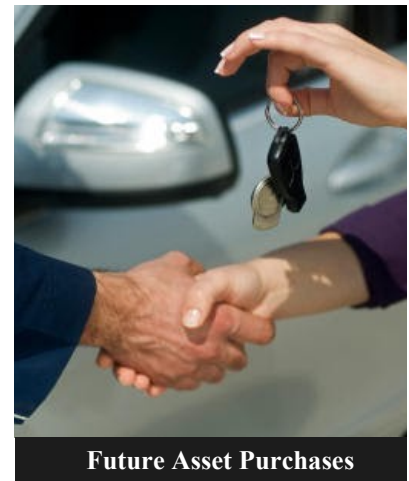
- ⇒Future car purchases
- ⇒Mortgage payoff
- ⇒College tuition for kids
- ⇒Extraordinary home repairs/capital expenditures (i.e. new roof, painting, HOA assessments)
- ⇒Unexpected medical expenses
- ⇒Termination of child support
- ⇒Change in income

Bridging The Gap Between Expectations and Reality

The first step is to show your client the potential liquid assets (as well as debt) that they may be getting. This can include, but not be limited to cash, savings, brokerage, IRA, 401K and defined contribution accounts as well as the mortgage, credit card debt and other possible liabilities.

The next, and perhaps most difficult, is to project future needs and expenses of your client. Clients who are empty-nesters and/or nearing retirement age usually have a better handle on expenses. The younger clients with kids and/or looking at another 20 to 30 years before retirement are going to make the process a little more challenging. It is necessary to identify future changes in the living situations such as when the mortgage will be paid off or if the client is planning on an immanent change in living arrangements. Other residential items that need to be considered are the cost and timing of capital expenditures and even minor, but often overlooked expenses, such as housekeeping, landscaping or pool cleaning if the ex-spouse is the one who traditionally performed these tasks that now need to be paid for. Then there are the other, day to day living expenses that need to be considered, as well as the exceptional expenses such as car purchases, education expenses, medical, etc. With the exception of high net worth divorces or when both spouses make significant incomes, it will probably be necessary to really get your client to focus on the expenses that are truly needed versus the “I really want...but don’t need” expenses. This is probably the most difficult part if your client was not familiar with the day to day expenses during marriage.

The next step is to identify what sources of cash flow there will be (excluding any interest, dividends or capital gains from the aforementioned accounts....for the time being). Don’t forget to consider future payments from other types of pensions not included above, future social security benefits (which may be based on the spouse’s income if the marriage was 10 years or longer) and the child support to be received, just to give a few examples.



Future Asset Purchases

FREE CLE CLASSES IN YOUR OFFICE

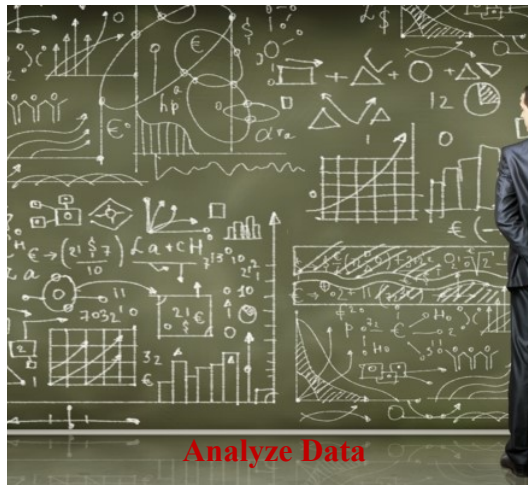
Cantor Forensic Accounting offers free 2 hour CLE* classes at your office. Working with you, I can customize a class on any Family Law accounting issue to meet your office needs and fulfill a minimum of two hours of CLE.

Topics can include:

- ◇ Business valuation issues related to marital dissolutions
- ◇ Calculation of income
- ◇ Separate property tracing
- ◇ Document requests
- ◇ Marital Standard of Living
- ◇ Income tax issues related to marital dissolutions
- ◇ Reimbursement claims
- ◇ Stock option allocations

Please call David to receive more information on these classes.

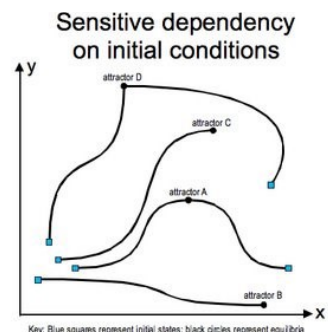
*The State Bar of Arizona does not approve or accredit CLE activities for the Mandatory Continuing Education requirements of Specialists. This activity may qualify for up to two hours toward your annual CLE requirement for the State of Arizona, including two hours of advanced level training in



Crunching The Numbers....

Once the raw data is determined, then it is number crunching time. I will look at the amount from the factors previously mentioned, then also research other factors such as life expectancy, various rates of returns (aforementioned interest, dividends and capital gains) based on the end game of the client as well as the risk factors involved, inflation rates and long term savings goals of the client (maybe the client wants to keep the principal intact until they die....or....hope that the life expectancy tables are spot on and they die on the day they run out of money).

This is an obviously over simplified explanation of the factors to consider, but as you can also see, there are so many factors that need to be considered and addressed. The best analogy that I can come up with is comparing this series of calculations to the “butterfly effect”. One small change or assumption anywhere in the process can have a very significant impact on the long-term plan. This only serves to emphasize how important it is to determine as close as possible, what all of these components are.



Conclusion

It goes without saying that this is a process that involves much interaction with and input from the client so that the best possible scenarios are determined but also educate the client so they can understand what lies ahead....and it probably isn't the thunderstorm they thought. If you work closely with your client during this final stage of the divorce, present many alternatives for asset and debt division and the impact on future spending, and finally, make sure your client is aware of what all of this means, then you will have provided a great service to your client.

Hopefully I have put a smile on your face while reading this, but please remember that this is an important issue with a long range financial impact for your client. Missing just \$200 per month in expenses now, could result in almost \$100,000 over the next 40 years, *before any adjustment for inflation*. I'll leave you with this thought; spending the extra time now dotting your i's and crossing your t's now, will result in your client thinking of money like this every month at bill paying time:



Instead of this:



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