BMO Retirement Institute Report

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Single in Retirement

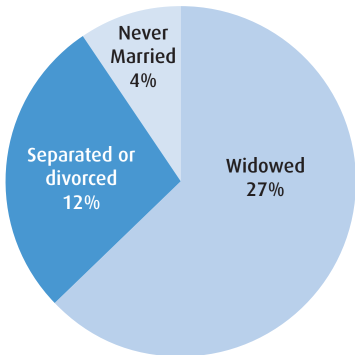
The odds of being single at some point during retirement are high, whether by divorce, death or never marrying in the first place. Regardless of how or why one finds themselves single in retirement, one thing is certain: it presents a unique set of financial, emotional and planning challenges.

As American longevity continues to increase, the shape of retirement must also keep shifting. And with the robust boomer generation at the helm, it comes as no surprise that even longer, more active retirements are on the horizon.

However, longer-term retirement planning has become more challenging than ever, at a time when financial security and confidence has been shaken by depressed housing prices, rising health costs and market volatility. Many Americans have been forced to adjust their retirement plans and expectations by deferring retirement to rebuild their 401(k) plans and other retirement assets. With Congress pushing to scale back Social Security benefits and companies freezing or eliminating defined benefit pension plans, there is a heightened sense of urgency for Americans to take greater responsibility for their retirement security.

Exacerbating the challenge of planning for a longer retirement is the fact that by chance or by design, a surprisingly large number of us will face our golden years alone. Recent research shows it's becoming increasingly common to retire single — whether as a result of death, divorce or never marrying in the first place.

For example, according to a 2011 U.S. Census Bureau report, 43 percent of seniors 65 or older are single. A closer look shows 4 percent never married and 12 percent are separated or divorced, while the remaining 27 percent are widowed.



43% of American seniors are single

Source: U.S. Census Bureau Report 2011

The BMO Retirement Institute was established to conduct research and provide thought-provoking insight and financial strategies for those individuals planning for, or currently in, their retirement years.

Tina Di Vito, CA, CFP, TEP
Head, BMO Retirement Institute

Contact the Institute at
bmo.retirementinstitute@bmo.com

There's a strong likelihood that you will find yourself single at some point during retirement.

Those in retirement alone often face an even greater financial burden than married couples, who can leverage economies of scale by coordinating savings, investment and Social Security benefit strategies, and also by sharing costs before and during retirement.

The fact is, even if you are part of a couple now, there's a strong likelihood that you will find yourself single at some point during retirement.

What's driving this growing phenomenon?

There are a number of reasons why more and more retirees today are single:

Midlife divorce. Studies show an unprecedented number of divorcees entering retirement. According to The Vanier Institute of the Family, 44 percent of marriages in the United States will end in divorce before the couple's thirtieth anniversary.[1]

One possible reason for this is something psychologists call "boomer entitlement," a rising tendency for many individuals — after years of fulfilling the roles traditionally dictated by society — to seek freedom and self-exploration as a reward later in life. Indeed, attitudes about marriage are rapidly evolving, not only in North America, but worldwide. The term "jukunen rikon" (mature divorce) has been linked to Japanese women's frustration with their newly retired husbands, nicknamed "wet leaves" for their propensity to "cling."

For women, the chances of outliving a spouse are high.

Outliving a spouse. According to 2010 U.S. Social Security data, odds are that at least one member of a 65-year-old couple will live to age 88. And there is a 30 percent chance that one member of that couple will live to age 92. For women especially, the chances of outliving a spouse are high. According to a 2011 U.S. Census, 39.9 percent of women 65 and older are widowed, compared to 12.7 percent of men in the same age group.

More people choosing not to marry. Recent population data shows less people are marrying now than in previous generations. In fact, according to a U.S. Census Bureau 2009 American Community Survey (ACS), unmarried young adults ages 25 to 34 outnumbered their married counterparts by approximately 2 percent.

Ever Singles vs. Suddenly Singles

While solo retirement is clearly a rising trend, our report shows that not all singles retire equally. Those who have never married or who have spent a significant portion of their adult lives unmarried will face a different set of challenges than those who unexpectedly become single due to a death or divorce. We will refer to these two groups as Ever Singles (mostly never married) and Suddenly Singles (unexpectedly widowed or divorced).

