

Divorce Financial Analysis for Jane Doe

Facts/Background

Jane and John Doe have been married for thirty years. They have two children together. John is a physician and he has been the major wage earner for the household. Jane is a teacher. Educational costs for their son Sonny Boy were always paid exclusively from Jane's income. John is employed by a medical group owned by a hospital. He is a W-2 employee. He is 53. Jane is 62. They have no mortgage on their home. Other than the equity in the home, the only real assets they own are in qualified retirement plans where John has accumulated close to \$600,000 and Jane for whom a large percentage of her income had always been earmarked for son's education has nearly \$153,000 in her plan. There are no debts to speak of either individually or collectively. Jane does not receive any form of pension from her present or previous employers. Through this analysis, we will show that Jane requires modest support while working to meet her living expenses, and she will also need support that needs to be allocated to provide a reasonable degree of financial independence through retirement.

Assumptions/Rationale:

- a) In my analysis, I try to be reasonable and look at the situation from the perspectives of both parties. I also seek to make my analysis supportive for reaching settlements. With this in mind, I assumed that Jane would continue teaching beyond normal retirement age, and in fact work until age 70. Similarly, I also assumed Jane would defer receiving Social Security until age 70 so as to maximize its benefit amount.
- b) In discussions with Jane, we reconsidered the real value of the house at \$325,000. It needs a lot of work, and it likely will appreciate little if at all over the next few years. Because it is paid for, the largest expenses associated with its ownership are taxes and perhaps a slight adjustment for utilities in terms of reasonable expenses associated with living in an alternative location. In fact, it is unlikely that Jane could live in an alternative location that would cost less. In order for Jane to retain complete ownership of the house, I lessened the duration of alimony as a trade-off.
- c) I completely ignored all issues surrounding support and educational expenses for Sonny Boy from this analysis so as not to complicate the basic property division issues and support requirements.
- d) Although Jane is by no means a spendthrift, upon divorce, her tax rate will increase and so will her basic living expenses. From Jane's gross income of \$50,000,

- approximately \$10,000 needs to be allocated to taxes. This means she will net \$40,000 per year. However, her current living expenses are approximately \$55,000 per year. Hence, just to make ends meet, she has an annual deficit net of taxes of approximately \$15,000, and that deficit will grow each year as her expenses escalate. To net \$15,000 annual after-tax income, Jane will require approximately \$22,000 of income.
- e) Jane's retirement account is currently valued at approximately \$153,000. John's is valued at \$574,000. The combined, cumulative value of both is \$727,000. I assumed each would split the \$727,000, resulting in \$363,500 for each.
- f) In assessing Jane's need for support, I figured that that she would need at least the \$22,000/year to meet the deficit created from her living expenses, and in addition she will need enough to be able to maintain at least a reasonable semblance of her lifestyle through her retirement years. Factoring in a very reasonable inflation percentage, her living expenses at age 70, will be around \$70,000/year. Roughly \$20,000 of this will come from Social Security, but the balance has to be made up through retirement assets. Her half of the retirement assets (\$363,500) growing at a rate of 5% compounded per annum will amount to \$537,000 in 8 years. To generate \$50,000/year from age 70-90. Jane has to have enough assets within the next 8 years that can generate \$50,000/year once she retires at age 70. Assuming a 3% discount rate, this requires roughly \$800,000 in investable assets at age 70. From this \$800,000 figure, we can deduct the \$537,000, resulting in a retirement savings deficit at age 70 of \$263,000. To generate \$263,000 in 8 years assuming a 3% discount factor requires approximately \$30,000 per year.
(Note: this analysis does not inflate the \$50,000 budget number at all from age 70 onward. The calculation was also based on a life expectancy to age 90. Both of Jane's parents are well into their 90's. So, it is very feasible that this age determination is too conservative, but extending it further is way beyond the standard.)
- g) John's income is currently 5.5 times Jane's, and his is much more likely to increase and at a far more substantial rate than Jane's. Even with the alimony we are requesting on behalf of Jane, he will still have far greater earnings and earnings potential than Jane. Furthermore, as a result of the deductibility of alimony, John will save roughly \$25,000-\$30,000 per year in income tax savings. Therefore, the gross alimony payment of \$66,000 for the first 8 years, should only result in a net cost to John of roughly \$40,000, which represents slightly less than 15% of his gross current annual income. When alimony drops to \$36,000 per year for years 9 and 10, this will result in a net cost to John of only \$16,000, and that is expressed in today's dollars. Also, because John is 9 years younger than Jane, he has that many more years to generate retirement assets for himself.

