CAPITAL GROUP®

In case of divorce, read this

A financial playbook for navigating the early stages of divorce

Preparing for a new phase on solid financial footing.

The end of a marriage forces separating spouses to make important decisions in the midst of a highly stressful, emotionally charged time.

And because no one enters a marriage with divorce in mind, the financial planning that guides other major life transitions probably won't be in place. Laws help provide basic rules for dividing property, but that doesn't mean it's all cut and dried. Making strategic and equitable decisions means knowing your rights, staying flexible and able to negotiate, and having trusted professionals you can turn to when needed.

Importantly, working out a divorce agreement doesn't necessarily mean squaring off in court. To be sure, in most cases you'll want to consult or retain an attorney. But the role they play may vary as approaches like mediation, collaborative divorce and even online "DIY" divorces are increasingly employed by couples seeking to resolve marriages more amicably. Naturally, your circumstances will dictate your choices.

None of that is easy — especially for spouses who may have taken a backseat in managing family finances. Without the experience and information required to make informed decisions, it's easy to feel vulnerable. You'll need emotional support from family and friends, along with technical and specialized support from professionals who have experience with divorce.

Your financial advisor can be an invaluable resource, acting as a sounding board and helping guide you through the following steps and milestones that you may face. Here are six financial steps to discuss with your advisor when going through a divorce.

6 next steps to consider

1. **Check in on your finances**
2. **Gather critical documents**
3. **Understand the rules for how property is divided in your state**
4. **Evaluate and adjust your existing estate plan**
5. **Understand the rules governing retirement plan assets**
6. **Review the potential tax implications of divorce**

1 | Check in on your finances

When facing divorce, questions of financial security may loom large. Will I maintain my standard of living? What will my financial responsibilities look like? How does this impact my retirement expectations?

Your confidence in answering these questions will in part depend on your visibility into everyday finances while married. Your financial advisor can help you get a handle on the following:

Income. How much are you taking in now and how much do you expect to earn in the future? Projections aren't always simple. For example, if a shift in the balance of your responsibilities impinges on your work, your future earnings may dip. Consider carefully and be realistic about income in the context of your new reality.

Budget/Expenses. You may soon be shouldering expenses that you and your spouse once shared. Getting a handle on your monthly expenditures and developing a budget can help you create a realistic plan for the future.

Assets. To answer big questions related to housing, higher education and retirement, you'll need to know what you own, what you have saved and, eventually, what portion of it will come to you in the divorce. Getting a complete picture of what assets are at stake in the divorce may be a challenge. Some divorcing spouses even engage accounting specialists for help with this complicated chore.

One strategy for gaining a quick snapshot of your current financial status is to run a credit report. This will surface any joint financial obligations and shared debt to consider when dividing financial responsibilities and, in some cases, may also help you discover unreported assets. Taking this step early in the divorce process might also help preserve a solid credit rating, which you may need as you forge out on your own.

Who gets the advisor?

When it comes to serving divorcing clients, advisors have a duty to make sure there are no conflicts of interest and they're not favoring the interest of one spouse over the other. Depending on the relationship, one spouse may want to consider looking for someone new. The advisor may be able to recommend a well-qualified peer matched to the needs and preference of the departing spouse. In addition, a certified divorce financial analyst may be a great choice.

2 | Gather critical documents

Key to gaining a sense of control is locating and compiling the legal and financial documents that represent your life as a couple. Vital information is often scattered across filing cabinets and hard drives and may reside with specialists like estate planning attorneys and accountants. Your financial advisor can help you better prepare by helping you gather what's important.

Here is a list of some key documents and documentation you'll want to assemble.

- Wills, powers of attorney, medical directives, trusts and other estate planning documents
- Checking, savings, brokerage and retirement account numbers and statements, insurance policies
- Credit card account numbers and statements
- Mortgage statements and property titles
- Prenuptial or postnuptial agreements

Update beneficiary accounts

While you are in the process of gathering documents, pay special attention to named beneficiaries on certain accounts. Retirement accounts and insurance policies typically require owners to stipulate one or more beneficiaries who will assume ownership of the assets if the account owner dies. If your ex-spouse is a named beneficiary, a distribution of marital assets will not change that. Changing the beneficiary name is the only way to make this update.

Types of accounts with named beneficiaries

A thorough review of your beneficiary designations is a crucial step during divorce proceedings. Beneficiary changes are most often made at the individual account level with the financial institution that houses them. For example, changing the beneficiary on a life insurance policy requires direct correspondence (and likely paperwork) with the insurance company.

