STARTING OVER: Baldwin Cheng is finding his return to the single life financially challenging.

BY SUSANNAH CLARK

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You may be single, but you're not alone. In fact, the U.S. Census Bureau says that almost half the adult population—86 million Americans—fall into this category.

Whether living alone or with a partner, single people face their own set of financial challenges, not the least of which is being the only one who calls the shots. It can be liberating. But also scary.

"There's only one person who is going to be responsible for your finances—you," says Mari Adam, a certified financial planner and owner of Adam Financial Associates in Boca Raton, Fla.

Covering the Bases

Single people generally fall into one of three categories: those living without dependents, single parents with dependent children, and cohabiting but unmarried couples. Each group has its own unique financial needs.

All of them, however, should have certain financial documents in order. At the top of the list are documents that will direct their loved ones in the case of death or disability. These include a will, a durable power of attorney, and a health care proxy.

When a single person dies without a will, the assets in his or her estate generally revert to the nearest living relative. Depending on state law, if you have no near relatives, your assets will go to the state. So, if you had other ideas about who should get what, they should be spelled out in a will. A durable power of attorney authorizes someone to make legally binding decisions about your finances in the

With the right strategy, singles can manage the financial challenges of being on their own

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event that you're unable to make those decisions on your own.

While unmarried couples do not have the same legal rights on health care matters that married couples do—such as the right to visit if their partner becomes hospitalized—a health care proxy can be a solution, according to Emily W. Card, an attorney and co-author of *The Single Parent's Money Guide* (Macmillan, 1996). A health care proxy designates someone to make decisions about health care matters if you become physically incapacitated. "If you have an agreement, hospitals will respect that and allow your appointed agent to make health care decisions," she says.

With married couples, these duties tend to fall to the spouse, but for single folks, it's important that arrangements be put in writing. Singles who plan to stay that way may want to meet with an attorney to draft these documents.

"Creating these documents is one of the easiest things to deal with, but nobody wants to," says Card. "If you don't take care of your paperwork, someone else will impose their judgment, and it may not be the same choices you would have made." Adds Adam: "You really need competent legal counsel. These are complex issues, and you want to be sure to share what you've done with family."

Another important piece of business concerns beneficiary designations on retirement accounts. If you do not name a beneficiary, the assets in an IRA or employer-sponsored savings plan, such as a 401(k), may become part of your estate when you die. The assets will then be subject to probate, which can be a lengthy process whereby a court decides the validity of a decedent's will.

Finally, an emergency savings account takes on increased importance in a single person's financial plan. "A crisis may occur at some point, whether it's an illness, an accident, or getting laid off from a job," says Thomas F. Coleman, executive director of Unmarried America, an equal rights organization promoting fairness for unmarried workers, consumers, and taxpayers, based in Glendale, Calif. "You need to have some type of an emergency fund." Most financial experts suggest setting aside three to six months of income in a low-risk investment.

Insurance for Singles

Disability insurance, both short term and long term, is critical, as single people do not have a spouse's income to fall back on in the event of a serious illness or injury.

"Disability insurance is an often overlooked type of coverage," says Peter Ellinwood, vice president of life insurance for Fidelity Investments Life Insurance Company. "Yet it's extremely important to think about how you would maintain your current standard of living if your paychecks stopped. For working singles, the odds of becoming disabled before age 65 are higher than they are of dying." The amount of disability income coverage you may need is largely dependent on your age and your income.

Moving into middle age, single people should also start to consider how much, if any, long-term-care insurance they may need, says Ellinwood. "This kind of insurance is intended to preserve retirement assets rather than deplete them on health care or nursing home expenses," he notes. "However, unless they have a strong desire to transfer their assets to relatives or charities at death, single

IN A NUTSHELL

- Singles face greater financial challenges than their married counterparts do. Without a spouse's income or savings to fall back on, it's vital for singles to have a solid financial plan.
- Disability and long-term-care insurance take on added importance for singles, while life insurance is often unnecessary for those without children.
- A will, a durable power of attorney, a health care proxy, and Transfer on Death registrations are important tools that single people can use to their benefit.

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people may be less inclined to sacrifice their lifestyle today to pay long-term-care premiums. Given the statistics that show the typical nursing home stay lasts slightly more than two years, those with significant assets and incomes may decide that they can afford to pay for that on their own."