- h) I tried to be reasonable in terms of the expenses I projected for John. I assumed a housing rental/purchase expense of \$3000/month, whereas for Jane her "rent" was simply the \$700/month in real estate taxes. I also factored in a monthly car payment for John at \$400/month. However, for Jane, I factored in a car payment of only \$200/month. I also allocated a monthly cost of restaurants for John at \$800, and only \$250/month for Jane.
- i) I also tried to be sensitive to John's age and income constraints. I assumed Jane would work until age 70. By having his obligation for alimony cease in 10 years, if John works until he reaches age 70, he will have 7 complete years where his income will be unencumbered, and therefore also able to be allocated to substantially enhance his net worth.
- j) Although, I propose that the house be retitled exclusively in Jane's name, receiving her share of John's home equity interest will provide a bit of a buffer because I have run the model very tightly with very little margin for error if any.
- k) This analysis is based on the absolute minimums and necessities for which Jane should argue. This is to be used as a starting point and a "lowest common denominator".
- l) Since Jane's financial independence and security are so integrally tied to John's health and income, I strongly suggest securing a divorce disability policy on John. (Note: this is not a cost that has been factored into the analysis) I also strongly recommend that Jane secure long term health care protection for herself, and this cost has also not been factored into her expense calculations.

*Gregory Gann and Gann Partnership, LLC do not act as an attorney or provide legal advice. He is a Certified Divorce Financial Analyst as well as a Master Analyst in Financial Forensics with a concentration in matrimony.

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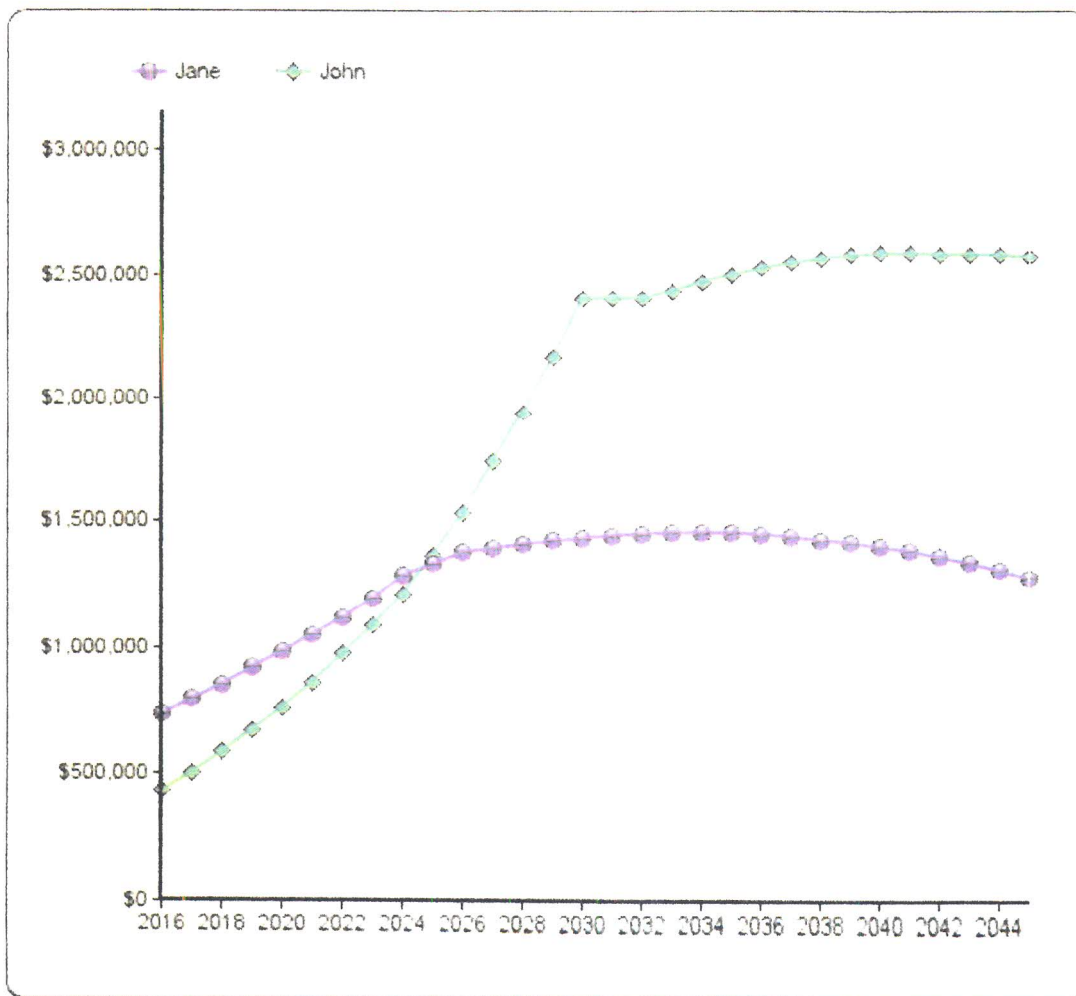
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Projected Net Worth