Six key considerations for current and potential singles.

For boomers and their financial advisors, solitary retirement presents a number of distinct challenges. We've identified six key areas that, when properly addressed, can help ease their passage.

1. Plan for retirement as early as possible.
2. Build and sustain wealth.
3. Understand income and expenses.
4. Consider changes in housing needs.
5. Focus on social and emotional well-being.
6. Devise a comprehensive health strategy.

1. Plan for retirement as early as possible.

Common wisdom holds that we should start saving for retirement as early as possible. But the upshot of not following this advice could be even more perilous for singles than for couples.

The cost of living for singles is 40 to 50 percent higher than for married individuals.

Without another source of financial support to cushion them, planning for probabilities and eventualities becomes paramount. Questions like "How much do I need to live comfortably?"; "Will there be enough to fulfill my retirement dreams?"; and "What if I suddenly become disabled or my health declines?" all have a great bearing on their lives, both personally and financially.

Singles at greatest risk, yet the least prepared for retirement. According to a 2009 American Academy of Actuaries report, the cost of living for singles is 40 to 50 percent higher than for married individuals. Yet singles are at a higher risk of not having enough saved for retirement. According to a 2010 Employee Benefit Research (EBRI) study, single boomer men have a 19 to 34 percent higher retirement savings deficit than their married counterparts. As for women boomers, their risk of not having adequate retirement savings is much worse; the same study found that their retirement savings deficit was at least double the savings deficit of their married counterparts (110 percent to 135 percent).

Not only are couples more likely to have dual incomes and more access to health and pension benefits, they also appear more likely to discuss their retirement plans together and gather the necessary information to create a joint retirement plan. Overall, those who are married are more actively engaged in financial planning. They are more likely than their Ever Single counterparts to have a financial plan, to receive help in preparing their plan and to have a more up-to-date financial plan.[2]

Once seniors slip into a low-income bracket, studies show it is very difficult to climb out.

Saving enough to pay for a retirement that could easily last 30 years may place a greater burden on singles.

2. Build and sustain wealth.

With retirements extending well past the ten-year mark that would have been the norm a generation or two ago,[3] the financial pressure of retirement has increased. Not surprisingly, many retirees experience a loss of wealth throughout their retirement years, and that loss is even more pronounced among single retirees. Unfortunately, once seniors slip into a low-income bracket, studies show it is very difficult to climb out.

According to a 2007 Boston College study, more than two-fifths of all retirees will have significantly less income at age 80 than they did at age 67, with the median decline in income being $16,000 for current retirees and projected to be $23,000 for today's boomers. This decline is more severe for retirees who find themselves Suddenly Single, especially if the survivor had been relying on income from the deceased spouse. A whopping 17 percent of current retirees fall into this category.

Perhaps even more alarmingly, the study estimates that married adults who become divorced or widowed between the ages of 67 and 80 are projected to have the largest decrease in wealth and the largest increase in poverty, experiencing a decline in median income of as much as 37 percent.

Forty-one percent of Suddenly Singles say they did not have a plan to deal with this eventuality, and 53 percent say their finances were negatively affected.[4] Singles face a number of obstacles when it comes to building and sustaining wealth for retirement:

Savings. During their working years, Ever Singles must devote a larger share of their income to basic living expenses such as shelter and transportation. This leaves a smaller share for savings, and can put singles at a disadvantage early in life. And Suddenly Singles who lose a spouse through death or divorce may lose valuable time in establishing their own independent retirement savings.

Longevity. The fact that we're living longer lives is a factor that affects singles and couples equally, but saving enough to pay for a retirement that could easily last 30 years is likely to place a greater burden on singles. Singles may find themselves needing to invest more aggressively both before and during retirement in order to compensate for a lower saving rate and a smaller nest egg.

Inflation. Retirees must save enough money and earn an adequate rate of return to cover not only their month-to-month retirement income needs but to also compensate for the constantly rising cost of everything from food and housing to fuel and clothing. Once again, singles face this financial challenge alone, and must be proactive by, for example, saving relatively more than their coupled counterparts.

Impact of inflation.

Although these figures are approximations, in an era when many singles will spend 30 or more years in retirement, the need for ample and growing retirement savings is clear.