Questions to consider

- Do you have access to or copies of key documents?
- Are you aware of accounts that your spouse held separately as well as those you held jointly as a couple?
- Do you have a copy of any prenup or similar agreement that includes specific divorce terms? Have you read it recently?

Here are some examples of beneficiary-named accounts:

- 401(k), 403(b), IRA beneficiary designations
- Life insurance policies
- Annuities
- Health savings accounts (HSAs) and flexible spending accounts (FSAs)
- Payable-on-death (POD) bank accounts
- Transfer-on-death (TOD) brokerage accounts

Keep in mind, there are rules that govern when beneficiary changes can be made, so it's important to work with your attorney to ensure that the timing of your changes falls within the guidelines.

What about that prenup?

If you have a prenup (made prior to the marriage) or postnup (made during the marriage) agreement in place, it can influence your divorce proceedings in multiple ways. It will likely specify how your marital property is divided, apportioning it based on the terms of the agreement instead of having the division dictated by state law and the courts.

However, prenups and postnups don't cover all types of assets or override certain choices you've made in the marriage. For example, they won't impact beneficiary-named accounts, such as retirement savings accounts and insurance policies, and they don't dictate who will gain custody of minor children in the event both parents pass away or are incapacitated.

Moreover, if as part of the divorce proceedings it's determined that the divorce agreement was made under duress, it may not be binding. And even if you had a prenup drafted, unless you or your former spouse has possession of a copy, it may no longer be valid. This is why locating and reviewing the agreement and sharing it with your attorney and other specialists is a crucial step in your process.

3 | Understand the rules for how property is divided in your state

When thinking about how your marital assets will be divided, two key factors drive the outcome: the concept of marital property, and how your state views and treats that property. Understanding these things can bring greater clarity to some big questions facing divorcing couples, like, "What will happen to our investments?" "Does my partner get part of the inheritance I'm expecting?" and "Can I stay in the house?"

When it comes to your assets, it's important to understand the distinction between marital property and separate property.

Categories of property most relevant to divorce

Marital property	Separate property
This encompasses the things you earned or bought while married. It can include income, real estate and retirement plan assets. Upon divorce, these assets are typically divided equally between the two spouses.	This includes assets owned prior to becoming married as well as gifts or inheritances given specifically to one spouse.

Comingling

One factor that can blur the line between separate and marital property is what's known as comingling. Comingling is when gifted or inherited assets intended solely for one spouse are deposited into a jointly held account, which can make them part of the marital estate. Comingling can also occur if you blend the assets in a way that they are no longer distinct from other marital property. Rules in this area are nuanced and can depend on the traceability of the assets, the amount and types of funds that are comingled, and your state's laws related to division of property. Knowing the rules related to comingling is important for those seeking to protect assets received for one spouse through gift or inheritance.

Divorce is handled at the state level and thus subject to state law. And when it comes to dividing marital property, states generally follow one of two approaches: community property or equitable distribution.

Questions to consider

- How would you like to see your property divided? Does this change your lifestyle?
- Have you received or do you expect to receive gifts or inheritance?
- Have you had conversations with your spouse about how you want assets to be divided?

Two approaches to dividing marital property

Community property	Equitable distribution
Used in nine U.S. states,* this approach views marriage as a joint, equal partnership and divides all marital assets and debts 50/50.	Used in the majority of states, it aims for a fair – although not necessarily equal – division of assets based on factors like income, need and contribution.

*As of March 19, 2026, community property states include: AZ, CA, ID, LA, NV, NM, TX, WA and WI. Source: legalclarity.com.

Regardless of which system your state uses, some assets may still be considered separate property, meaning they belong to one spouse and may not be divided.

Who gets the house?

As the center of family life, the home can become a highly contested asset during divorce. One or both spouses may lay claim to it, and parents seeking continuity for children may endeavor to keep it even if it's financially impractical. Below are three common sale options:

- **Sell and divide the proceeds:** The house is sold, and the proceeds from the sale are divided between the divorcing spouses.
- **One spouse buys out the other:** The house is appraised, and one spouse compensates the other spouse for their half of the home's current value. Thereafter, the house is owned by the purchasing spouse. Key steps here are an appraisal of the home and the terms and timing of purchase.
- **Deferred sale:** The couple defers the sale of the house until a later date – for example, until the youngest child turns 18 – at which point the house is sold, and the proceeds are divided. Meanwhile, the house is occupied by one of the divorcing spouses, most often the one with primary custody of the children. A deferred sale relies on an agreement as to who will be responsible for paying the mortgage, taxes and maintenance on the residence, and whether such payments will affect how proceeds from an eventual sale are divided.

