Protect your wallet in a divorce

Don't leave a marriage with your finances in turmoil. Here's how to preserve your financial health.

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By Shaheen Pasha, CNN/Money staff writer

NEW YORK (CNN/Money) - Making plans to preserve your assets in case of a divorce may not be very romantic. But with half the population headed for divorce court after a trip down the aisle, it's not such a bad idea.

Marriage, like diamonds, is supposed to be forever. That notion invites couples to become lax when it comes to their own financial independence. In many marriages, one partner leaves financial details in the hands of the other spouse. Bad move, experts say.

"The legal process of a divorce has an ending and people can even get over the emotional strain of dealing with a divorce," said Fadi Baradihi, president of the Institute for Divorce Financial Analysts. "But once you sign a financial divorce settlement you will have to live with that decision for the rest of your life."

And that can be a costly decision. According to a study by The National Marriage Project at Rutgers University, a woman's standard of living usually drops by 27 percent after a divorce, while a man's standard of living actually increases by 10 percent. Part of the problem is that women are more likely to be unaware of the family's financial status, making it difficult to negotiate a proper settlement.

So whether you're thinking of making the split or just prefer to err on the side of caution, here are some tips to avoid being blindsided in the event of a divorce.

Don't stick your head in the sand

Yes, looking at bills all day – not to mention those long, indecipherable tax forms – can be a headache, but there's no better way to get a sense of your finances.

"Make sure you read every financial statement and are aware of every investment that you have with your spouse," said Stacy Phillips, divorce attorney and founding partner at Phillips, Lerner and Lauzon LLP. "Be educated and don't be naïve – if something doesn't look right, investigate."

Phillips said when one person is in charge of all the finances, there's a higher chance that there is hidden income. Tally all the expenses from basic household bills to items such as private school tuition and compare that to the income reported on your tax return.

"If the tax return says your household income is $30,000 and you pay $25,000 in private school tuition, something is wrong," she said.

When in doubt, consult a financial planner or sit down with a family lawyer or accountant to go over the documents.

Make the copy machine your best friend

Whether you're already thinking about divorce or just trying to be informed, make sure that you make copies of every financial document available, said Stacy Francis, a certified financial planner and certified financial divorce analyst at Francis Financial.

Organize files in a cabinet with copies of 401(k) statements, life insurance policies, house appraisals, brokerage accounts, money market accounts and, of course, tax returns.

Maintain your own credit

And keep copies of credit card statements. Often one spouse is more inclined to spend than another and it's in your best interest to know where the money is going. A spouse's debt can follow you in the event of a divorce if your entire credit report is based on joint credit cards and bank accounts.

"If one spouse knows the other is eventually going to file for divorce, it's not unusual for that person to rack of a bunch of credit card debt as payback," Baradihi said.

By maintaining a steady record of spending, you can fight liability for outlandish debt incurred by your spouse, he said.

An even better idea is to maintain good credit in your own name. Check your credit report yearly to make sure that there aren't unusual blemishes.

While more and more married couples are opting for separate bank accounts, in addition to one joint account, that's no guarantee that the money will be protected in the case of a divorce. Financial experts warned that accounts with income obtained during the course of a marriage are considered to be the property of both spouses, regardless of the name on the account.

Stamp your name on everything

Make sure your name is included in the title or deed of any property that you purchased with your spouse. While many states will assume that property purchased during the course of the marriage is marital property, individual state laws can vary depending on whether you contributed money or not.

And keep in mind that property you had before the marriage can also be considered marital property, Baradihi said. A vacation home that you bought before the marriage, for instance, could be considered a joint property if you used it as a family getaway.

Francis Financial's Francis recommended that couples seriously consider a prenuptial agreement to preserve any assets or property that you had before marriage. A prenuptial agreement can also be structured to provide protection for personal gifts and inheritances that you or children from a previous marriage may receive. It can also be structured to provide spousal support in the event of a divorce, alleviating some concerns later on.

Revise your will

Financial planners recommend that couples create a will upon marriage and especially after the birth of a child. But Francis said it's common for couples going through a divorce to forget to revise their wills or insurance policies to reflect a change in beneficiary.

If a spouse remarries and then dies without making any changes to his or her prior will or policies, any assets will revert to whoever is listed as a beneficiary, even if that person is an ex.

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