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When marriage ends…

Written by Kyle Taggart on October 19, 2020 for The Medical Post

The three events that can seriously derail your financial life all begin with the letter D: death, disease and divorce. Since we hope to never encounter these financial demons, we tend to keep our heads in the sand, forgoing any planning that would help ease the damage. This is especially true with divorce.

Like the general population, doctors are not immune to divorce. Unlike other professionals, most doctors don’t have the option of increasing their earnings to make up for losses after a divorce. Financial recovery will take time and good planning, especially with new costs such as spousal support.

Divorce is a frequent topic on the Physician Financial Independence Facebook group run by Drs. Jane and Paul Healey. The group boasts more than 21,000 members. Dr. Paul Healey said that the topic of divorce arises on a regular basis in the group. “It comes up once or twice a month, from people who are going through divorce or younger physicians who are considering prenuptial agreements,” he said.

Those considering pre-nuptial or cohabitation agreements are savvy. It makes the division of property and spousal support discussion easier when a marriage ends, letting each member of the union start their new lives. It is something that financial advisor Glenn Ayrton recommends to all physicians entering a serious relationship, and about 20% follow his advice and visit a lawyer to draw up an agreement. “For the ones who have gone, it was a great experience. They were open, honest and they felt that it improved their relationship,” Ayrton said. He is licensed through Aligned Capital Partners and is the president and CEO of ClearWealth Advisors in Vancouver, where all new clients are physician-based households.

For those stuck in an unhappy relationship without a prenuptial agreement, there are still actions you can take to lessen the financial punch of a divorce.

Make the decision
One is to make a firm decision to stay or go if you are in an unhappy relationship. Lingering will cost you more in the long run, said Kurt Rosentreter, a senior financial advisor for Manulife Securities Incorporated in Toronto. First, the length of the relationship is often a factor when negotiating spousal support payments. Second, the more wealth you accumulate over time, the more it will cost you in a divorce. Rosentreter encounters five to six physician divorces a year in his practice.

For some, the decision may be to stay married. Some provincial medical associations provide help with relationship issues as part of their physician health programs. Ayrton helped a physician avoid divorce by helping the couple deal with a debt that one spouse had concealed and, once revealed, caused stress in the relationship.

Ayrton said that he knows of some couples who separate but don’t formally divorce. While this may be an option for some, it could pose barriers to moving forward with your new financial life.

Get organized
If you do decide to proceed with a divorce, you need to get organized before you talk with a lawyer or mediator. “They’re going to ask you a lot of questions that are going to leave you on a Saturday on your knees looking through boxes in the basement for stuff. Let’s shortcut that,” Rosentreter said.

Make a list of what you own, including bank accounts, RRSPs, TFSAs, insurance policies, pensions, investments and property. Then, make a list of what you owe, including student loans, lines of credit, mortgages, credit cards, and car loans. Find the current paperwork for each asset and debt.

Take time to get informed. The rules for how property is divided vary depending on your province or territory and you can find information on their websites. There is also guidance on Canada.ca from the Financial Consumer Agency of Canada.

Ayrton suggested that physicians consult with divorced peers or colleagues about their experience and find out “if they could do it differently, what would they do.”

If possible, try and make some decisions together with your spouse. For example, you’ll have to deal with joint accounts, including joint credit cards. Figure out when they should be cancelled and make sure that both of you have money to pay for everyday expenses until the divorce is finalized.

All this background work will save time when you meet with professionals. Since many charge by the hour, it will save you money as well. And, of course, it could lessen any surprises that would make an emotionally charged meeting even more difficult.

Get a team in place
Getting a divorce will probably require help from other professionals. For example, you may need a lawyer, mediator or arbitrator to help with the divorce agreement. As a physician, you’ll probably need an accountant to help with the tax implications of the divorce. Depending on your assets, you may need valuation experts who will assess the value of your business, your house, even your artwork. You may also need a counsellor for you or your family.

Dr. Healey said that you may need to consult a financial advisor if you have a large amount of assets.

A financial advisor can also help you get your finances organized before, during and after a divorce, said Sebastien Chevrier, a senior investment advisor and founder of Physicians Wealth Advisory in Toronto.

“Navigating any critical financial event is simplified by having an established financial plan, an organized financial life and a trusted, established team to rely on,” Chevrier wrote in an email to the *Medical Post*. Chevrier is a chartered investment manager and financial planner.

All this help costs money, and if you’re the main income earner, you’ll be paying the fees. These may be repaid during the equalization process, Rosentreter said, but it will take time to recoup the money.

Hiring professionals doesn’t mean that divorce won’t take up your time. Ayrton said the biggest cost of the divorce process may be how much time you have to take away from your practice to deal with the meetings and paperwork. Rosentreter warned that even with the best preparation, the process itself takes time as you’re waiting for appointments with other busy professionals.

Some couples try to figure out how to divide property on their own, something Rosentreter doesn’t advise. The mathematics of a divorce is not something people usually know, because when they marry, they don’t intend to divorce, he said. Untying the knot can get complicated.

“The reality is you’re a fool if you try to deal with a divorce yourself,” Rosentreter said. “I don’t care how financially astute you are, there’s always areas that you won’t know,” he said.

Support payments
As a physician, you may be the higher income earner of the couple and will likely be responsible for paying spousal or child support.

One way to pay spousal or child support is through ongoing payments. With most agreements, the amount of these payments can be reopened if incomes or situations change. While this is helpful for physicians if their income goes down, it is frustrating if their income increases.

For spousal support, Rosentreter said that he always recommends physicians take a clean break option if it is possible. A clean break option is where you pay a lump sum to your spouse instead of ongoing support payments, which can hinder professional satisfaction and impact future relationships.

There are several things to consider with a lump-sum payment, Chevrier said. One is tax implications. Lump-sum payments are not tax-deductible for the payer, while ongoing payments are tax-deductible. On the recipient’s end, a lump-sum payment may be better, because it isn’t taxed like ongoing payments are taxed. “This option is better tax-wise for the recipient,” Chevrier wrote.

In some agreements, spousal support stops if the recipient spouse remarries, so you could end up losing money if you paid a lump-sum and then your former spouse quickly ties the knot with someone else.

Ayrton helped a client couple who chose to pay spousal support through a low-interest loan rather than cashing in assets held within the medical professional corporation. The agreement meant the physician avoided additional taxation and continued to receive compound growth on the investment portfolio held within the corporation.

Some physicians may be tempted to make a lump-sum payment by taking a loan from their practice. It is best to get specific advice before doing so, because for some practice situations the Canada Revenue Agency may require the loan to be paid back by the next fiscal year, Chevrier said.

Starting anew
When it comes to personal finances, most doctors will have to go back to the basics after a divorce.

“You’re going to have to really examine your finances after you get through a divorce in order to try and build,” Dr. Healey said. “A lot of the real common-sense things we tell people about their finances—being frugal, saving your money, investing—you really have to do those now because you’ve taken a pretty big financial hit.”

Understanding your new cash flow, making a budget and identifying your financial goals will help you move forward. It will help you avoid taking on too much debt and postponing retirement.

You’ll also have to update your will, your insurance, inform the Canada Revenue Agency of your change in marital status and remove your spouse as a beneficiary from pension and registered plans if appropriate. It’s also a good idea to check your credit report to ensure that all joint accounts are closed and the report contains the proper information so you can access credit when you need it.

The big D will take a bite out of your finances. Yet, when armed with information, physicians can take steps to ensure both spouses leave the union with a strong financial future.