

# How to Divide Retirement Accounts During Divorce Amid Market Fluctuations

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Dividing retirement accounts during a divorce is already complex, but the process becomes even more complicated when you factor in market volatility.. Stock market fluctuations can dramatically change the value of retirement accounts, which makes equitable distribution a moving target. Understanding the impact of these fluctuations—and planning accordingly—can help divorcing couples avoid unnecessary losses and ensure a fair outcome.

## Understanding the Basics: Types of Retirement Accounts

Before discussing market impact, it's important to recognize the common types of retirement accounts:

- **Defined Contribution Plans** (e.g., 401(k), 403(b), IRAs): These fluctuate based on the performance of the investments within them.
- **Defined Benefit Plans** (pensions): These are typically based on years of service and salary, with less direct impact from market swings.
- **Roth vs. Traditional Accounts:** Roth accounts are funded with after-tax dollars; traditional accounts grow tax-deferred and are taxed upon distribution.

Each account type has different rules for division and tax implications, which need to be considered in light of market performance.

## The Challenge: Market Volatility

Retirement accounts tied to stocks, mutual funds, or exchange-traded funds (ETFs) can experience wide swings in value. If assets are divided based on a snapshot in time—say, the date of separation or a particular court hearing—the actual value distributed could be significantly different by the time the account is divided.

### Example:

If a 401(k) is worth \$200,000 on the separation date but drops to \$180,000 before it's divided, the spouse receiving their share may end up with less than intended unless safeguards are in place.

## Options for Dividing Accounts Amid Fluctuations

- **Use Percentage-Based Division**

Instead of awarding a fixed dollar amount, divide the account by a percentage. For instance, awarding one spouse 50% of a 401(k) ensures they receive half of the value at the time of division, regardless of market changes.

- **Use Qualified Domestic Relations Orders (QDROs) Wisely**

For employer-sponsored plans like 401(k)s and pensions, a QDRO is necessary. This legal document outlines how the plan should be divided and allows for the transfer without taxes or penalties. The QDRO must specify division as a percentage, not a flat dollar amount, especially in volatile markets.

- **Consider Timing Carefully**

If markets are highly unstable, it may be worth pausing division until some stability returns. Alternatively, couples can agree to an average value over a specific period (e.g., last 30 days) to avoid basing the division on a market peak or trough.

- **Account for Investment Type**

Some investments within retirement accounts may be riskier than others. If one spouse receives mostly equities while the other gets more stable bond funds, it could create an imbalance in future value—even if the division looks fair on paper at the time. A financial advisor can help rebalance the allocations for fairness.

- **Tax Consequences Matter**

Traditional accounts will be taxed upon distribution. If both spouses receive different account types (e.g., one gets Roth, the other gets Traditional), the net value could be very different. These tax effects should be a factor in negotiations.

- **Post-Division Market Movement**

Once retirement assets are divided, each party is typically responsible for gains or losses moving forward. It's essential to clarify the "cut-off" date for shared responsibility in the divorce agreement.

Dividing retirement accounts in a fluctuating market is as much about strategy as it is about fairness. Consulting a divorce financial planner or an attorney with experience in high-asset divorces can help ensure the division is equitable, tax-efficient, and insulated from unnecessary market risk.

In the end, clear communication, well-drafted legal documents, and smart timing can all help protect your financial future during an emotionally charged and financially complex time.