Projected Net Worth for Jane Doe and John Doe for 30 years.

Note: Numbers are all as of "end of year."

	Jane	John		Jane	John
2016	\$ 740,533	\$ 431,532	2031	\$ 1,446,078	\$ 2,408,319
2017	\$ 798,115	\$ 505,308	2032	\$ 1,453,171	\$ 2,405,793
2018	\$ 858,159	\$ 585,182	2033	\$ 1,457,643	\$ 2,438,625
2019	\$ 920,768	\$ 671,542	2034	\$ 1,459,213	\$ 2,473,006
2020	\$ 986,084	\$ 764,835	2035	\$ 1,457,567	\$ 2,504,082
2021	\$ 1,054,172	\$ 865,477	2036	\$ 1,452,394	\$ 2,531,417
2022	\$ 1,125,155	\$ 973,944	2037	\$ 1,443,355	\$ 2,554,535
2023	\$ 1,199,177	\$ 1,090,734	2038	\$ 1,430,181	\$ 2,572,923
2024	\$ 1,291,094	\$ 1,216,382	2039	\$ 1,418,285	\$ 2,586,017
2025	\$ 1,334,933	\$ 1,369,635	2040	\$ 1,403,622	\$ 2,593,240
2026	\$ 1,379,759	\$ 1,533,724	2041	\$ 1,387,229	\$ 2,594,006
2027	\$ 1,396,413	\$ 1,730,658	2042	\$ 1,366,130	\$ 2,590,723
2028	\$ 1,411,572	\$ 1,941,037	2043	\$ 1,341,450	\$ 2,589,750
2029	\$ 1,425,047	\$ 2,165,687	2044	\$ 1,312,957	\$ 2,586,773
2030	\$ 1,436,621	\$ 2,405,464	2045	\$ 1,280,396	\$ 2,577,112



Spreadsheet for Net Income After Expenses and Taxes (Annual)

