Morgan Stanley

Navigating Divorce

Planning for the New Beginning

A New Beginning. As you begin to plan for this next stage in life, it is important to evaluate the impact divorce can have on both your personal and financial matters. The more you know and the better you understand your options, the more likely you are to make sound financial decisions. Learn how to build a solid financial strategy that may help provide you with greater security and flexibility in the future.


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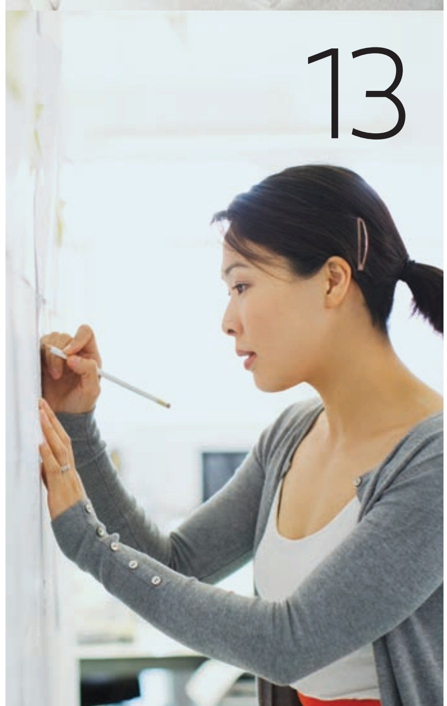
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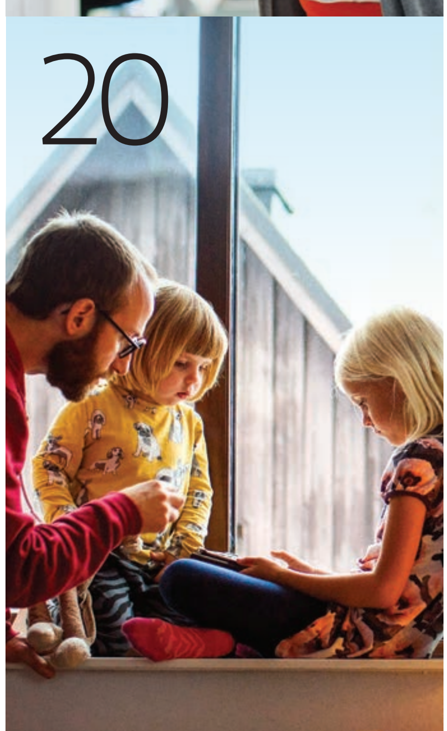
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Insurance
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Child Support
College Costs
Budget
The Kids
Social Security
Marital Property
Taxes
Retirement Savings
Investments
Estate Plan
The House
Family Business
Credit Report

Divorce and Dollars

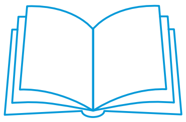
If you are not yet officially divorced, understanding the process and knowing the rules can help to maintain an amicable environment. It can also help keep both parties' interests in sync.

As you navigate the divorce process, you may be faced with an array of complex matters, from the very personal to the extremely practical. As in most situations, the better you understand what's happening around you, the more in control and confident you'll feel, and the better decisions you are likely to make.

The legal landscape of divorce is well mapped, and while there are intricate points of law that may have a bearing on your situation, you really only need to understand a few core concepts at the outset, especially when you have a adequate counsel. What should you do in advance? How will property likely be divided? What advisors do you need? When you are prepared with the right knowledge and team, divorce can go more smoothly and predictably than you may anticipate. ▶

Who Gets What?

The divorce process involves a financial separation as well as an emotional one. Which assets will you own following the divorce, and which will be owned by your former spouse?



THE FAMILY BUSINESS

If you or your spouse owns a business, or if you started one together, it may be your marriage's most valuable asset. If it is a primary source of income for you and your spouse, it may not make financial sense to sell or liquidate it. Valuing your business in these circumstances is complex and likely to involve appraisals, income projections and significant analysis on the part of your respective accountants. Determining the most appropriate course of action will, in all likelihood, require extensive negotiation. However, operating agreements may include dissolution remedies. A review of all documents can be well worth it.

In an uncontested and/or mediated divorce, the two of you may be able to divide your assets on your own, and then have that agreement memorialized by your attorneys. If future ownership is in dispute, however, a court may have to decide. How the judge will make that decision will depend largely on guidelines set out in state law. While specifics vary significantly from state to state, you should be aware of some key concepts, including marital and nonmarital property and equitable distribution.

Marital Versus Individual/Nonmarital Property.

Marital property includes virtually all property that you and your spouse acquired during the marriage: real estate, investments, bank accounts, art collections, cars, boats and so on. Almost anything owned by you and your spouse will be included except property that was:

- Given to one of you or that you inherited
- Acquired before marriage
- Acquired using property that was a gift, inherited or already owned before the marriage
- Excluded by a prenuptial or post-nuptial agreement

You should discuss the issue of marital property carefully with your attorney, because it can become very complex depending on how nonmarital assets were combined and used during the marriage. What's more, appreciation of nonmarital property during your marriage may be considered marital property under the theory of equitable appreciation in some jurisdictions.