An inflation rate of...	Will double the cost of living every...
2%	36 years
4%	18 years
6%	12 years

3. Understand income and expenses.

According to a 2010 U.S. Consumer Expenditure Survey, 37 percent of a single person's income goes towards housing expenses. In contrast, only 32 percent of a couple's income went towards running a household. With a greater percentage of income funding housing expenses for singles than for couples, it's crucial for singles to make sure their retirement plan properly balances income and expenses.

Income

Social Security

Single retirees have fewer Social Security options than married spouses.

Almost every American is eligible to receive Social Security retirement benefits as early as age 62, whether as a worker or as a dependent married spouse of a worker. However, not everyone is entitled to receive the maximum payment. For instance, the Social Security benefit payment is based on a person's taxed Social Security earnings over his or her working career from age 22 to 61. Eligibility for the maximum benefit payment assumes that an individual's earnings were equal to at least the maximum taxable earnings amount for his or her top 35 earning years (indexed to inflation) between age 22 to 61, inclusive. Since zero or low income earning years until age 62 are included in the calculation, individuals who worked less than 35 years or those who had low earnings during their working careers will receive lower Social Security benefits than if they had worked steadily and earned more.

Single retirees have fewer Social Security options than married spouses. For example, a married spouse has the option of claiming Social Security benefits based on his or her own earning record or claiming up to 50 percent of a spouse's benefit, and receiving the higher of the two. Retired couples with one spouse who didn't work or had low earnings have the most to gain from this provision. However, the retirement benefit and the spouse benefit is subject to a reduction if taken before the spouse reaches his or her full retirement age (FRA), which ranges from 65 to 67 based on year of birth. This allows low-income spouses an option of waiting until they reach their FRA to receive the full 50 percent spouse benefit. Another advantage that married couples have over single retirees is that in the event a spouse dies, the survivor may be eligible to collect Social Security survivor benefits from age 60, as long as he or she has not remarried before that age. The survivor's benefit is typically 100 percent of the deceased spouse's benefit entitlement if the surviving spouse has reached FRA. However, survivors can receive either the widow's benefit or their own retirement benefit, whichever is higher, since retirees cannot receive two Social Security benefits.

Finally, when a relationship ends in divorce, an ex-spouse may be eligible to collect Social Security retirement benefits based on his or her former spouse's Social Security history. To be eligible for this benefit, the marriage must have lasted at least 10 years, the ex-spouse must be unmarried and at least 62 years old, and the former spouse must have applied for Social Security retirement benefits. If the couple has been divorced for at least two years and both are at least 62 years of age, however, the ex-spouse may receive benefits even if the former spouse has not applied for the benefits. If the former spouse is deceased, however, the ex-spouse may still qualify for the benefits even if the marriage lasted less than 10 years.

Ever Singles or Suddenly Singles who wish to increase their Social Security retirement benefits may need to consider working longer and/or delaying their Social Security benefits until reaching at least their FRA. Couples in dual-earner marriages can strategize how best to coordinate their Social Security benefits not only to maximize the benefits during their joint retirement years but also to boost the survivor benefit should one spouse suddenly become single due to the death of the other. For example, a spouse can claim the 50 percent spouse benefit at his or her FRA while continuing to accrue delayed retirement credits under his or her own Social Security record until age 70. At age 70, he or she can switch from the spouse benefit to retirement benefits under his or her own work history, thereby receiving a higher lifetime benefit. Should he or she predecease his or her spouse, this will also translate to a higher benefit for the surviving Suddenly Single spouse.

Employer-sponsored retirement plans

Everyone must understand what kind of retirement plan his or her place of employment provides. There are two basic types of retirement plans: defined benefit and defined contribution. If the retirement plan is a defined benefit plan, it promises to pay a specified amount of pension income in retirement for life. If it is a defined contribution plan, such as a 401(k), the retirement benefit is an accumulated account balance based on contributions and investment returns over time. It may also be a hybrid cash balance plan, which has characteristics of both defined benefit and defined contribution plans.

In recent years, the trend has been away from offering traditional defined benefit plans, which are costly to employers, and towards defined contribution plans, which shift the responsibility of funding retirement to the employee. Even with a defined benefit plan, it's important to know whether the pension payment is inflation adjusted, and by how much? What happens with the money in the plan on the death of the employee? Are there survivor benefits available for anyone other than a married spouse?

