

Ask the Experts: Divorce and Insurance Coverage

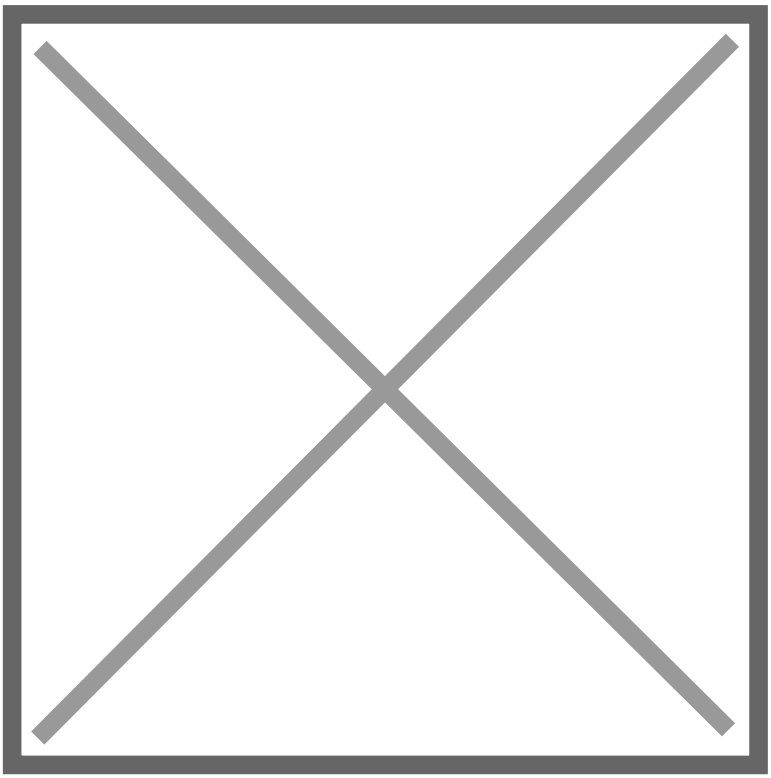
Q: My spouse and I are talking about divorce. What kind of changes should I anticipate around insurance coverage?

A: Few life changes are more consequential than a divorce. In addition to the financial and emotional challenges of ironing out a settlement, attending court hearings, and dealing with competing attorneys, youâ??ll also face special concerns about your insurance coverage. Since thereâ??s a lot going on during a divorce, insurance may not be top of mind, but itâ??s important to be aware of how you and your family will be impacted.

Planning for these changes should begin long before the divorce is final. And because itâ??s common for one spouse to maintain employer-provided insurance for the family, the breakup of a marriage can have serious insurance consequences for the other spouse and young children in the family, especially if he or she was not employed outside the home.

Health Insurance

Often, one spouse participates in a group health insurance plan at work that provides coverage for both spouses. When a divorce occurs, coverage for the other spouse will often end, unless the divorce decree requires continuation of coverage.



If there is no such requirement, temporary protection may be provided by the Consolidated Omnibus Budget Reconciliation Act (COBRA). This federal law protects employees of companies with 20 or more workers and their dependents from losing group insurance coverage as a result of job loss or other life changes like a divorce. Certain governmental and nonprofit enterprises are exempt.

If your ex-spouse maintained family health coverage through work, you may, at your own expense, continue this group coverage for up to 36 months, or until you remarry or get coverage under another group health plan.

If you are eligible for health insurance through your own employer, talk to your human resources department about your options. This can be more cost efficient than COBRA and keeps you out of your exâ??s company plan. Although you generally have to wait for certain times of the year to join employer health insurance, losing your previous coverage due to a divorce launches a special enrollment period for you to sign up for your employerâ??s plan.

Life Insurance

If youâ??re a custodial parent, make sure the life of the noncustodial parent is insured. You donâ??t want to end up in a position in which child support payments suddenly end because an ex-spouse dies. The same principle applies to alimony payments. Life insurance can protect you and your children in case of untimely death. If you have trouble paying the policy premiums, you can petition

the court to have alimony and child support payments increased to cover the cost.

If you donâ??t have custody of your children, youâ??ll still want to insure the life of your ex-spouse. If he or she were to die, you would likely gain custody of your children, increasing your expenses dramatically. If you canâ??t get new insurance on your ex-spouse, have his or her existing policies transferred to you as the new policyowner and beneficiary. This can be planned as part of the divorce agreement.

Disability Income Insurance

If you receive alimony or child support, another risk to your income may arise if your former spouse becomes disabled. If he or she has no disability insurance and is unable to work, the court may modify the alimony and child support obligation, reducing or eliminating payments to you.

With a disability policy, your ex-spouse will receive benefits each month and may be capable of paying the same amount of alimony and child support. Planning for disability insurance should be completed before the divorce is final. Unlike life insurance, you canâ??t own a disability policy on someone else. So, the divorce decree may require that your ex-spouse pay the premiums on a policy and that you are entitled to regularly receive proof that the policy is in force.

Property Insurance

At a high level, youâ??re going to have three options when changing your home insurance after a divorce: You can cancel your joint policy, you can take a person off of your shared policy, or, if youâ??re ordered to stay in the same dwelling, you can keep the coverage the way it is. However, there are a few different things that youâ??ll have to do to for each scenario.

Canceling your joint policy will be a group effortâ??your insurance agent will require consent in writing from both ex-spouses. This method will probably work best if you are both leaving the house and going your separate ways.

If youâ??re the primary policyholder, you can remove your ex-spouse from the policy by giving your insurance carrier a copy of your divorce decree. If youâ??re not sure who the primary policyholder is, itâ??s usually the person who called in to set up the policy (even if youâ??ve both signed the deed, loan, or policy). If you are not the policyholder, the options youâ??ll have are to prove that you have insurable interest, remove yourself from the policy, or arrange to be the responsible party for the insurance payments.

Insurance Beneficiaries

During or after a divorce, your choices on beneficiaries may be somewhat limited. For example, if a court ordered that you must continue an existing policy with your ex-spouse as beneficiary, you cannot change it. If youâ??re under no such constraints, however, your choice usually boils down to either your estate, your ex-spouse, or your children.

Designating your estate as beneficiary will tie up the insurance proceeds in probate. And unless you need to protect alimony or child support payments, you probably have no need or desire to name your ex-spouse as beneficiary. Designating your children as beneficiaries may be your best course but doing so can be very complicated if they are minors. One solution is to create a trust for the children and name the trust as beneficiary.

Remember: Divorce laws may differ from one state to the next, so consult an experienced legal professional before proceeding. Your situation is unique, so make sure that you also sit down with your financial and tax advisors to make sure that your plan is right for you.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.

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