Jane Spreadsheet for Net Income After Expenses and Taxes

Year	Age	Wages & Salary	Income on Accum Svg	Social Security	Alimony Received	Total Income	Living Expenses	IRA/401k Contribs	Total Expenses	Pre-tax Cash flow	Federal Inc Tax
2016	62	50,000	0	0	66,000	116,000	53,016	2,400	55,416	60,584	20,666
2017	63	50,500	945	0	66,000	117,445	54,290	2,400	56,690	60,755	20,734
2018	64	51,005	1,926	0	66,000	118,931	55,589	2,400	57,989	60,942	20,786
2019	65	51,515	2,949	0	66,000	120,464	56,923	2,400	59,323	61,141	20,853
2020	66	52,030	4,011	0	66,000	122,041	58,290	2,400	60,690	61,351	20,903
2021	67	52,550	5,121	0	66,000	123,671	59,693	2,400	62,093	61,578	21,018
2022	68	53,076	6,273	0	66,000	125,349	61,125	2,400	63,525	61,824	21,148
2023	69	53,607	7,473	0	66,000	127,080	62,589	2,400	64,989	62,091	21,283
2024	70	54,143	8,724	19,746	66,000	153,574	64,091	0	64,091	89,483	25,658
2025	71	0	10,686	24,432	36,000	76,317	65,632	0	65,632	10,685	6,259
2026	72	0	11,175	24,432	36,000	77,055	67,206	0	67,206	9,849	6,067
2027	73	0	11,667	24,432	0	41,807	68,822	0	68,822	(27,015)	0
2028	74	0	11,283	24,432	0	41,696	70,472	0	70,472	(28,776)	0
2029	75	0	10,821	24,432	0	41,518	72,159	0	72,159	(30,641)	0
2030	76	0	10,275	24,432	0	41,270	73,897	0	73,897	(32,627)	0
2031	77	0	9,639	24,432	0	40,912	75,668	0	75,668	(34,756)	0
2032	78	0	8,904	24,432	0	40,501	77,487	0	77,487	(36,986)	0
2033	79	0	8,061	24,432	0	39,957	79,345	0	79,345	(39,388)	0
2034	80	0	7,101	24,432	0	39,307	81,243	0	81,243	(41,936)	0
2035	81	0	6,012	24,432	0	38,537	83,198	0	83,198	(44,661)	0
2036	82	0	4,782	24,432	0	37,636	85,190	0	85,190	(47,554)	0
2037	83	0	3,405	24,432	0	36,597	87,241	0	87,241	(50,644)	0
2038	84	0	1,863	24,432	0	35,403	89,330	0	89,330	(53,927)	0
2039	85	0	150	24,432	0	33,982	91,478	0	91,478	(57,496)	0
2040	86	0	6	24,432	0	30,388	93,669	0	93,669	(63,281)	0
2041	87	0	0	24,432	0	25,854	95,921	0	95,921	(70,067)	0
2042	88	0	0	24,432	0	24,432	98,221	0	98,221	(73,789)	0
2043	89	0	0	24,432	0	24,432	100,581	0	100,581	(76,149)	0
2044	90	0	0	24,432	0	24,432	102,991	0	102,991	(78,559)	0
2045	91	0	0	24,432	0	24,432	105,464	0	105,464	(81,032)	0

Jane Spreadsheet for Net Income After Expenses and Taxes

Year	Age	FICA / Soc Sec	State Tax (Estimate)	Total Taxes	Net After Exp&Tax
2016	62	3,825	4,635	29,126	31,458
2017	63	3,863	4,688	29,285	31,470
2018	64	3,902	4,744	29,432	31,510
2019	65	3,941	4,802	29,596	31,545
2020	66	3,980	4,860	29,743	31,608
2021	67	4,020	4,922	29,960	31,618
2022	68	4,061	4,986	30,195	31,629
2023	69	4,101	5,052	30,436	31,655
2024	70	4,142	5,918	35,718	53,765
2025	71	0	2,305	8,564	2,121
2026	72	0	2,311	8,378	1,471
2027	73	0	0	0	(27,015)
2028	74	0	0	0	(28,776)
2029	75	0	0	0	(30,641)
2030	76	0	0	0	(32,627)
2031	77	0	0	0	(34,756)
2032	78	0	0	0	(36,986)
2033	79	0	0	0	(39,388)
2034	80	0	0	0	(41,936)
2035	81	0	0	0	(44,661)
2036	82	0	0	0	(47,554)
2037	83	0	0	0	(50,644)
2038	84	0	0	0	(53,927)
2039	85	0	0	0	(57,496)
2040	86	0	0	0	(63,281)
2041	87	0	0	0	(70,067)
2042	88	0	0	0	(73,789)
2043	89	0	0	0	(76,149)
2044	90	0	0	0	(78,559)
2045	91	0	0	0	(81,032)