DIVIDING MARITAL PROPERTY. Most states will rely on the concept of *equitable distribution* in dividing marital property. The goal is to achieve a division that is fair based on a range of considerations, including the contribution of each spouse to acquiring and maintaining the marital property, the length of the marriage, needs related to child custody, and the financial needs, circumstances and future prospects of each spouse. In a contentious divorce, it is important to have a knowledgeable divorce lawyer to ensure that all relevant factors are included in your case.

Another system that exists for dividing marital property is the "community property" approach, which is used in nine states. In these states, property is divided evenly between the spouses, regardless of how it came into the marriage or the projected financial needs of either spouse. Clearly, the classification of community property versus nonmarital property takes on special importance in the division of assets. ■

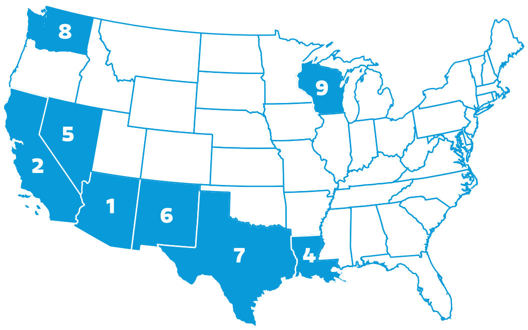
DIVORCE AND DOLLARS / HOUSE AND HOME

What About the House?

Deciding whether to keep or sell the house you've lived in and may have raised children in can be one of the most complex decisions you face. Few questions present such a tightly woven blend of emotional and financial issues.

TO SELL OR NOT TO SELL? Keep in mind that decisions involving a house, condo or co-op should not focus solely on value. You should also consider liquidity, cash flow and the cost of maintaining the asset once you own it. That can be a significant financial burden that may preclude other opportunities or needs—like a sound retirement plan. Alimony and child support may help, but they are likely to be time limited. What will be best for your long-term interests? That's probably not an easy question to answer. An accountant or Financial Advisor may be useful when determining basis, value and taxation of assets. Be sure to discuss the implications and responsibilities of taking ownership. ■

COMMUNITY PROPERTY STATES



1 Arizona
2 California
3 Idaho
4 Louisiana
5 Nevada
6 New Mexico
7 Texas
8 Washington
9 Wisconsin

Don't Go It Alone

Assembling a strong, experienced team of confidential professional and personal advisors — your personal board of directors — can provide critical guidance and support, helping you make more informed decisions while you approach the future with greater confidence. Consider building a team that includes:

YOUR OWN LAWYER. Yes, it is possible to get through a divorce without a lawyer, but usually it's not wise. Your lawyer takes on the responsibility of safeguarding your best interests and can deal objectively and unemotionally with the many complex matters that typically arise. Plus, an experienced lawyer can offer you valuable perspective on the tough decisions you will have to make.

YOUR OWN ACCOUNTANT. Your tax filing status changes significantly as the result of a divorce. An accountant can advise you on matters such as income and capital gains taxes, gifts of marital property, incidence of gift splitting during the marriage—as well as any residual tax issues that may linger from your marriage.

YOUR OWN FINANCIAL ADVISOR. You and your spouse may have worked with a financial advisor to help plan and manage assets during your marriage. Now you need a financial advisor who can focus solely on you and your needs and plans — on a completely confidential basis. Your financial advisor can help you understand the assets you own and your liquidity and cash flow issues, as well as strategies for reaching long-term objectives such as educating a child or planning for retirement.

YOUR OWN PERSONAL COUNSELOR. Divorce is a legal, financial and emotional process. If you don't feel comfortable discussing certain private matters with your financial or legal advisor, you might consider seeking a therapist, clergyperson or other personal counselor. Their help may become invaluable as they guide you through the very human side of divorce. ■

INFORMATION IS POWER

When you have comprehensive, accurate information, your attorney can represent you more effectively, and you will be able to shape your own financial life more quickly. Try to assemble this information as early in the process as possible:

- ☐ Bank accounts
- ☐ Financial statements
- ☐ Tax returns for the prior three years
- ☐ Investment/brokerage accounts and mutual funds
- ☐ Retirement (IRA, 401(k), etc.) and pension plans (both yours and your former spouse's)
- ☐ Social Security benefits statements
- ☐ Employee benefits coverage (health, dental, short-term disability and long-term disability for you and your former spouse)
- ☐ Military benefits
- ☐ Credit card statements
- ☐ Mortgage statements (including first and second mortgages and home equity credit)
- ☐ Car, boat and other loans
- ☐ Loans you or your spouse may have guaranteed
- ☐ Pending loan applications
- ☐ Lease agreements
- ☐ Purchase and sale agreements
- ☐ Employment agreements
- ☐ Partnership agreements
- ☐ Estate planning documents
- ☐ Will
- ☐ Living will
- ☐ Powers of attorney
- ☐ Trust documents (for trusts established by you or your spouse, and for trusts of which you are a beneficiary)
- ☐ Durable medical powers of attorney
- ☐ Life insurance
- ☐ Homeowner's insurance
- ☐ Umbrella liability
- ☐ Car insurance
- ☐ Long-term care insurance
- ☐ Prior taxable and nontaxable gifts to others
- ☐ Appraisals for art, collectibles, jewelry and other high value items

1 Request a copy of your credit report

2 Establish credit in your name

Taking Control

You're in charge now, and you can take significant steps to help build a secure financial life. One of the most important tasks is building your credit—but that's not all.

