Planning Considerations For Singles

Today, many young professionals enjoy successful careers and financial independence and want to maintain their single status in order to pursue both career opportunities and personal interests. These factors have resulted in a growing trend towards remaining single. While some singles are choosing to simply delay marriage until later in life, many are making a conscious choice to avoid this institution altogether. Whether by design or circumstance, single adults still have wealth planning considerations to address, especially if you plan to include single parenthood and home ownership in your future.

Protecting yourself and your assets

Establish an emergency fund

If you're not prepared, an unexpected expense, job loss or health issue can have a significant impact on your finances. Since you can't rely on a second income from a spouse or partner, it's especially important that you establish an emergency fund. An emergency fund is a pool of money set aside specifically to cover the cost of unexpected expenses, or the loss of income. Consider building an emergency fund of at least three to six months' worth of living expenses. Since you won't know when you might need to access your emergency fund, you'll want to keep it in an account that is fairly liquid, so you don't end up paying penalties, charges, termination fees or significant taxes. A Tax-Free Savings Account (TFSA) may be a good option to accumulate your emergency fund savings, as the funds grow tax-sheltered and can be withdrawn tax-free at any time.

Insurance

As a young professional, your long-term career potential and ability to earn income is one of your greatest assets. However, if you're unable to earn income due to health issues or a disability, having adequate insurance coverage is important for meeting your long-term financial security.

Disability insurance – Disability insurance is designed to replace a portion of your income in the event you become disabled due to accident or illness and are unable to work.

The chart below shows the probability of disability and its duration across an individual's working life. It's important to note that the chance of being disabled longer than 90 days is actually higher the younger you are.

Age	Probability of Being Disabled Longer Than 90 Days	Average Length of Disability After 90 Days
25	58%	1.2 years
30	54%	2.5 years
35	50%	2.8 years
40	45%	3.1 years
45	40%	3.2 years
50	30%	3.1 years
55	25%	2.6 years
60	14%	1.6 years

Source: Canada Life, Commissioner's IDA Morbidity and Commissioner's SO Mortality Tables, Society of Actuaries.

Purchasing disability coverage now, while you're young and healthy increases your chance of qualifying for coverage. For example, 50-year-olds are more than twice as likely to be declined as are applicants under 40. While employers may offer disability coverage as part of their company benefits package, these disability benefits usually cover only a percentage of your income so it may be beneficial to purchase supplemental disability insurance coverage.

Critical illness and long-term care insurance – If you suffer an accident or are diagnosed with a critical illness, these policies can provide funding to help offset the costs of home care, medical treatments, transportation, a stay in an extended care facility, or other essentials related to daily living.

Critical illness insurance pays a lump sum benefit that can be used to take a sabbatical and recuperate, pay off a mortgage, make adjustments to a home or car to accommodate any special needs, inject money into your business to keep it going while recovering or even pursue private medical treatment outside Canada. How you use the money is entirely up to you.

With no second income to assist with daily living expenses, long-term care insurance can help you maintain your independence by providing a daily tax-free benefit that can be used to help cover the cost of professional in-home care.

Life insurance – Generally, with no children or dependants you'll elect to purchase less life insurance coverage than married couples with children or dependents. Many employers offer life insurance as part of their benefits package and this coverage may be sufficient depending on your needs; however, you lose this insurance coverage if you are terminated from your job or leave your employer. Therefore, it may be beneficial to purchase a supplemental life insurance policy. Single individuals should have, at a minimum, enough life insurance to cover funeral expenses and perhaps pay down any outstanding debt. Depending on the size of your estate, the purchase of additional life insurance could be used to leave an inheritance to a family member or friend, or perhaps leave a bequest to your favourite charity.

Estate planning

Regardless of your personal circumstances, everyone should have an estate plan to protect themselves and their property in case of incapacity and upon death. Your estate plan should include a Will, a continuing Power of Attorney for Property and an End of Life Directive and Power of Attorney for Personal Care (in Quebec, a "Mandate in case of incapacity" includes the continuing Power of Attorney for Property, End of Life Directive and Power of Attorney for Personal Care).

