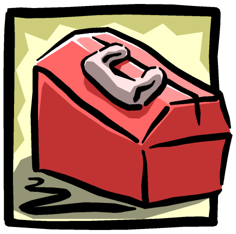

2 Becoming Financially Literate

After separation both parents usually will have to rebuild their economic lives with reduced resources, while still contributing towards the children's expenses.

Getting control of your finances means a lot more than just getting control of your money. It means getting a handle on your habits — both thinking and spending — as well as your short-term and long-term goals. Not only can getting control decrease much of your stress, it can also help you efficiently prepare for the future.

So where do you start? Here are some suggestions:

1. **Review the elements of your family's overall financial picture.**

   If you want to end your relationship with equality you must know what assets and debts your partnership has.

2. **Take the time to work on (and live by) a family budget.**

   A budget, or spending plan, can help you balance expenses with income, and helps you make good choices with your money. With a spending plan you may:

   - Increase your chances of making payments on time;
   - Decide what you can and cannot afford;
   - Increase your savings for education, retirement, large purchases, or unexpected expenses;
   - Prevent or reduce impulse or over-spending; and
   - Eliminate or reduce debts and loan balances.

3. **Consider whether you can afford to keep the house.**

   Keeping the family home might be emotionally satisfying, but it may not make financial sense. You may end up "asset rich" but "income poor." You may have enough income to pay the utilities and expenses related to the day-to-day upkeep, but you may not have enough income coming in to pay the cost of the taxes, home repairs, and other expenses related to owning a home. The equity in the house won't pay the bills.

   If it makes sense for one of you to keep the house, that parent may want to pre-qualify for a mortgage before your divorce is final. Sometimes a divorcing couple will decide that one spouse is going to keep the house, and they take the other parent's name off the title to the house. Later, the parent who wants to keep the house gets turned down for a mortgage because he/she doesn't make enough money to qualify to refinance the house in his/her name alone. The parent who leaves the marital home may end up being on the hook for the debt, has no reciprocal asset, and can't qualify for his/her own mortgage because he/she doesn't make enough to support both mortgages.

4. **Eliminate discretionary spending.**

Most family and personal expenses fall into the category of **discretionary expenses** because the expenses arise from choices you make about your lifestyle, and that of your children.

A mortgage is a discretionary expense, because when you take on a mortgage you make a choice to own a home rather than rent. A car payment is also a discretionary expense, representing the choice you made to purchase or lease a car rather than use alternative forms of transportation.

You do have a certain amount of control of your discretionary expenses, even though it may not seem like it at the time. You can't "play" with non-discretionary expenses to free up money, but you can do so with discretionary expenses.

There are some obvious ways to reduce your expenses:

- Know what you spend your money on, and where you spend it.
- Put the reins on spending that increases your debt load, both on necessary items (like food and shelter) and those that are not necessities (like "toys"). This means no vacation, new clothes, or even car repairs — unless you have the cash to pay for them.
- Get rid of those items you don't need or rarely use and convert them into cash.
- Don't take out loans or add additional credit obligations. If you don't own it now, don't buy it.
- Don't make any financial commitments that you don't understand or are not absolutely clear about.

5. **Decrease your debt.**

An increasing number of separated couples are showing up with large amounts of debt — mostly credit card debt. It's tempting to overuse your credit cards.

If there is absolutely no money it may be necessary to use credit cards, but do so sparingly. It is more important to pare down your living expenses to the bare bone.

- Do not use credit to postpone a crisis.
- Do not use credit cards or credit lines for anything but essential expenses, and only for a short period of time. Once you run into trouble making credit card payments you have damaged your credit standing. It just isn't worth it.

With the aid of your family budget, begin to designate a specific amount monthly towards reducing the debt.

6. **Start a program of saving instead of spending.**

   Not only do you have the benefit of eliminating waste (and have more money as a result), you can begin to focus on long-term goals instead of short-term spending.