John Spreadsheet for Net Income After Expenses and Taxes

Year	Age	Wages & Salary	Income on Accum Svg	Social Security	IRA/401k Income	Total Income	Living Expenses	IRA/401k Contribs	Alimony Paid	Total Expenses	Pre-tax Cash flow
2016	53	275,000	0	0	0	275,000	91,656	35,000	66,000	192,656	82,344
2017	54	281,600	447	0	0	282,047	93,857	35,000	66,000	194,857	87,190
2018	55	288,358	984	0	0	289,342	96,106	35,000	66,000	197,106	92,236
2019	56	295,279	1,620	0	0	296,899	98,413	35,000	66,000	199,413	97,486
2020	57	302,366	2,367	0	0	304,733	100,774	35,000	66,000	201,774	102,959
2021	58	309,623	3,225	0	0	312,848	103,195	35,000	66,000	204,195	108,653
2022	59	317,054	4,209	0	0	321,263	105,674	35,000	66,000	206,674	114,589
2023	60	324,663	5,325	0	0	329,988	108,209	35,000	66,000	209,209	120,779
2024	61	332,455	6,585	0	0	339,040	110,806	35,000	66,000	211,806	127,234
2025	62	340,434	7,995	0	0	348,429	113,467	35,000	36,000	184,467	163,962
2026	63	348,604	10,119	0	0	358,723	116,187	35,000	36,000	187,187	171,536
2027	64	356,971	12,444	0	0	369,415	118,978	35,000	0	153,978	215,437
2028	65	365,538	15,624	0	0	381,162	121,831	35,000	0	156,831	224,331
2029	66	374,311	19,068	0	0	393,379	124,754	35,000	0	159,754	233,625
2030	67	383,294	22,800	0	0	406,094	127,753	35,000	0	162,753	243,341
2031	68	0	26,835	0	0	26,835	130,817	0	0	130,817	(103,982)
2032	69	0	24,654	0	0	24,654	133,958	0	0	133,958	(109,304)
2033	70	0	22,200	38,821	6,399	67,420	137,171	0	0	137,171	(69,751)
2034	71	0	20,877	43,332	6,706	70,915	140,461	0	0	140,461	(69,546)
2035	72	0	19,497	43,332	7,027	69,856	143,835	0	0	143,835	(73,979)
2036	73	0	17,904	43,332	7,363	68,599	147,285	0	0	147,285	(78,686)
2037	74	0	16,086	43,332	7,714	67,132	150,822	0	0	150,822	(83,690)
2038	75	0	14,016	43,332	8,081	65,429	154,438	0	0	154,438	(89,009)
2039	76	0	11,679	43,332	8,465	63,476	158,149	0	0	158,149	(94,673)
2040	77	0	9,051	43,332	8,824	61,207	161,939	0	0	161,939	(100,732)
2041	78	0	6,105	43,332	9,241	58,678	165,830	0	0	165,830	(107,152)
2042	79	0	2,823	43,332	9,627	55,782	169,808	0	0	169,808	(114,026)
2043	80	0	114	43,332	8,510	51,956	173,887	0	0	173,887	(121,931)
2044	81	0	6	43,332	0	45,594	178,056	0	0	178,056	(132,462)
2045	82	0	0	43,332	0	43,332	182,331	0	0	182,331	(138,999)