Factors like income and liquidity will determine which of these options is viable.

4 | Evaluate and adjust your existing estate plan

While married, you and your spouse may have created estate plan documents such as wills, advance medical directives or living trusts, that cover multiple and varied scenarios, including things like making one another the primary decision-maker when it comes to end-of-life care or incapacitation.

Estate plans automatically change post-divorce

Generally speaking, existing estate planning documents remain in effect after a divorce, but they don't operate in the same way. For example, in many states the provisions that benefit or give authority to a spouse are no longer effective upon divorce or even a legal separation.

In fact, in some states, an ex-spouse is considered deceased as far as the estate plan is concerned. Thus, upon death, an ex-spouse named as beneficiary would be passed over, and the assets would pass to the next beneficiary in line. Becuase these laws are designed to protect the recently divorced who die before updating an estate plan, it helps to have both parties understand these laws and plan accordingly.

Update your own estate planning essentials

Following the divorce, you will likely need to update your own estate plan. Here are a few basic documents to consider:

Will/living trust. These documents dictate how your assets are dispersed upon death and who manages that process.

Advance healthcare directive. Also known as a "living will," this allows you to appoint an individual who will make healthcare decisions for you if you can't speak for yourself. If you already have one, you may want to consult with an attorney to confirm it still reflects your wishes.

Financial power of attorney. This designates the person who will manage your financial matters if you are unable to do so.

Take a look at your trusts

If you've established a living trust, it should remain revocable (meaning it can be changed or dissolved as long as the grantor is still alive). Irrevocable trusts generally cannot be modified or nullified, although some states allow provisions allowing for certain adjustments. An estate planning attorney can help you understand how any trusts created during the marriage can be modified.

Questions to consider

- Who should be in charge of your assets in the future?
- Who will be able to make health and financial decisions for you if you are unable to do so?
- Can the plan be adjusted to reflect changes in the family's financial situation after a divorce?

5 | Understand the rules governing retirement plan assets

When seeking an equitable division of assets, retirement savings accounts such as 401(k)s and individual retirement accounts (IRAs) can be a major sticking point. This is particularly true in cases where only one member of the couple worked during the marriage and accumulated retirement assets. Your financial advisor can help you figure out how to continue to make the most of the assets you have as you plan for your retirement.

Assets contributed during marriage are marital property

Generally speaking, assets contributed to an employer-sponsored retirement plan during the marriage are considered marital property, while funds contributed before the marriage are usually treated as separate property. In other words, the fact that a spouse's 401(k) is held in their name doesn't necessarily mean they're entitled to all its assets post-divorce.

But when it comes to divvying it up, it's important to proceed carefully – particularly if both members of the couple are still years away from retirement age. Because these accounts are tax-deferred, any withdrawals made before age 59 1/2 may be subject to federal and state income tax and, if applicable, a 10% penalty tax.

Understand how retirement plans may be divided

The good news is there is a mechanism for avoiding these taxes and penalties. It's known as a Qualified Domestic Relations Order (QDRO), and it's issued during or after a divorce or legal separation to allow for the division of retirement assets in a way that lets them retain their tax-deferred growth. Importantly, a divorce decree itself does not change anything related to these accounts. Until a QDRO is filed, your former spouse may be listed as a beneficiary. Once issued, separating spouses can initiate whatever sales, transfers and reinvestments are required to comply with the divorce agreement.

Notably, IRA assets are treated similarly but are divided up differently through the use of what's known as a "transfer incident to divorce."

Questions to consider

- Will divorce impact your current retirement plan?
- How will you continue to save for retirement?
- Do you need to make adjustments to boost your savings or change your retirement assumptions?

6 | Review the potential tax implications of divorce

When it comes to taxes, divorce has many potential impacts. This includes near-term effects, like the probability you'll find yourself in a different tax bracket, as well as longer term impacts, such as the tax treatment of different types of marital assets. It's essential to work with your team of specialists, including your lawyer, CPA and financial advisor, when thinking through and planning for the tax implications of divorce.

Assess your near-term tax liability

Income taxes. Filing as a single person, rather than jointly with a spouse, may result in a change to your annual income tax bill. For one, you'll likely find yourself in a different bracket. Also, only one parent can claim the child tax credit and dependent exemption per child per year, which is something you may have to negotiate with your former spouse. You'll need to develop post-divorce income tax projections to ensure you have sufficient assets to meet obligations.