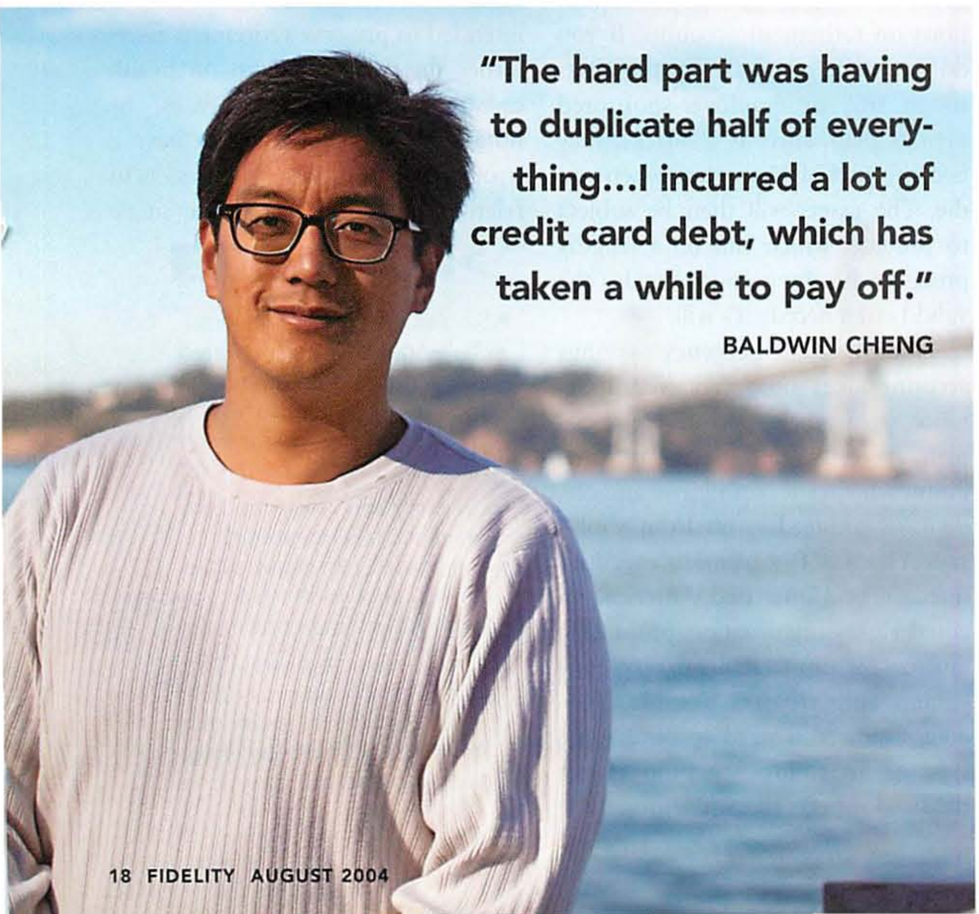
Another factor singles need to consider is how they might pay for in-home medical care. Married couples typically rely on their spouse or grown children to provide basic in-home care in the event of cognitive or physical impairment. However, "a single person should factor this into the question of whether their assets will be sufficient to pay for the services of a skilled in-home care specialist," says Ellinwood.

When it comes to life insurance, singles do have a financial advantage over married folks. "To a large extent, single people probably don't need life insurance," Ellinwood says, unless they have minor children. "The purpose of life insurance is to make money available for someone you care about when you pass away. Minor children are dependent on the ability of their parents to provide income. So, for singles with children, life insurance is critical."

Ellinwood says that, as with disability insurance, how much life insurance to own is a personal decision. "I'd start by asking myself two very important questions: Who would raise my children if I died before they're grown? And what resources would I want their guardian to have to provide for their needs? Life insurance should fill any gap between the size of the parent's estate and the funds required for future support, including college education, if that's important to you."

Home Economics

Buying a home, while requiring more commitment and resources than renting, is one important step toward financial security. It allows single people to build equity, take advantage of tax deductions for both real estate taxes and interest payments on their mortgages, and have something to borrow against should the need arise.



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BALDWIN CHENG

In its 2003 Profile of Home Buyers and Sellers survey, the National Association of Realtors (NAR) found that single people bought 32% of homes, a 10% increase since 2001. Single women now make up the second largest segment of homebuyers, behind married couples. The NAR also reported that many condominiums are being built specifically to attract singles because of their affordability, easy upkeep, and access to pools and other amenities.

Tom Carter, a 35-year-old single staff attorney for the Massachusetts Appeals Court, bought a condominium in Melrose, Mass. "You become a lot more fiscally disciplined when you're dealing with the costs of owning and maintaining a home," he says. "At the same time, I'm building a little bit of home equity every month. I didn't realize how big the tax break would be. It's almost a method of forced saving that's been really helpful."