John Spreadsheet for Net Income After Expenses and Taxes

Year	Age	Federal Inc Tax	FICA / Soc Sec	State Tax (Estimate)	Total Taxes	Net After Exp&Tax
2016	53	46,053	12,010	9,424	67,487	14,857
2017	54	47,721	12,340	9,781	69,842	17,348
2018	55	49,472	12,680	10,147	72,299	19,937
2019	56	51,288	13,029	10,528	74,845	22,641
2020	57	53,152	13,383	10,919	77,454	25,505
2021	58	55,101	13,749	11,328	80,178	28,475
2022	59	57,120	14,121	11,752	82,993	31,596
2023	60	59,214	14,504	12,193	85,911	34,868
2024	61	61,383	14,895	12,649	88,927	38,307
2025	62	73,806	15,295	14,762	103,863	60,099
2026	63	76,546	15,705	15,305	107,556	63,980
2027	64	91,997	16,126	17,918	126,041	89,396
2028	65	95,157	16,556	18,565	130,278	94,053
2029	66	98,450	16,997	19,224	134,671	98,954
2030	67	101,882	17,448	19,918	139,248	104,093
2031	68	0	0	31	31	(104,013)
2032	69	0	0	0	0	(109,304)
2033	70	0	0	0	0	(69,751)
2034	71	0	0	0	0	(69,546)
2035	72	0	0	0	0	(73,979)
2036	73	0	0	0	0	(78,686)
2037	74	0	0	0	0	(83,690)
2038	75	0	0	0	0	(89,009)
2039	76	0	0	0	0	(94,673)
2040	77	0	0	0	0	(100,732)
2041	78	0	0	0	0	(107,152)
2042	79	0	0	0	0	(114,026)
2043	80	0	0	0	0	(121,931)
2044	81	0	0	0	0	(132,462)
2045	82	0	0	0	0	(138,999)

Alimony After Federal and State Tax

The total alimony payments are \$666,000.

The total cost of the alimony, after federal and state taxes, to the payer is \$379,684.

The total net benefit of the alimony to the recipient, after paying federal and state taxes, is \$475,313.

The net tax savings (payer's tax saving less recipient's tax cost) due to alimony are \$95,629 over 11 years.

Analysis:

The chart below shows the net federal and state tax savings to alimony.

Year	Net Tax Savings Due to alimony		
	(a) John 's Tax Reduction Due to alimony	(b) Jane 's Tax Increase Due to alimony	(c) Net tax change Due to alimony (a) - (b)
2016	\$24,593	\$18,742	\$5,851
2017	\$25,221	\$18,826	\$6,395
2018	\$25,860	\$18,914	\$6,946
2019	\$26,531	\$19,011	\$7,520
2020	\$27,259	\$19,102	\$8,157
2021	\$28,010	\$19,252	\$8,758
2022	\$28,804	\$19,419	\$9,385
2023	\$29,641	\$19,602	\$10,039
2024	\$30,535	\$20,877	\$9,658
2025	\$19,660	\$8,564	\$11,096
2026	\$20,202	\$8,378	\$11,824
Total tax svgs/pmts:	\$286,316	\$190,687	\$95,629
Total payments made:	\$666,000	\$666,000	
Cost/Inc after taxes:	\$379,684	\$475,313	

Explanation of Analysis:

When alimony is paid, the payer gets a tax deduction and the recipient pays tax on the alimony income.

The tax deduction is a benefit to the payer (John). We calculate John 's tax with the alimony deduction. Then we calculate John 's tax as if there were no alimony payment. The difference is John 's tax benefit due to the alimony payment.

Note that we do not simply apply a marginal tax rate to the alimony amount. We do a complete tax calculation. This counts the impact of the alimony deduction on exemption phase-outs, itemized deduction phase-outs, the Alternative Minimum Tax, etc., and therefore it is the most accurate way to calculate the tax benefit.

We then do a similar set of calculations for Jane , to find the extra tax that Jane is paying due to the alimony income.

We then subtract Jane 's tax cost from John 's tax benefit, to get the net tax benefit.

Typically, the payer is in a higher tax bracket than the recipient. This means that the payer's tax savings is more than the recipient's tax cost. So there is a net tax benefit.

In this case, the net tax benefit is \$95,629 over the 11 years alimony is being paid.