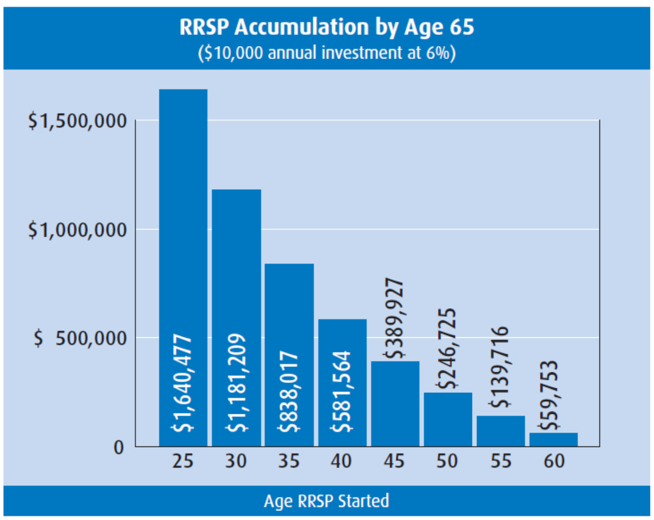
A Will reflects your succession intentions and names an appropriate executor (liquidator in Quebec) to oversee the administration of your estate after your death. Having a Will is the only way you can control who will administer your estate, the manner in which your estate will be distributed and to whom. A continuing Power of Attorney (often referred to as a POA) for Property authorizes the person you name as your attorney (mandatory in Quebec) to manage your financial affairs on your behalf in the event of mental or physical incapacity. An End of Life Directive (also referred to as a Personal Directive or an Advanced Directive) sets out your wishes about your health and medical care needs, and takes effect when you no longer have the mental and physical capacity to communicate these wishes. A POA for Personal Care authorizes your attorney to make decisions about your personal care and healthcare issues if you are no longer capable of making such decisions yourself. As a single person, it's imperative that you clearly communicate your care and end of life wishes to your POA so they fully understand your intentions.

Everyone has their own method for recording and storing important financial records and documents. However, if someone else were to step into your shoes, would they be able to locate this information? To help you get organized, ask your BMO financial professional for a copy of the **Estate Information Organizer.** This document can be used to capture the location of important documents, details regarding your digital assets and other information, making it a valuable resource for you, your family, your executor or your POA for Property.

Retirement planning

While retirement may seem a long way off, saving for this milestone must be a priority for singles. Because you devote a larger percentage of your income to living expenses versus dual income couples, there is less money remaining for savings. This also extends to expenses in retirement. As a result, it's important to start saving as early as possible and take advantage of the tax savings benefits of a Registered Retirement Savings Plan (RRSP). Not only are your RRSP contributions tax deductible, but your contributions compound tax-deferred within the RRSP.

The following chart shows how much money you would accumulate in an RRSP assuming you contribute $10,000 each year until age 65 and earn six per cent annually. If you started your RRSP at age 50, you would accumulate $246,725 by the end of the year in which you turn age 65. By starting at age 30, your RRSP would be worth $1,181,209 by the end of the year in which you turn age 65. Even though you only contributed an additional $200,000, by starting 20 years earlier, your RRSP would have accumulated an extra $934,484.



Single parenthood

Raising a child is one of life's most rewarding experiences and being single is no longer a reason to delay or avoid parenthood. Along with the joy and anticipation of your new arrival comes increased expenses and additional responsibilities. Initially, your budget will need to factor in any loss of income due to parental leave, as well as child care costs when you return to work, both of which can be significant.

Once you have a child, your personal and financial priorities will likely change. Savings goals may need to be altered to accommodate additional living expenses and you will likely want to start an education savings plan for your child's post secondary education. In addition, your estate plan and insurance coverage will need updating to ensure your child's well-being and financial security is addressed.

While your insurance coverage will be typically focused on providing income to protect yourself while you're alive, additional life insurance coverage will be needed to help ensure your child's financial needs are taken care of if you were to pass away.

Your Will should include the appointment of a Guardian(s) (Tutor in Quebec) to care for your minor child if you were to die unexpectedly. It's important to provide clear and specific instructions within your Will on how you want your child raised, including your instructions around their care, schooling and religion, if applicable, as well as any post-secondary schooling and career aspirations you may have for the child. Your Will should include provisions for a testamentary trust to hold your child's inheritance, in addition to appointing a trustee to manage your minor child's inheritance.

Buying a home

Buying a home provides a sense of security and can help increase your net worth over time. When purchasing a home you will first need to qualify for the mortgage based on your income alone. Because all expenses will be shouldered by you, it's important that you budget for the initial legal fees and closing costs associated with the home purchase, as well as ongoing mortgage payments, property taxes, home insurance, household bills and maintenance costs.

Location, resale value and neighbourhood safety can be important factors for singles when deciding on a home purchase. If you work long hours, living near your place of employment can reduce your commute and provide you with additional leisure time. The potential resale value of the property should also be considered, especially if you're considering relocating for career advancement – or if you later decide to marry and/or start a family. Unless you work from home, you'll probably spend a significant amount of time away from your home and will often arrive home late in the evening, so it's important that the property be located in a safe neighbourhood.

Owning a home allows you to benefit from the principal residence tax exemption upon the eventual sale of the property. This means you will not be subject to capital gains tax on the increase in the value of the property for the years you designate it as your principal residence. However, if you were to relocate and decided to rent out your home for a period of time, you may not be entitled to claim the principal residence tax exemption for those years.

We're here to help

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For more information, please contact your BMO financial professional.

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