Ever Singles lack survivor benefits

Although Ever Singles are spared the emotional upset and loss of income associated with the death of a spouse, they're not entitled to receive the same survivor benefits from public and private pension plans that Suddenly Singles might qualify to receive. Retired singles may be surprised to learn that their defined benefit pension income may stop upon their death if there is no surviving spouse, whereas with a defined contribution plan, the money remaining in the plan would be paid to the named beneficiary.

Here's a simplified illustration of the income advantage a Suddenly Single could have over an Ever Single following the death of his or her spouse.

	Couple	Ever Single	Suddenly Single
Income source			
Social Security Retirement Benefit	$ 55,440	$ 27,720	$ 27,720
Employer pension	$ 60,000	$ 30,000	$ 30,000
Employer pension 50% survivor benefit			$ 15,000
Total income	$ 115,440	$ 57,720	$ 72,720
Annual income advantage			**$ 15,000**

Note: Example is for illustration purposes only and assumes that the Ever Single and both members of the couple are entitled to the 2012 maximum Social Security retirement benefits at age 65 (based on their individual records) and have an annual pension of $30,000 with a 50% survivor benefit.

Expenses

Suddenly Singles may tend to enjoy an income advantage over Ever Singles, but they also face one significant disadvantage: whether they become single by death or divorce, their income will drop, while many of their expenses will stay the same.

Many basic life expenses remain relatively constant even after a retiree becomes single:

- Rent or mortgage
- Property tax
- Home maintenance and repairs
- Motor vehicle and fuel
- Telephone
- Electricity
- Water
- Cable

For Suddenly Singles, income will drop while many of their expenses will stay the same.

In addition, Suddenly Singles may incur new costs to replace some of the work performed by the other person, such as household chores, financial knowledge or care giving. Even grocery shopping can be pricier for singles, as meals for one tend to cost more in proportion. Travelers too are expected to pay a premium for single-occupant accommodation.

Address income and expense disparities early.

When income sources and expenses are mismatched in retirement, both Ever Singles and Suddenly Singles often resort to using their accumulated savings to meet their spending needs. However, drawing down on reserves could increase the risk of outliving one's money. Being cognizant of all income sources and anticipated expenses can help future retirees identify potential gaps in retirement savings.

4. Consider changes in housing needs.

Housing is expensive, particularly for singles. This is true for both men and women, but since women live longer, they're more at risk of living alone and bearing the cost on their own.

Paying off the mortgage prior to retirement is a popular goal. But many don't manage this task, and maintaining a single-person household can simply be too expensive. Furthermore, Ever Singles are often renters, not homeowners, so selling a house to fund their retirement nest egg may not even be an option. Downsizing or renting during retirement may be reasonable alternatives to help retired singles cut costs, but for many seniors, moving out of the family home and familiar neighborhood is a daunting undertaking, both physically and emotionally.

Alternative housing

Many single retirees are exploring unconventional housing options, such as communal living. It's difficult to pinpoint just how widespread this new "Golden Girls" trend is, but according to a 2010 U.S. Census Bureau, 557,000 seniors aged 65 and over are involved in some kind of shared housing arrangement.

Having a roommate during retirement can pay dividends well beyond financial interests and can be beneficial from a social, emotional and health perspective. Home sharers report joint household chores, companionship and an added sense of security among the benefits. For many, this alternative to a retirement home or moving in with the kids preserves a greater sense of independence.

However, singles wanting to co-own a residential property should seek advice from an attorney and tax specialist before making the move, as joint ownership may result in unintended estate and tax issues.

5. Focus on social and emotional well-being.

The transition from working to not working — relinquishing the "daily grind" and its associated social rewards — can be tough. Feelings of identity loss and loneliness are normal for all retirees. But it's even more stressful when you have to go through it alone.

However, many studies show depression can be averted by taking an active role in the community and staying socially connected. Furthermore, these behaviors can have a direct, positive impact on physical health.

Community works

According to a 2007 Corporation for National and Community Service report, volunteering by seniors provided greater physical and mental benefits than for non-volunteers, as well as a longer life expectancy.[5]

There is growing recognition of the contributions seniors make to their families and communities through unpaid activities. The National Senior Service Corps program has achieved immense success by challenging retirees age 55 and up to channel their skills into positive change in their communities. Their maxim? "We don't just want to change the world — we're old enough to know how." [6]

Home Alone?