Alimony. In cases where alimony is involved, taxes can be tricky depending on the timing of the divorce. For divorces finalized in 2019 or after, at the federal level, alimony payments are not deductible by the paying spouse and are not considered income of the recipient spouse. For divorces finalized in 2018 or before, the opposite is true: The paying spouse can take a deduction, and the recipient reflects the payment as income on their return. State tax law related to alimony varies, reinforcing the need for professional guidance.

Child support. Payments are generally not deductible on the payer's income taxes, nor considered income to the recipient.

Other potential tax liabilities. Formerly shared taxes that may come into play include property taxes, which typically become the responsibility of the spouse who retains possession of the family home. Spouses will also retain shared responsibility for tax liabilities related to jointly filed past returns. Factor in tax treatment when dividing assets.

When dividing your marital assets like retirement accounts and taxable brokerage assets, it's important to remember that not all dollars are created equal. For example, a $100,000 brokerage account with sizable built-in gains isn't equal to $100,000 cash. And assets in a Roth IRA or 401(k) should be valued differently than those in a traditional IRA or 401(k). When discussing divorce settlements, it's important to think about these assets in terms of their after-tax values in order to ensure their legal and equitable division.

Questions to consider

- What are the potential ways the divorce will impact your overall tax picture?
- Do you have any tax liabilities associated with previously filed joint returns?
- What types of investment accounts hold your assets? Taxable accounts? Employer-sponsored plans? Roth and/or traditional IRAs?

Taking care of the kids

Key moves to ensure children's financial health and welfare

Finances are important, but for divorcing parents, decisions related to the care and well-being of their children are paramount. Peace of mind likely requires revisiting — and likely adjusting — choices made during the marriage. Divorce proceedings will eventually force divorcing spouses to tackle these questions, but doing so early in the process can help spare you and your children additional conflict and uncertainty during a challenging time.

The court will ultimately decide issues like custody and visitation, but parents generally determine who serves in the following three key roles should both parents die or become incapacitated. Gaining agreement on them is an important logistical and emotional milestone.

Guardian. The guardian assumes responsibility for the physical and personal care of the minor children. Some states also appoint "guardians of the estate" to be responsible for assets left outright to a minor child, until the child reaches the age of majority.

Executor. The executor ensures the terms of a will are carried out in accord with the decedent's wishes.

Trustee. Trustees oversee the ongoing administration of trusts and the disposition of terminating trusts.

One common question is whether the same person should serve in multiple roles. There's no "right" answer, but the roles do require different skill sets and commitments. While your first instinct may be to name a grandparent, for example, consider aspects such as age, physical limitations, where this person lives, how close they are to the children, and so on. In addition, separating the responsibilities creates checks and balances and provides multiple perspectives — an important consideration in cases where there may be worries about relinquishing control to friends and family of one's former spouse.

Keep in mind, these decisions can always be reconsidered. If needed, you can opt for a shorter term choice and update the names later on.

Resources to support you during divorce

The prevalence of divorce means there is no shortage of information available to those going through it. So whether you're trying to find an attorney, understand the ins and outs of dividing assets or seeking ways to soften the blow for your children, the following resources may be of help:

"The Good Divorce"
by Constance Ahrons
Guidance on maintaining a functional co-parenting relationship and reframing what a successful divorce looks like.

"Crazy Time: Surviving Divorce and Building a New Life"
by Abigail Trafford
An interview-based guide to mapping the emotional phases of divorce, from crisis to recovery.

"Divorce & Money"
by Violet Woodhouse
A straightforward overview of the financial challenges and decisions presented by divorce.

"Getting Divorced Without Ruining Your Life"
by Sam Margulies
Strategies for navigating negotiations while minimizing emotional and familial damage.

"The Co-Parenting Survival Guide"
by Elizabeth Thayer & Jeffrey Zimmerman
Practical guidance on moving past hostility to create a co-parenting relationship that benefits children.

American Academy of Matrimonial Lawyers (AAML) (aaml.org)
A resource for helping locate highly credentialed divorce attorneys.

Collaborative Divorce Association (collaborativepractice.com)
A directory of professionals trained in non-adversarial divorce.

In addition, there are many online communities focused on helping those divorcing navigate the ins and outs of a very challenging process. There are also seminars, courses and programs, some aimed at providing emotional support and others that also cover the legal and financial aspects of the process.

Lit. No. MFGEBR-502-0726P Printed in USA CGD/TM/10767-S114587