Facing Divorce? Use These Four Tips to Develop Your Budget

By Karen Chellew On 02/27/2023

The mere mention of the word “budget” can create a wide variety of reactions: from a glazed look to near panic. Because the “B” word can carry so much emotion, many writers and financial planners have stopped using it and have started to use the phrase “spending plan."

However, you wish to refer to it, establishing a budget is essential and critical to your financial well-being. The lack of a lifestyle and post-divorce budget can result in settlement agreements and court orders adversely affecting your financial future.

Why?

A historical account of family income and expenses is critical to demonstrating an established standard of living and resulting financial need. Spousal maintenance/support and child support during and post-divorce proceedings rely on historical validation. Further, a post-divorce budget is the only reliable way to realistically evaluate settlement options.

So, mapping a lifestyle analysis is one of the first tasks you will want to complete as you consider or are approaching divorce. To make this a little easier, I recommend that you set aside your emotions and the past and make this project a fact-finding mission. You may not be 100% successful all the time, but you will benefit by keeping this as your focus.

Here are four tips as you start this process:

1. Don’t get stuck in the weeds

I recommend to my clients that a great first step is to start tracking expenses for a period of two months. It would be easy to think you have to have every receipt and expense categorized and organized before you start this process, but this is not so.

Start with the “known” expenses and record them on your spreadsheet. Then, move on to those expenses that will take more work to track and calculate.

Some people like to track their expenses using an app and some prefer handwriting transactions on a spreadsheet. For those of you who like to track on a spreadsheet, here’s a budget worksheet that I provide to my clients beginning this process.

Use the method that feels most comfortable to you. Please note the method you choose may not be the one your friends or family recommend. It is important for you to recognize that we all communicate about money differently. Take notice and embrace how you identify with finances and how you talk about money.

2. Start with a lifestyle budget

During the process of divorce, you will develop a lifestyle budget, a temporary (pending divorce) budget, and a post-divorce budget. These budgets will all be developed in due time.

Start with the historical family lifestyle budget. This is the one that establishes your need and established standard of living.

3. Gather documentation

Collect pay stubs and other income documents from your tax return. You will also need to calculate how much overtime, bonus money, tips, commission, investment/retirement income, etc., that you and your spouse average each month.

As for expenses, you will want to track and itemize essentially anything you spend money on, i.e., essential bills like a mortgage and utilities to more trivial matters like entertainment. Collect several months’ worth of bills, including but not limited to, activities for children, clothing, gifts, hobbies, utilities, cable, Internet, cell phone, medical, daycare, pet care, car repair, lawn care, etc., to help determine an accurate figure for your average monthly expenses.

4. Categorize all your expenses

One of the most important parts of tracking your budget is understanding the differences between fixed, variable, and periodic expenses. Knowing what types of expenses you have can help you track and set the stage for other budgets which you will later develop.

Here’s a breakdown:

Fixed Expenses

These are the expenses that don’t change month-to-month. Your mortgage or rent, real estate taxes, car or other vehicle payments, cell phone payments, and insurance are examples of fixed expenses.

They may vary slightly from year-to-year (i.e., rent increase or insurance premium increase/decrease) but overall, you can count on them to stay the same for at least a year at a time.

Variable Expenses

Just as the name says, these are your expenses that will vary month-to-month and are probably the largest spending category. Variable expenses can be broken down further into the categories of necessary and discretionary.

Necessary variable expenses include such things as groceries, gas for your vehicle, utilities, and clothing. Discretionary variable expenses are items that you can spend more or less on at your discretion such as vacations, entertainment, hobbies, spa appointments, etc.

By keeping track of these expenses over time, you can get a better idea of how much you’re spending each month and plan accordingly.

Periodic Expenses

These are the hardest expenses to plan for and the ones most likely to take you by surprise. Periodic expenses include things like annual vehicle registration, car repairs, and gift-giving.

For expenditures you know are going to come up at least once a year, set aside a little bit each month to cover the cost. Once everything is gathered, total up the cost of every expense and divide by 12. Now take that number and add it to your budget. This is the amount you need to save every month in order to cover your periodic expenses.

If all this sounds like a lot of work, it is, but it is less daunting when you allow yourself to take one step at a time and utilize the tips I have provided above. The “daunting” factor will directly depend on the degree of your spouse’s cooperation, the size of your estate, the complexity of the family finances, and your willingness to remain calm and intentional about your approach to this process.

Believe me, the reward is worth the effort. It’s important that you take these steps to avoid a post-divorce lifestyle jeopardized by incomplete data and poor planning.

These tips I’ve provided are just the first steps you can take to create the foundation for your lifestyle budget and the additional budgets you will develop. Implementing these tips will help you create your future savings plan, your path to your goals, and help you feel more confident in your role as CEO of your new independent life.

Taking one step each day toward your goals is empowering and will only serve to help you make smart financial decisions for yourself and your family.

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