Credit is an important part of most people's finances. It undoubtedly played a role in your married life, and it probably will be important when you are divorced. Credit can help you accomplish many goals now that you are independent, and it can be an important source of confidence and flexibility.

What's more, there are other aspects of your personal financial life that deserve your attention—all those outdated beneficiary designations on insurance policies, for instance. The sooner you establish your own financial identity, the more comfortable you will be as you move forward. It's all part of being in control of a new financial life. ▶

What can you do right now?

3 Open your own bank account

4 Change the beneficiaries on key documents

5 Create a new, private email account

6 Set up your own mailing address

7 Get a separate cell phone plan

Declaring Credit Independence

Using credit wisely and maintaining your good credit are important concerns at any time—but paying attention to credit is especially important during and after your divorce.

Distractions and financial pressures can multiply during divorce, along with the likelihood of making late payments or missing them altogether. Managing your credit may be something new to you if your former spouse handled your joint finances, but it is a critical skill to develop when you are on your own.

CHECK YOUR CREDIT REPORT. A good credit report may translate into financial flexibility. Equally important, credit scores are used by many types of organizations for purposes that extend beyond credit. For example, insurance companies and prospective employers may request authorization to review your credit reports as a qualifier for employment or coverage.

NOTE THE WORD "REPORTS." There are three primary credit reporting agencies that monitor your credit: Equifax, Experian and TransUnion. You are entitled to request a free credit report from each of these agencies once a year. Because each company scores your credit and reports it slightly differently, it is important to check all three. Fortunately, that is not as complex or time consuming as it sounds. One easy and free way to start is to visit this government-approved website: www.annualcreditreport.com/cra/index.jsp.

Your credit report will be based on a number of factors, including your payment history. If you and your spouse were both listed on an account, payment history for that joint account will influence your individual credit score. That will continue to be true for as long as your name is associated with an account.

You have the right to correct errors on your credit report, and it is important that you do so as quickly as possible—but you won't know about the errors unless you request the report.

PROTECT YOUR CREDIT. Joint credit may not be appropriate after divorce, since there is a risk that your credit rating can be affected by the actions of your former spouse. You may opt to close joint credit cards and other joint accounts. Remember, even after your divorce, if you signed the original credit application, you can be held responsible.

ESTABLISH YOUR OWN CREDIT. If you haven't already, one of the first things you can do to establish credit is to open your own bank and investment accounts. If you work with a financial advisor, he or she may be able to help you gain access to credit as part of that relationship. If your credit reports are strong, you may want to apply for credit accounts in your own name. A secured loan, such as an auto loan, is often a faster and easier way to establish an independent credit history than an unsecured account. ■

The creditor can require you to reapply for credit on an individual basis and then, based on your new application, extend or deny you credit.

Factors Influencing Your Credit Score

1	2	3	4
Your payment history, including individual and joint credit cards and accounts	The amounts you owe and how much credit you use	The number of recently opened accounts and recent requests for credit reports	Types of credit you use—for example, secured versus unsecured

The Value of Liquidity

In uncertain times, access to liquidity can give you flexibility in your decision-making. In the long run, this may help you to preserve your investment strategy. Selling financial assets to cover expenses can carry costs that are not obvious, including tax consequences and the potential loss of future growth. This is particularly true for assets that have been set aside

Who Are Your Beneficiaries?

Chances are, when you were married, you named your spouse as primary inheritor in your will, as well as the beneficiary of your life insurance policies and retirement accounts. Your spouse is probably also named in your other estate-planning documents, your medical directive and your power of attorney. Besides being named in your personal accounts, your spouse may have been named a beneficiary by your parents, your siblings or other family members. It is a good idea to create a list of all of the relevant documents so you have current information about whose name appears in them.

While you may want to change these designations quickly, it is imperative that you get advice from your lawyer before doing so. Some states do not allow for changes during the divorce proceedings; other states won't recognize changes made just prior to the divorce. In certain cases, sanctions may be attached to changes that are made before a divorce is concluded by approval of your agreement by the court, or judgment of the court after trial. In fact, some changes require the consent of your former spouse even after the divorce becomes final.

The two documents you can and should change as soon as possible are your medical directive and your power of attorney. Otherwise, your soon-to-be ex will continue to be able to make medical or financial decisions for you in the event you are not able to do so. ■

in retirement accounts, which generally carry penalties for early liquidation.

If you qualify, you may consider establishing a securities-based loan to meet a variety of needs such as unexpected expenses, purchasing real estate or a car, funding a business and more. There are typically no fees to establish or maintain a securities-based loan.[1] ■

Borrowing against securities may not be suitable for everyone. You should be aware that there are risks associated with a securities-based loan, including possible margin calls on short notice, and that market conditions can magnify any potential for loss. For details please see the important disclosures at the end of this brochure.

Understanding Your Credit Score

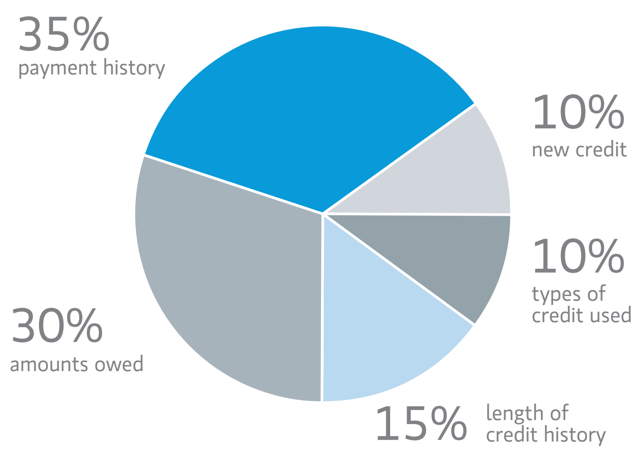
Understanding your credit rating is more complex than it used to be, now that there are two systems: the original FICO system, which provides purely numerical ratings; and the newer VantageScore system, which computes a different set of numbers and translates the score into a letter grade.