- 47% of women and 18% of men age 65 or older live alone — since 1970, this represents an increase of 96% for women and 22% for men (U.S. Census Bureau, 2010).
- In 2010, seniors aged 65 and over represented 29% of people who lived alone (U.S. Census Bureau, 2010).
- The cost-to-income ratio is higher for renters than for homeowners. Approximately half of renters spent 30% or more of their income on shelter (U.S. Census Bureau, 2009), which is of particular concern for the large portion of seniors renting, especially those living alone.

A spouse's death or divorce could leave women starkly unprepared.

6. Devise a comprehensive health strategy.

There's no shortage of reports about the strain our public health services will undergo as the population ages. And lacking the extra financial resources and personal care a spouse can provide, single retirees may have a greater need to plan for the probability of health care expenses.

The right insurance

If they have no dependents or beneficiaries to provide for in the event of their death, singles should consider foregoing traditional life insurance and instead invest in disability, critical illness and/or long-term care insurance.

Deciding whether and when you should purchase long-term care insurance (LTCI) must be carefully considered. Though there are advantages to buying LTCI as early as in your 40s, the health care environment could significantly change in ways that might affect the value of your policy by the time you actually need the coverage.[7]

If an accident or illness strikes, these types of coverage can provide an emergency lump sum or monthly payments to help offset costs for home care, medical treatments, transportation, a stay in an extended care facility or other essentials related to daily living.

Speak up

A medical power of attorney is a legal document that allows people to grant a person the right to make potentially life-or-death health care decisions on their behalf should they be unable to do so for themselves — such as while incapacitated by a serious illness.

For couples, the choice of a spouse as medical power of attorney seems obvious. But singles may be less likely to plan for this contingency and make appropriate arrangements in advance. Singles should name a friend or family member they trust to act as their medical power of attorney in the event they should ever be unable to speak for themselves.

Additional challenges for women

Much data points to increased financial risk for women who find themselves single in retirement. Some may have lived most of their lives as part of a couple, and therefore never put a solid "single retiree" plan into place. A spouse's death or divorce could leave them starkly unprepared.

For the most part, women still earn less in the workplace, and may have worked fewer years while raising children. This translates to fewer savings and less access to benefits, such as company pensions.

According to the 2009 American Community Survey report, 27 percent of women who recently divorced reported less than $25,000 in household income, compared with 17 percent of recently divorced men. Recently divorced women are also more likely to be receiving public assistance and living in poverty than recently divorced men.[8]

When a spouse dies, the resulting lost earnings, particularly if the spouse was still active in the labor force at time of death, are usually very difficult to replace.

When it comes to retirement savings, history shows women in particular lean towards fixed-income investment options, but there is a real risk of being too conservative and receiving a lower rate of return over the long term. Many women, especially Ever Singles with no survivor income sources to fall back on, may need to rethink their long-term investment strategy.

Conclusion

Those who are single in retirement, whether by default or by design, must navigate a number of unique adversities. And even for those who currently enjoy a strong marriage, retiring single remains a very real possibility.

Although the challenges facing singles span many areas of life — from saving and investing to housing and medical, and more — there are many steps both singles and couples can take to minimize the risks. The earlier in life these steps are taken, the better the odds of being able to take retirement in stride no matter what life may have in store.

[1] The Vanier Institute of the Family, *Divorce: facts, causes and consequences*, 2009.
[2] BMO Retirement Institute Survey, conducted by Harris Decima, January 2012.
[3] The 2011 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Federal Disability Insurance Trust Funds.
[4] BMO Retirement Institute Survey, conducted by Harris Decima, January 2012.
[5] Corporation for National and Community Service, *The Health Benefits of Volunteering — A Review of Recent Research*, 2007.
[6] "Tri-County Community Action program, Inc.", http://www.tccap.org/senior_rsvp.htm.
[7] *Getting Ready*, M&I Life stages: Smart Retirement Strategies for everyday of your life, June 2011.
[8] Marital Events of Americans: 2009, *American Community Survey Report*, U.S. Census Bureau, 2009.

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