Divorce makes home buy hard

Money Manager/by Karin Price Mueller- www.businesstoday.com

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Problem

It's a financial challenge to buy a home of your own. And when you need one to shelter four kids - and you're getting a divorce - the challenge is pretty steep.

That's the situation for Jamie, 43, of Greater Boston. Jamie, whose name has been changed for publication, wanted the Herald's help in figuring out where she is, and where she can go, on her own.

``I just really want a three-bedroom,'' Jamie says. ``The girls in one, the boys in another, and one for me.''

The problem: To stay in the area, Jamie believes a modest home will cost between $300,000 and $400,000, even in this declining housing market.

She's renting a four-bedroom home for $1,500 per month. Costly, especially after being mortgage-free for much of her 19-year marriage.

But that doesn't mean Jamie, a computer analyst, is counting on a huge lump sum of cash when her divorce is finalized.

Instead of selling their home, her husband would like to keep it. In exchange, Jamie will keep her retirement plan - which is substantially larger than her husband's - in full. Jamie is hoping to get about $35,000 in cash from the divorce. (The divorce is amicable.)

In addition, Jamie has been stashing away as much cash as possible for the purchase of her new home. She has saved $22,000 so far in a money market account that doubles as her emergency fund.

Jamie is also saving for retirement, and she's getting a helping hand from her employer. Until her separation, she was saving 12 percent of her $69,000 salary in her employer's plan. Her company matches 20 percent for the first 6 percent of her contributions and 3 percent for the next 10 percent of her contributions. The balance of the account is about $250,000, invested with Fidelity, including Contrafund, Equity Income, Magellan, New Millennium and International Growth and Income.

Now that she's on her own, Jamie has cut back her contributions to 9 percent of her salary.

``I just wanted to have some extra money to fall back on,'' she says. ``I wasn't used to living paycheck to paycheck.''

Jamie also expects to receive child support of about $800 a month when her divorce is final. Her children are 13, 11, 9 and 7.

During her marriage, she and her husband were also saving together - in their names - for their children's college educations. Those accounts, invested with American Family of funds, are worth about $102,000, and Jamie, along with her husband, still saves $200 a month toward those accounts. She expects he will continue to help save for the kids despite the pending divorce.

``We worry about the kids more than anything,'' she says. ``We both keep their interests close at heart.''

Solution

Condo saves situation

Through a surprise inheritance that came to her husband while the Herald was examining Jamie's finances, she'll now be able to buy a house a lot more easily than previously thought.

Her husband inherited a condo that's close to his job, and he's decided to live there instead of the home that he and Jamie shared during their marriage.

That means Jamie can expect a larger amount of cash when the home is sold, says Rick Fingerman, a certified financial planner with Financial Planning Solutions, which has offices in Medford and Waltham.

``They're going to sell the house and split the assets and she'll be able to put a real chunk down on her mortgage,'' says Fingerman, president-elect of the Boston Chapter of the Financial Planning Association. ``She won't have to touch her emergency fund - which I didn't want her to do - to buy her own house.''

Because of the financial implications of the unexpected inheritance, Fingerman says Jamie is in pretty good shape. Her mortgage, even on an expensive home, will be less than the $1,500 she's paying in rent.

Overall, Fingerman is impressed with Jamie's cash flow, because she and her husband stayed debt free. No mortgage, no car loans, no credit card debt.

``The average person has a lot of debt,'' Fingerman says. ``Being debt-free gives them a lot of extra money each month.''

Of course, extra cash flow doesn't mean you don't need to plan financially, so Fingerman has some suggestions.

Jamie had cut back her 401(k) contributions to allow her to save for the new house, but she doesn't have to do that anymore.

She can boost her retirement contributions back to where they were before her separation. Fingerman says her account is in great shape, and she'll have a surplus of funds if her savings continue. If she contributes as she has been, and if she receives an employer match until age 65, the account will be worth about $2.5 million upon retirement, assuming a return of 10 percent a year.

The only note to the 401(k) plan: There was a manager change in the Fidelity International Growth and Income fund, Fingerman says, so Jamie should track the fund's performance to make sure the new manager is staying on the right track.

As for her children's college educations, Fingerman suggests Jamie consider changing the accounts over to four tax-advantaged 529 plans.

``It's a great idea, especially for the younger kids,'' he says. He cautions Jamie that she needs to pay close attention to asset allocation for the older kids to make sure they're not all in aggressive investments right up to college time.

``They need some cash-type positions, because the time frame is going down,'' he says. ``There's not that much time before she'll start to need the money.''

As Jamie negotiates her divorce, Fingerman says, she should include in the discussions what life insurance or disability insurance her husband will have once the divorce is final. Because he's paying child support, Jamie is counting on him financially.

If something were to happen to him - whether it was death or a debilitating illness that stopped her husband from earning a living - Jamie and her children would suffer financially. Fingerman suggests Jamie make sure there's enough insurance to cover their needs.

``If her husband disappears, then the money stream disappears,'' Fingerman says.

Fingerman also says Jamie needs to remember the importance of re-examining certain paperwork in the midst of a divorce.

``Don't forget to change the beneficiaries of retirement plans and life insurance policies,'' he says.

But for now, Fingerman says, Jamie is on the right track to financially survive the breakup of her marriage.

``The husband's inheritance of the condo was a godsend,'' he says. ``Now it's settled things with the house - her biggest concern.''