FICO, the better known and still more frequently used of the two systems, is an acronym for the Fair Isaac Corporation, which developed the credit scoring concept. The VantageScore system was developed by an independent corporation established by the three credit reporting companies: TransUnion, Experian and Equifax.

Because the two scoring systems are different, it is important to know which set of numbers (or numbers and letters) your lender is using to evaluate your credit.

What's in Your FICO Score

FICO scores are calculated from information contained in your credit report and grouped into five categories as shown in the chart below. The percentages reflect how important each of the categories is in determining your FICO score. (Source: http://www.myfico.com/crediteducation/whatsinyourscore.aspx).



What Your Score Means

Generally, the higher your credit score, the lower the risk you are likely to represent in the eyes of a lender. This table will give you an approximate idea how your FICO score and VantageScore match up.

FICO		VANTAGESCORE	
Excellent	760–850	A	900–990
Very good	700–759	B	800–899
Good	660–699	C	700–799
Below average	620–659	D	600–699
Poor	580–629	F	501–599
Very poor	500–579		

(below 640 is considered "subprime")

Know where your money comes from — and where it goes.

Making It Work

The good news is you have more control over your finances than ever before. If you aren't already financially savvy, it may be time to develop some new financial skills and habits.

Divorce can be a time of many changes. You may be moving from a world of two incomes to one. You and your former spouse will almost certainly be moving from supporting one household to paying for two. Your divorce decree is going to spell out things like alimony and child support, if they are relevant, but you still are going to be piecing together an unfamiliar financial puzzle.

For your own peace of mind, you will probably need to develop some new financial habits and disciplines. Budgeting may not have been a problem during your married life if cash flows were adequate or even ample. You may not have had to worry about the record keeping that goes along with paying income and property taxes, and maintaining the adequate levels of the right insurance could be something you thought little about.

Your accountant and financial advisor can help you develop sound approaches for day-to-day management. Still, the reality is you are likely to play a more important role in your own financial life than ever before. ▶

Building a Budget

Knowing where you stand financially, especially when it comes to your cash flow, starts with a budget.

Even if you did not have a formal budget during your marriage, it may still be useful to create a predivorce budget now. If you are in the midst of the divorce process, an accurate prebudget can be a valuable negotiating tool and, if a court is involved, it can help the judge evaluate alimony and child support needs. In addition, with predivorce and postdivorce budgets, you can compare income and outflows and begin to gauge any changes that divorce could make in your lifestyle.

At its most basic level, a budget adds up your sources of monthly income and then subtracts your monthly expenses. At a comprehensive level, however, a budget can have dozens of line items. That may sound complex, but the more time you spend preparing your budget, the less likely you are to overlook sources of income (remember that modest interest income on your money market?) and expenses (did you forget your share of your parents' cable television package that your siblings gave them last year?).

Fortunately, there are several excellent computer programs that can help you organize a budget and track variations from month to month. In addition, these programs can help you organize the data you will need to file your tax returns (see below). ■

What's in a Budget?

It is easy to overlook items when putting together a comprehensive budget. Make sure you analyze each of these categories carefully.

WAGES/SALARY/BONUS

ALIMONY

INVESTMENT INCOME

CHILD SUPPORT

RENTAL/REAL ESTATE INCOME

BANK INTEREST

HOME
- Mortgage or rent
- Condo/co-op fees
- Home loans
- Maintenance (landscaping, pool, snow plowing)
- Property taxes
- Housekeeper

UTILITIES
- Telephone (both landlines and cell)
- Cable
- Internet
- Electricity
- Gas
- Water
- Garbage

FOOD
- Meals in
- Meals out

TRANSPORTATION
- Car loan or lease
- Gas
- Maintenance
- License/registration
- Cabs
- Public transit

MEDICAL
- Physician
- Dentist/orthodontist
- Glasses/contacts
- Prescriptions

CHILD EXPENSES
- Tuition and fees
- Uniforms
- Lunches
- Counselor
- Camp
- Music or other lessons
- Child care/babysitters
- Allowance

ENTERTAINMENT
- Vacations
- Electronics
- Movies
- Outings

INSURANCE
- Life
- Home
- Auto
- Medical / health
- Disability
- Long-term care

TAX RELATED
- Quarterly estimated payments
- Regular withholding
- Year-end payments
- Alimony (if you pay)
- Child support (if you pay)

BUSINESS AND PROFESSIONAL

MISCELLANEOUS
- Charitable contributions
- Parental support/eldercare
- Personal gifts
- Pet care
- Subscriptions

MAKING IT WORK / ALIMONY

The Reality of Alimony

As with most things related to divorce, alimony laws vary from state to state. Fundamentally, however, alimony—also known as "spousal support"—is a monthly payment that one former spouse is required to make to the other as part of the divorce settlement. There are four types:

- Temporary support is paid during a separation before the divorce is final. It is likely to change, or cease altogether, depending on the final agreement.
- Rehabilitative support is also temporary in that it is designed to last until the receiving spouse becomes self-supporting.
- Permanent support lasts until the death of either former spouse, or until the receiving spouse remarries or begins living with another person. (Keep in mind that permanent alimony can be increased or decreased by a court, and that there has been recent discussion of reducing alimony when the paying spouse reaches retirement age.)
- Reimbursement is designed to repay one spouse for specific expenses they helped pay during the marriage, such as the cost of medical or law school for their former spouse.