It was a long time before Peggy McGregor, 69, felt financially secure after she separated from her husband 19 years ago. "It took a while until I had some earning power," she says, noting that her job as a sales representative for a national uniform supply company now pays quite well. "In the early years I didn't make as much, and I never felt secure enough."

One of McGregor's daughters suggested that she seek help from a financial adviser, who urged her to spend her savings on a house. One year ago, McGregor finally took the plunge. "I bought a really nice condo in Florida, and it's been great," she says. "It also gives me a tax break because the mortgage interest is deductible from my taxable federal income."

Commingled Money

According to the 2000 census, there are 11 million American unmarried adults living with partners. Because

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they often have two salaries and can share living expenses, these couples may face fewer financial hurdles than singles living alone or with children. But that doesn't mean they don't have other concerns. While the majority of cohabiting couples do marry, 40% go their separate ways within five years—a large enough chunk to make anyone in this situation realize that some financial precautions and legal agreements may be in order.

According to Card, cohabiting couples should draw up a contract that says who is financially responsible for what and what property belongs to whom. "If you don't have a written agreement, splitting up the assets or the bills can become very messy," she says. "This is especially true for couples who own property together."

Unmarried couples often choose to keep their financial accounts and assets separate. For those who do choose to commingle their accounts, splitting up assets can get complicated when one partner dies.

One solution is to hold assets in an account that is registered as joint tenants in common (TIC). This allows the partners to stipulate that each owns 50% of the assets, and at death, half of the account belongs to the survivor and half goes the decedent's estate or is distributed according to the terms of his or her will. Couples can also stipulate that ownership of the assets be split other than 50-50 when they establish the account.

Accounts with a Transfer on Death (TOD) registration are becoming an increasingly popular estate planning tool for unmarried couples. When the owner of a TOD account registered in a single name dies, the assets are transferred to whoever was stipulated when the account was opened. TOD accounts allow individuals to avoid probate (as do retirement accounts that have a designated beneficiary). However, joint accounts with TOD registrations are a bit more complicated, as some states allow them and some don't. In states that do allow joint TOD accounts, the assets are not distributed until after the second joint owner dies.

The Higher Cost of Living Single

- **Married men,** on average, earn 11% more than unmarried men.
- **Married women** under the age of 35 earn more than unmarried women of the same age.
- **Singles experience** unemployment at a higher rate than married people (9.1% vs. 3.8%).
- **Employer benefits** for domestic partners are taxed; benefits for married spouses are not.
- **The surviving partner** of an unmarried worker can't collect Social Security payments; spouses can.
- **Some automobile insurers** charge higher rates for unmarried drivers.

Sources: The American Association for Single People; the Federal Reserve; *BusinessWeek*

Single-Parent Households

Divorcees with children face unique financial challenges. "When you become a single-earner family, even if you have help with child support, you may really find yourself at a loss for both time and money," says Card.

The first big hurdle is the expense of setting up two separate households. Baldwin Cheng, 39, is a senior account planner for McCann Erickson in San Francisco. He and his wife divorced this year after separating in 2001. "The hard part was having to duplicate half of everything," he says. "We had to do that really quickly, within a month or two. There were two households to furnish, two sets of accounts for phone bills, and things like that—lots of mundane stuff that you had one of before, but now you needed two. I incurred a lot of credit card debt, which has taken a while to pay off. That's been the worst financial aspect of it."

There's also health insurance to replace. "When we were married, we were able to shop back and forth to get the best out of the benefits that each employer offered," Cheng recalls. "With my ex-wife's employer, all the health care premiums were completely paid for. With my employer, the options are not as attractive."

While life insurance is critical for singles with children, it's important to understand that many states limit the amount a minor can inherit without establishing a guardianship or other court-supervised arrangement. "If you have minor children, property should not be left to them directly by name," Adam cautions. "If you do, the court may appoint a guardian to oversee the estate." Instead, she suggests that single parents set up a trust naming their children as beneficiaries of the trust and the trust as the recipient of any estate property or insurance benefits.

In the end, there's no getting around the simple truth that singles must work harder to overcome life's financial obstacles. "They've got to be smarter in financial planning, because there's so much riding on it," says Coleman of Unmarried America. "There isn't any second person to back you up. You're it." ■

Susannah Clark is Massachusetts-based freelance writer.

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