Rising divorce rates: Make sure it doesn’t cost your savings

Statistics SA’s latest data shows an increase in the divorce rate in South Africa. While divorce can be extremely tough emotionally, it can also take a huge toll on your finances, says Allan Gray's Mlulami Nxele.

27 March 2019: Statistics SA has recently revealed its latest data on divorce and marriages in SA, recording an increase in divorce orders between 2013 and 2017. In 2017 there were 25,390 completed divorce forms processed – indicating an increase of 0.3% from the 25,326 processed in 2016. The findings also show that four in ten divorces (44.6%) of those processed in 2017 came from marriages that did not reach their tenth wedding anniversary.

Mlulami Nxele, legal advisor at Allan Gray, says that while getting divorced is a relatively straightforward process, the emotional and financial implications are often enormous. Because a marriage must be dissolved by a court, it can take a long time before the matter is settled – and many estranged couples may find they are already out of pocket by then.

“Divorce often sees the average investor making emotional monetary decisions, which can have a lasting financial impact,” says Nxele. “When you're experiencing the trauma of divorce, it is difficult to not act emotionally. In addition, the prospect of living off one salary may tempt you to dip into your savings. But acting wisely during this time is important to keeping your financial stability intact.”

There are typically two types of divorce in South Africa: the contested or opposed divorce, which can take two to three years to finalise, and the uncontested divorce, which is much simpler, quicker and cost effective. How you divide your assets with your spouse will depend on which marriage contract you have – either in community of property (where you split your assets and debts equally) or out of community of property (where “what's yours is yours and what's mine is mine”) either with or without accrual.

Preserve your savings

While a contract helps to determine what will happen to your assets during a divorce, as well as protect you, there are still some financial decisions you may make that may disadvantage you in the long-term, during the divorce proceedings. Despite the enormity of this transition, it's important that you make the right financial decisions, Nxele advises.

“Only a small percentage of investors who receive a share of their former spouse’s retirement savings are preserving the money in tax-incentivised retirement-savings vehicles,” he says. “The rest are taking the cash.”

The median ages at divorce in 2017 was 44 years for men and 40 years for women, as recorded by Statistics SA. Nxele says that this is concerning, as many over the age of 40 may have built up a sizeable retirement savings pot and be tempted to dip into it during tough times.

“Many think that they will withdraw only to continue saving once they get back on their feet, but you may be doing more harm than you think. Not only will you have to start again, you will also miss out on the full power of compound interest.”

Even though legal fees may have left you feeling cash-strapped, consider the long-term consequences of withdrawing your savings. “We especially encourage investors not to be tempted to dip into their retirement savings. Withdrawing funds from your savings before you retire not only reduces the tax-free amount available to you when you retire, but also causes the benefit that you take at retirement to be taxed at a higher rate.”

Know your net worth

If you're in the process of divorcing, you can be proactive to stay on top of your financial situation.

“You'll need to know what you and your spouse are worth together and what you and your spouse are worth on your own,” says Nxele.

To calculate your net worth, you'll need to ascertain what your assets are worth and then subtract your liabilities. The value of your assets will depend on your type of marriage contract. If you’re married out of community of property, each spouse’s assets are considered their own. If you’re married in community of property, your assets are made up of 50% of the joint estate.

“Be sure to evaluate the future as well as the current value of your assets,” says Nxele. “And thoroughly think through the impact of your decisions.”

Keeping the house you've lived in for years may seem like the right thing to do, but make sure it also makes sense financially. “If you bought the house with two incomes, keeping up with mortgage payments on one income may be tough or even impossible,” comments Nxele.

The cost of maintaining the house, as well as monthly rate and utility bills, may become too onerous for you alone.

“Although it may be difficult, it's important that couples cooperate as much as they can during a divorce to ensure a favourable financial outcome for both parties. If you are uncertain what financial decisions will be best for you, consider consulting with an authorised financial adviser,” concludes Nxele.

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