Courts award alimony based on a number of factors, including how long you were married, your predivorce lifestyle (which makes a predivorce budget important), the disparity in earnings between spouses and the health of the receiving spouse. ■

ALIMONY:
Tax treatment of alimony is dependent on the year in which your divorce or separation agreement was finalized. See the explanation under Tax Time.

CHILD SUPPORT:
Payments defined in the divorce agreement that are intended to support a child or children and are neither deductible nor taxable to either spouse.

For more information, visit www.irs.gov and download IRS Publication 504.

MAKING IT WORK / TAXES

Tax Time

Perhaps the most important tax subject, and certainly something central to your budget, is child support and alimony. Child support is neither deductible for the paying spouse or taxable to the receiving spouse. The Tax Cuts and Jobs Act of 2017, however, made changes to the tax treatment of alimony in divorce and separation agreements. Timing is important as the changes impact divorce decrees and separation agreements finalized in 2019 or later.

Divorce decrees or separation agreements executed after 2018; or before 2019, but modified after 2018:

The paying spouse may not deduct the payments and the receiving spouse does not have to include the payments in income.

Divorce decrees or separation agreements executed prior to 2019.

Qualifying alimony payments are grandfathered. They are deductible by the payer spouse and taxable to the recipient spouse, unless a modification is made and states that the new tax laws will apply.

Tax treatments can significantly impact your income, making it particularly important to get good advice before you finalize any agreements.

Additional issues you may encounter include:

- When it is appropriate and advantageous to consider filing a joint tax return with your spouse—and when it is no longer legal.
- Whether you can take advantage of filing as a head of household because a dependent lives with you.
- Claiming a child or children as dependents on your tax return. (In general, you must be the custodial parent.)
- Tax credits for work-related child care expenses if your child is younger than 13.
- Deductions for a child's medical expenses. (Generally, the parent paying can take the deduction, even if he or she is not the custodial parent.)

It is very important that you discuss these changes with your own qualified tax advisor or accountant. ■

Inside Insurance

HEALTH INSURANCE

If you have been covered under your spouse's employer-provided plan, you have the right to continue coverage for a set period likely at a higher cost following your divorce. This coverage, frequently referred to as COBRA (after the law that mandates it), can be expensive and hence a topic of negotiation. Be sure to pay close attention to any related deadlines. Coverage for your children can be maintained under a qualified medical child support order (QMCSO), which may require your former spouse to continue coverage under the employer plan.

LIFE INSURANCE

If you are receiving child support payments—or your former spouse has agreed to pay or share future education costs—life insurance naming you as beneficiary can help make certain these obligations are met if your former spouse dies.

DISABILITY INSURANCE

Disability income insurance can help make sure your former spouse can continue to meet financial obligations to you and your children. In addition, if you work, you may want to purchase a policy that helps to protect your personal income.

AUTO INSURANCE

It may make economic sense to continue to insure vehicles belonging to you and your former spouse under the same policy. If you do, make sure that all information—like registered owners and new addresses—is updated with the insurer. Note that costs are likely to increase.

HOME INSURANCE

If you will take full ownership of your home after the divorce, be sure to remove your former spouse from the policy.

The Long View

Achieving your long-term goals, whether they are educating a child or retiring comfortably, depends more than ever on you.

While you were married, it may have been easier to focus on retirement plans or college costs. These may have felt like shared goals, and you may have been on a more comfortable financial footing. Although divorce can cause you to divert from your original plan, with good advice and sound planning, you can get back on track.

As a single person, you can arrange to have your money managed in the way that makes the most sense for you — taking into consideration your objectives, comfort level, risk and time horizon. You can also take advantage of plans that offer tax-deferred, or even tax-free, investment earnings potential as you pursue retirement goals for yourself and education goals for your children. While you now have more responsibility, you have also gained more flexibility and control — advantages that can serve you well as you focus on the long view. ▶

Life Flows Quickly.

Someday, your long-term goals will become immediate needs.

Retire

Attend graduation

Look at long-term care insurance

Save for college costs with a 529 plan

Establish your own retirement plan

Think through retirement costs

Divide retirement assets

THE LONG VIEW / RETIREMENT PLANNING

Retiring With Your Fair Share

When you are in the middle of the divorce process, retirement may not be high on your list of things to think about. Still, if you ignore it — specifically, the assets held in your own or your spouse's retirement plan — you could be doing a major disservice to yourself and your future financial security.

Retirement plan assets are usually regarded as marital property, which means that there is an expectation they will be divided between the divorcing spouses. These assets typically include 401(k) plans, individual retirement accounts (IRAs) and even defined benefit pension plans that are sponsored by your spouse's employer. Determining the actual amount either due to you or that you have to pay out and dividing the assets can be a complex process involving both federal and state law. Pension plan assets, the benefits of which may not be paid for years down the road, are particularly difficult to divide. All this underscores the point that you, your attorney and other advisors should look carefully at these assets, because after your divorce is finalized, it will be too late.