7. **Don't procrastinate.**

   You cost yourself a lot of your hard-earned dollars if you procrastinate. You need to be aware of the negative effect of compounding — the longer you have the debt the more interest you will pay, and the positive effect of compounding — the longer you have the savings the higher the return.

   Getting control of your finances will make an amazing difference in your life. Less money will be wasted, so you may find you don't have to work as long or as hard to make ends meet. You'll have more time to spend on the important things like taking care of your kids. Your stress level most likely will decrease.

What About the Children?

Let the children help, and tell them the truth within age-appropriate boundaries.

Parents often hate to deprive their children. Instead, parents go without other necessities to avoid letting the children know they are having financial difficulties.

When children are part of the financial decision-making and are privy to the income and expenses of a household, within age appropriate limits, they can be incredibly understanding about wanting to help cut costs and make things work.

The alternative is to argue over every purchase a child wants to make, creating a real strain in your relationship, or to have your money woes deepen because you give in every time.

Strategies for Reducing Conflict Around Extra and Unexpected Expenses

Research has shown that involving the other parent in the decision-making process increases their willingness to contribute to unexpected expenses. It is also important to remember that a request for money always provokes an emotional response. When someone is approached unexpectedly about contributing money, it is easy to go on the defensive.

The parent being asked may feel they have already paid their child support and shouldn't have to contribute anything more. The inference is that the other parent should be managing their money more effectively.

The reality is that money is personal, and the parent being asked may not want to reveal their financial resources. If there isn't extra money to contribute, the responding parent has the choice of either turning down the request, or offering to help out at the expense of other bills.

The following strategies can reduce conflict around these particular expenses:

1. Do your homework.

Before you approach the other parent, gather all the financial information and any other details about the expense that will be important to share: what the money is for, how much, and when is it due.

2. Decide HOW you want to communicate.

Decide upon the most effective way to communicate this particular financial request. For example, do you use the phone, e-mail, letter, fax, voice mail, or communication book, or do you talk in person?

3. Timing is everything.

Allow enough lead-in time to give the other parent time to digest the request and get back to you with an answer.

4. Invite consultation.

Initial communication should be to provide information and invite consultation. The goal here is to include the other parent in the decision-making process.

5. **Stay child-focused.**

The request should be child-focused; e.g. "Johnny is really excited about being selected for the all-star baseball team and it would be a really good experience for him to be able to go to the provincial tournament with his team." vs. "I need $200 to send Johnny to the provincial baseball tournament this weekend."

6. **Invite feedback within an appropriate deadline**

Ask the other parent to get back to you by a specified day or time; e.g. "Could you get back to me by next Wednesday so that I can let the coach know at the next practice?" vs. "I need to know as soon as possible." Or "What is there to think about — yes or no?"

7. **Listen to each other without interrupting.**

8. **Offer possible solutions and be open to other solutions;**

Don't presume that your solution is the only one. There may be different ways to achieve the same goal; e.g. treat the expense as a special expense and share it proportionately, or share the expense equally, or organize a payment plan, or offer a payment in kind (offer time or services which may bring down the overall cost). Options should also include how much, when, and how.

9. **Clarify the details.**

Decide who will be paying for what and when, e.g. "If you pay the coach the full amount on Wednesday I can pay you back next Friday." Or "You can pay your portion in two equal installments over your next two pay periods." Or "I'll pay the tournament fees now if you will handle soccer registration in the fall."

10. **Write up the plan.**

Follow up the discussion with a written summary of the details that each of you agreed to so that both of you have the same information and can track expenses.

11. **Discuss and decide what information will be shared with your child.**

If the two of you decide you cannot afford the expense, you should discuss what information would be shared with the child and how you plan to do that. You want to present a unified decision to the child to avoid blaming.

12. **Build on your successes.**

As communication between the two of you improves, there will be less chance of misunderstandings and conflicts between you and a better chance of a healthy upbringing for the children.

Notes

