

Preparing to Retire Single

Unmarrieds need to approach retirement planning pragmatically.

Provided by Bill Mann, AIF®

In an ideal world, it would be simple to prepare for a solo retirement. You would just save half as much as a couple saves, buy half as much insurance coverage, and expect to live on half the income. Reality dictates otherwise.

Real-world planning for a solo retirement begins with an assumption. You assume, at some point, that you will retire alone. You may be ready to make that assumption at age 40. Or, that distinct probability may emerge at age 55. These midlife assumptions aside, you should acknowledge the possibility that you may end up spending some of your retirement alone, even if you retire with a spouse or partner.

As a solo ager, your retirement becomes a test of self-reliance. As ABC News notes, the Elder Orphan Facebook Group recently polled its 8,500 members about the “safety net” they had and collected 500 responses. Thirty-five percent lacked “friends or family to help them cope with life’s challenges,” and 70% had no specific idea of who their caregiver would be in event of mental or physical decline.¹

Think about what you do for your elderly parents or what you have done. Look ahead and consider who or what resource could provide that help to you someday.

Insuring yourself is critical before and after you retire. If you retire before becoming eligible for Medicare, could you lean on COBRA or remain on a group health plan a bit longer before having to find your own health insurance? Disability insurance is also important while you are still working, to protect your income. As Dave Ramsey says, your income is your most powerful wealth building tool. When you lose your income, that tool is broken, and that restricts your retirement savings effort.²

How about long-term care insurance? Opinions are divided, and even affluent single retirees may find it hard to afford. Look into it, but also look at other possible methods for coming up with the money you may need for your eldercare. As for assistance with daily living, some creative seniors who age alone take in a younger relative, friend, or roommate who lives with them rent free in exchange for helping them with daily tasks.

It is also crucial for a solo ager to assign powers of attorney. Through a durable power of attorney for health care and a living will, you can respectively identify who will make medical decisions for you if you become incapacitated and the degree of care you want (or do not want) if that occurs. (Some states fuse both documents into one, called an advance directive.) There is also the matter of assigning a financial power of attorney. What trustworthy person can make good financial decisions on your behalf, if you are no longer capable of doing so?³

Tax-favored investing is vital before and after retirement as well. As a single, childless person, you cannot qualify for federal tax breaks like the Child Tax Credit, and you will not gain the tax benefits that come with being a married, joint filer. Building up retirement savings in a workplace retirement plan and traditional IRA is good, because you can lower your taxable income through the pre-tax contributions and position the invested assets with taxes deferred.⁴

You may want to consider partly or fully converting a traditional IRA to a Roth before retiring. Traditional IRA owners must take Required Minimum Distributions (RMDs) once they reach age 70½, and each RMD is taxed as regular income. For a single, retired taxpayer, that can be rough: you can find yourself tossed into a higher tax bracket, but without the tax breaks afforded to married couples. Original owners of Roth IRAs never need to take RMDs.^{4,5}

Want a larger monthly Social Security benefit? Then work longer and wait longer to claim Social Security. If you are divorced, and were married for ten years or longer, you are likely eligible for spousal benefits reflecting your former spouse's income history. If your ex-spouse was a comparatively high earner, your total benefits could see a boost.⁴

In retiring solo, you do have a flexibility that married couples do not. If you feel like moving and downsizing, go right ahead. If you want to bring in roommates or decide you want to retire to French Polynesia, Chile, or Italy, the only "yes" you need is yours. If you decide to retire later or earlier, you can make that decision independent of spousal approval. All this freedom is nice, and it is perhaps the greatest retirement perk a single person has. Just be sure to prepare for the future pragmatically.

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Citations.

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