TRANSFERRING ASSETS. Complex tax laws and strict distribution requirements surround retirement plans. Moving assets from one spouse's retirement plan or IRA into the other's account—typically an IRA set up for that purpose—takes planning and paperwork. Generally, for a 401(k) or pension plan, the administrator of the retirement plan will have to be provided with a qualified domestic relations order (QDRO) that has been approved by a judge and customized according to the rules of the retirement plan. A lawyer will have to perform some up-front work to make sure the QDRO follows the plan guidelines.

The typical QDRO identifies the participant from whose account the assets will be taken and names the recipient, as well as specifies the dollar amount and number of payments, the reason for the QDRO and the account to which the funds will be paid. Funds received directly by the recipient may be subject to tax withholding. This issue can be avoided by making a direct transfer into an IRA. However, there is an opportunity for the alternate payee (e.g., the former spouse who is receiving a share of his or her former spouse's retirement plan asset pursuant to a QDRO) to withdraw funds for immediate use without paying the usual 10% early withdrawal penalty.

The process of transferring funds between each spouses's IRA is less complex. Generally, those funds can be moved directly from one spouse's IRA into the other's IRA without incurring any income taxes or penalty taxes —provided the divorce order issued by the court specifically requires the transfer of an interest in the IRA at issue. ■

DIVORCE LATER IN LIFE

Late-life divorce is becoming increasingly common. Since 1990, the divorce rate for Americans over the age of 50 has doubled, and more than doubled for those over the age of 65.[2]

If you are over age 50 and getting divorced, you may face special challenges. For instance, if you and your spouse have not accumulated sufficient assets for you both to be "comfortable," you may have a difficult time building an adequate retirement portfolio. Projecting living expenses for the years ahead becomes particularly important as long-term care and other costs are likely to be higher priority concerns.

Under such circumstances, division of marital assets becomes even more critical, careful analysis and planning are even more important, and advice from an experienced attorney and financial advisor is essential. Understanding the value of assets and retirement accounts along with potential tax implications can influence your decisions both during and after your divorce. This clarity can allow you to build and adjust your financial plan for the next phase in your life.

THE LONG VIEW / A HIDDEN BENEFIT?

A Social Security Secret

If needed, you are entitled to up to one-half of your former spouse's Social Security retirement benefits when you retire. This rule applies when:

- Your marriage lasted more than 10 years
- You are at least 62 years old and unmarried

You can receive these "derivative benefits" even if your former spouse has not retired. If your former spouse is retired and receiving benefits, neither of your benefit amounts will be reduced. If you have more than one former spouse but were married longer than 10 years both times, the benefit will be based on whichever earnings record pays you the higher benefit.

Be sure to compare any benefit you might receive on your own with the derivative benefit amount, because you will only receive one Social Security check. ■

Kids and College Costs

If you have children, your divorce agreement should include specific provisions related to education expenses. Otherwise, you may find yourself backed into a corner at a later date, forced to tap assets you had earmarked for retirement or other purposes. If you remarry, you may also find that your new spouse's assets and income become a factor in any legal dispute with your former spouse over college costs.

MAKING THE GRADE. Of course, there are many types of loans and grants available to help students make it through college. Keep in mind, however, that programs based on government assistance may be curtailed in the years ahead.

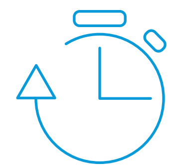
One answer that many parents have turned to is the 529 college saving plan. If you and your former spouse already had established one, you will probably want to divide these assets in the divorce settlement. If you do, you can rollover your portion of the 529 assets to another 529 plan. You may also want to have the divorce agreement specify your former spouse do the same. If you liquidate the plan according to the rules of the Internal Revenue Service, you may be able to claim any losses on your federal income tax return.

You will probably want to divide these assets in the divorce settlement.

STARTING A NEW PLAN. If you are unfamiliar with 529 plans, here is the major benefit: Although you fund the plan with after-tax dollars, investment earnings in the plan accumulate tax-free until you withdraw money to pay for college. As long as you use the money for tuition, room and board or other college-related costs, there are no taxes. These rules apply no matter how high your income.

Each state has its own 529 plan, and some states have multiple plans. Each plan is overseen by an administrator—like Fidelity, Vanguard or another firm—that manages investments. Two types of plans are available: prepaid plans, which effectively lock in the price of certain annual costs, such as tuition; and investment plans, which give you more flexibility in how funds can be invested and used.

NONEDUCATION WITHDRAWALS. You can withdraw funds to meet other expenses if you need to, but any gains will be taxed at ordinary income rates, and there is likely to be a 10% tax penalty. Tax-free and penalty-free withdrawals are generally allowed if your child is awarded a scholarship, becomes disabled or does not live to eligibility. ■



CONSIDER LONG-TERM CARE INSURANCE

These policies are designed to help cover costs if you are unable to care for yourself because of age or illness. It's important to apply as early as possible, because this coverage usually costs more as you get older. Another factor to keep in mind: Women are generally expected to live longer than men, which means they are likely to require care for a long period.

