



## Divorce & The Seven Deadly Sins

Pride | Greed | Envy | Lust | Gluttony | Anger | Sloth

Nick Cannon & Mariah Carey, Johnny Depp & Amber Heard, Elizabeth Taylor et al...we see it in the news all the time. Separation and divorce seems to signal a movement from love to hate; with battle lines drawn and people losing all semblance of reason. What may have taken years and decades to create, now summarily destroyed in a relatively short period of time.

Marriages are in theory supposed to last forever however, according to the Canada census and the American Psychological Association, as many as 40% - 50% of marriages in North America end in divorce. Indeed, as many as half of all marriages will not see the sunset on forever.

What we need to understand is that divorce is, and will be, a precipitous life transition that can have devastating emotional and financial consequences for a couple, their children, and even their business and its employees. While it may seem counter intuitive or even presumptuous, proper planning such as a pre-nuptial agreement and a business buy-sell agreement can help to reduce the financial sting related to divorce.

If you are currently living happily-ever-after but don't have these documents in place, or if the honeymoon has ended and you are in the process of separating or divorcing, here are some key points you will want to address.

### Children

Do not punish the children. No matter how acrimonious the spousal relationship becomes it is important to ensure continuity of the parental obligations and relationships, and to continue to provide financial support for the children. Medical coverage, Registered Education Savings Plan contributions, and Registered Disability Savings Plans, for example, should continue if they were established before the separation. Child support payments should be indexed to keep pace with inflation, and Insurance should be placed on the

Support-paying parent to protect the child support payments in the event of death, disability or critical illness.

### **Family Business**

If you or your spouse own a private business or have a controlling share ownership in a public business, there is work to be done by professional advisors. Seek them out. Business assets can have different treatment by divorce courts depending on which province they were established in or whether they are national or international with subsidiaries in different jurisdictions. Questions like, 'Who is more active in the business?', 'What is the effect of a divorce on the business credit lines?', 'What is the valuation of the business interest?', 'How much is the equalization payment that should go to the less active spouse to walk away from the business?', and 'What is the formula used to obtain to the valuation?', are complex yet common. Usually, a well drafted buy-sell agreement will have addressed these issues in advance, resulting in a clean break and protection for the business from value reducing disruptions. If there is no such agreement in place, you are encouraged to seek the advice and counsel of a professional.

### **Investments**

What happens to family investments? Divorce can set you back years on your financial plan and, without a domestic agreement or pre-nuptial agreement in place, lawyers and the legal system usually play a more dictatorial role in how registered and non-registered assets will be split. \*Think about that for a minute. Assets and liabilities will be separated, not shared. A scary thought, indeed. In a depressed economic market, a (simple) divorce can morph into an even more financially and emotionally challenging event. Proactively seek out proper professional advice to minimize the potential losses and taxes that may be triggered. RRSPs, pension plans, stocks, bonds, cash value in life insurance policies, the family home, cars, jewellery, bank accounts, and furniture are just some of the items that need to be catalogued and divided.

### **Insurances**

Another aspect often overlooked during divorce is the portfolio of insurances. People/owners forget to update beneficiary designations on life insurance policies, forget to include the cash value equity in life policies, or forget the Return of Premium option on disability and critical illness policies, in the calculation of total assets. Forget me not. Insurance may actually need to be increased to protect future child support or spousal support payments, and these increases may also be necessary to ensure cash flow is maintained in the event of death, disability or critical illness.

Someone said marriages are supposed to last forever. Some do but increasingly many don't. For the most part, a properly drafted pre-nuptial agreement can minimize much of the financial turmoil related to a divorce. Barring the existence of a pre-nuptial agreement, it is essential to assemble a team of professional advisors to help navigate through the divorce pitfalls. This team will be necessary to help rebuild your financial and business strategies for the future.

Ahh, the dog days of divorce....and let's not get started on who gets the family pet.



To have a deeper conversation about how this subject will affect you or your business, please contact us directly:

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