529 Plan Facts

- Money saved in 529 accounts can be used to pay for tuition, room and board, books, computers and other required supplies.
- When used for these purposes, withdrawals are generally tax-free.
- The account owner retains control of account assets and can change the beneficiary at any time.
- Should one child decide not to go to college, the money can be used to help finance the education of another family member.

Kids, Divorce and Money

Divorce almost always involves money, and it often involves children. What happens when these two topics intersect?

Divorce can affect children in many ways, reflecting differences in age, personality and coping skills. As a parent, you may try to protect, comfort, manage and control, depending on the circumstances or issues.

One issue in particular deserves special attention when it comes to kids, yet often remains below the surface: money. Even in the best of times, it can be difficult for parents to discuss finances with their children, often shortchanging an important facet of their education. Given the uncertainty and exhaustion that can accompany divorce, it may seem easier to let tough discussions about money slide.

According to Joline Godfrey, author of "*Raising Financially Fit Kids,*" that nonapproach can magnify insecurities while hampering the development of some key life skills. In this interview, conducted exclusively for Morgan Stanley, Joline discusses the importance of financial openness and education, particularly in the topsy-turvy environment of divorce. ▶

To find out what they're thinking, listen.

"Yeah, I guess I can help out more."
Age 13 to 15

"It's time to get on with *my* life."
Age 16 to 18

"What's going on? Did I do this?"
Age 9 to 12

Helping Your Kids Make Financial Sense of Divorce

At what age can kids begin to understand basic ideas about money?

JOLINE GODFREY (JG): In the womb—or sometimes it seems that way. There is good research suggesting that financial imprinting begins as early as 18 months. Everybody knows how effectively a three-year-old can manipulate a parent returning from a trip by asking, "Where's my present?" That's a form of bargaining.

So kids are more financially conscious than we realize?

JG: They are—but not necessarily in the right way or for the right reasons. Sometimes it's just about competition or status. Kids have questions about money along with everything else, and they have more ways than ever to get answers. For instance, social media, which gives children access to more information than you can possibly imagine, carries some unintended consequences. One father told me a story about his nine-year-old son, who got up from the computer one night and said, "Look how much my house cost." The boy had gone to an online real estate service and looked it up—along with the prices of his friends' houses. It's almost impossible to prepare for situations like that, but they happen all the time.

It can be daunting for a parent. The monster delusion is that if we don't tell our kids about something, we are protecting them. So if we don't talk to them about money, we are shielding them from all the messiness that goes with it. In reality though, it's usually because we're less than comfortable discussing it ourselves. In the process, we're missing an opportunity to prepare kids for the world and give them some practical exposure to values we hold dear.

> "It's not that children shouldn't be involved or consulted, but passing the buck because you don't want to do the hard work of taking a stand in your own life or as a parent is very destructive to kids."
>
> –Joline Godfrey

How do parental attitudes affect kids in a divorcing family?

JG: On the one hand, you often have immature parents who are acting like children themselves, and they use their own kids as pawns. When parents can't get on the same page, [they] give conflicting signals and confuse the child, who doesn't know what to do or what's expected.

Then there are parents who may be deeply at odds between themselves, but they work to get on the same page with regard to their children. They have the maturity and ability to transcend their own hurt and anger at one another for the sake of their children. It's as if they've said, "We have to rise above this and find some way to think about these children, even if we wanna kill each other." Their kids have won the parent lottery when it comes to avoiding primitive behavior.

Are there practical things that a divorced couple can do to protect their children and send messages that are constructive rather than destructive—particularly about money?

JG: It sounds cliché, but it's very important to agree on a few operating principles for kids. You have to agree from the beginning that, no matter what happens, you're not going to use the kids. No bad-mouthing. No playing games. No "Ask your father," or "Ask your mother." And those rules apply as much to money as to anything else.

It's also important not to abdicate parental authority. There are parents who say, "I want to involve my children in all the decisions." That forces kids to make choices and decisions before they have the maturity to do that—decisions that maybe even the parent isn't mature enough to make comfortably. It's not that children shouldn't be involved or consulted, but passing the buck because you don't want to do the hard work of taking a stand in your own life or as a parent is very destructive

10 Basic Money Skills

According to Joline Godfrey, these are the basic skills, learned between the ages of 5 and 18, that constitute a child's complete financial toolkit. When parents divorce, it becomes harder to impart these skills—but also more important than ever.

1. How to save
2. How to keep track of money
3. How to get paid what you are worth
4. How to spend wisely
5. How to talk about money
6. How to live within a budget

to kids. The reason they're kids and you're the parent is because you're older. You are supposed to have some experience, to know things, and you really have to take responsibility for your choices and decisions on behalf of your children.

How does the context of divorce change the notion that you should have open, straightforward discussions with your children about money?

JG: It certainly complicates it. Often, people are in a divorce because they have not been able to be their authentic selves. If you have not been able to be clear about who you are and what your needs are, it's tough to step up and be clear and open in this area with your children. After all, had you been able to do it earlier with your spouse, it might have saved you from divorce.

The irony is that just at the point where couples are feeling most vulnerable and most depressed and least energetic, even more is expected of them. As a professional, I always feel I need to say over and over, "Look, you are going to be tired, and this is going to be really hard." A parent is likely to be a beleaguered human being at this stage of their life, with a sense of "I'm alone. This is too hard. I can't do this." That is why having a personal team, a personal advisor and counselor, is so important—for empathy in the struggle. So you don't give up. Because this can be the hardest part of divorce.

What is the right way to deal with kids who are feeling instability and insecurity, and starting to worry about money?

JG: Kids' responses can get pretty primitive, depending on their age. At five or six, they can start to worry about money, which can take the form of, "Are we going to be able to eat?" Your job as a parent is to say, "Yes, there are going to be some changes in the family, but Mom's here, and Dad's there, and it's going to be all right."

Kids who are a little older, say between nine and 12, are not only intuitively aware of what's going on, but they are also frightened by the changes in their bodies, their social lives, the pressure in school. So, again, it's essential not to abdicate. But you can't lie to them. If budgets and priorities are changing, you have to acknowledge that—but always in the context of, "We're going to be fine." There has to be clarity about what's coming down the pike, because kids who don't know will make it up.

With older kids, say 13 to 16 or 17, you can start expecting them to shoulder some responsibilities. Their world has changed, and while they're not the new man or woman of the house, they can take on some responsibilities—because everyone has new responsibilities. This can become an invitation to growth, an opportunity to build character.

Do you find that kids will act out about money in a divorce—make demands, test, push the limits?

JG: Not just children, but adults as well. It's people who can't sort out the difference between external change and internal change. It's understandable that a person will want to change things on the outside to get a new perspective or acknowledge some major shift in their lives. But it's important to figure out that you're not what you're wearing or that new car you just bought. Whether child or parent, it's important to be a little more reflective and think, "Okay, we're in a different place. What's important here? What decisions do we need to make?" In many ways, it's all about having solid values and then working to live them.

What's the most important thing to remember about divorce and children?

JG: Again, this thought doesn't just apply to children but to parents as well. We, human beings, are pretty resilient. We have the strength to recover, to go on. Somehow, kids will adapt. As parents, our job is to make sure they have the emotional and financial skills to do it. ■

DISCUSSING DIVORCE WITH CHILDREN

The American Academy of Child & Adolescent Psychiatry has these suggestions for talking about your divorce with your children:

- Do not keep it a secret or wait until the last minute.
- Tell your child/children together with your spouse.
- Keep things simple and straightforward.
- Tell them the divorce is not their fault.
- Admit that this will be sad and upsetting for everyone.
- Reassure your child/children that you both still love them and will always be their parents.
- Do not discuss each other's faults or problems with the child.

Source: American Academy of Child & Adolescent Psychiatry, http://www.aacap.org/cs/root/facts_for_families/children_and_divorce

7	8	9	10
How to invest	How to exercise entrepreneurial spirit	How to handle credit	How to use money to change the world

Managing Cash

How can I simplify the process of paying my bills and investing my idle cash?

Investing

I have so many goals and priorities. How can one investment strategy balance them all?

Managing Risk

The up-and-down nature of the markets is just one kind of risk — but so is not protecting my assets and my family. How do I protect what I care about most?

Retirement Planning

When I retire, it will affect just about everything that matters: my lifestyle, my company and my family. Is there a way to plan for retirement that takes it all into account?

Liquidity Solutions

I can predict some expenses, but others I know I can't. How can I plan to have the cash I need?

Estate Planning

Making sure my estate goes to the people and organizations I care about is a priority. How do I transform my assets into a legacy?

Maintain Control

How can I gain 24/7 access to my accounts, online and on my devices, no matter where I am?

Business Strategies

How do I manage my personal wealth with so much tied up in my company?

Charitable Giving

The charities I support are like extended family. How do I maximize the good I can accomplish?

Saving for College

Will I be able to pay for a good education for my children — and my grandchildren?

Culture of Excellence

Over the years, you will make many financial decisions. One in particular is likely to have a lasting impact on your well-being and that of your family: the choice of a financial advisor.

Thoughtful decision-making usually begins with a lot of questions. As you get answers and information, you can develop a framework for evaluating different choices and strategies. Little by little, you gain both the knowledge and the confidence to make decisions and create a wealth plan that helps you achieve your goals.

You will find your Morgan Stanley Financial Advisor to be a source of objective information and ideas as you begin to assess how to best manage your wealth. Over the course of many years, our firm and Financial Advisors have developed an in-depth understanding of virtually all the challenges, goals, preferences, styles and strategies that distinguish wealthy investors. This experience is combined with access to a wide array of resources designed to help you maximize what you have and accomplish your specific goals — whether you are preparing for the cost of educating children, managing risk in your portfolio or finding ways to increase the impact of your charitable contributions.

Your Financial Advisor is an advocate within our firm, an intelligent editor who selects and aligns the many capabilities of Morgan Stanley, delivering resources in a way that is appropriate for how you invest and what you want to achieve.

It is essential to focus on what works for you now and what will best prepare you for the future.

Keep clear answers to these questions as you plan for the new beginning:

What is most important to you?

What are your short-term and long-term goals regarding your work, home and children?

How can you reach these goals?

How can you control your financial future?

What legal path makes sense for your divorce?

[1] Clients may be responsible for the fees of a third-party law firm engaged to review complex transactions (e.g., review of trust agreements). Clients may also be charged a fee for the issuance of a letter of credit, for prepayment of principal on fixed-rate advances, and upon a client's request for certain cash management services (e.g., duplicate statement or check reorder).

[2] Source: The New York Times, "After Full Lives Together, More Older Couples Are Divorcing – 10/30/2015.

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