BMO Wealth Institute™

/Report
CANADIAN EDITION

Retirement for One – By Chance or By Design

The BMO Wealth Institute provides insights and strategies around wealth planning and financial decisions to better prepare you for a confident financial future.

Contact the BMO Wealth Institute at **wealth.planning@bmo.com**

BMO Financial Group
Making money make sense®

bmo.com/wealthinstitute

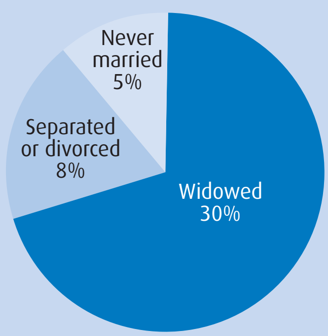
As Canadian longevity continues to stretch, so the shape of retirement keeps shifting. And, with the robust Boomer generation at the helm, it comes as no surprise that even longer, more active retirements are on the horizon.

But, by chance or by design, a surprisingly large number of Canadians are facing their golden years alone. Recent research shows it's becoming increasingly common for us to retire single - whether as a result of death, divorce, or never marrying in the first place.

According to a Census Canada report, 43% of Canadian seniors 65 or older are single. A closer look shows 5% percent never married, 8% percent are separated or divorced, while the remaining 30% are widowed.[1]

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.

43% of Canadian seniors are single



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

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 a 2006 National Population Health Survey, more than one-third of marriages in Canada will end in divorce before the couple's thirtieth anniversary.

One possible reason for this is something psychologists call "Boomer Entitlement", a rising movement whereby many individuals – after years of fulfilling the roles traditionally dictated by society – seek freedom and self-exploration as a reward later in life. Indeed, attitudes about marriage are rapidly evolving, not only in North America, but world-wide. 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."

Outliving a spouse. Odds are 50% that at least one member of a 65-year-old couple will live to age 90. And there is one-in-four chance that one member of that couple will live to 94. For women especially, the chances of outliving a spouse are high. A 2008 U.S. News article reported that more than 4 in 10 American women 65 and over are widows.[2]

More people choosing not to marry. Recent population data shows less people are marrying now than in previous generations. In fact, for the first time on record, Statistics Canada's 2006 survey of individuals 15 years and older reported that unmarried people outnumber their married counterparts by almost 4%.

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 every Canadian 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 their coupled counterparts.

Without another source of financial support to cushion them, planning for probabilities and eventualities becomes paramount. Questions like "How

Ever Singles vs. Suddenly Singles

While solo retirement is clearly a rising trend, our report shows that not all singles retire equal. 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).

much do I need to live comfortably?"; "Will there be enough to fulfil my retirement dreams?" and "What if I suddenly become disabled or my health declines?" all have great bearing on their lives, both personally and financially.

Singles lack knowledge of retirement programs

Yet, despite their heightened need for financial planning, singles are less likely to be informed about their financial well-being in retirement. When Canadian singles nearing retirement were asked to rate how well they understand public retirement programs, 30.8% responded "not at all", in contrast to 23.8% of their married peers. There may also be a gap in their knowledge about government programs. When singles that had an intended retirement date in mind were asked if they had gathered retirement information during the past five years, 60.2% answered "no."[3]

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.

2. Build and sustain wealth

With retirements extending way past the ten year mark[4] that would have been the norm a generation or two ago, the financial pressure of retirement have 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 was relying on income from their deceased spouse. A whopping 17% 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%.

Over 71 per cent of Canadians in this age group (40 years of age and older) who have suddenly become single (through divorce, separation or death) say they did not have a plan to deal with this eventuality and were negatively impacted.[5] 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, among Suddenly Singles who lose a spouse through death or divorce, valuable time may be lost 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 Canadian 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 2006 U.S Consumer Expenditure Survey, 98% of a single person's income goes towards household expenses. In contrast, only 81% of a couple's income went towards running a household. With such a slim margin between income and expenses, it's crucial for singles to make sure their retirement plan properly balances income and expenses.

Income

Public pensions

Almost every Canadian is eligible to receive Canada Pension Plan and Old Age Security benefits. However, not everyone is entitled to receive the maximum payments under these plans – and in fact, the average CPP and OAS payments are significantly lower than most people expect them to be. For instance, CPP pension payments are determined based on contributions over a person's working years from age 18 and ending at retirement. Maximum CPP contributions are made when employment income is equal to or greater than the year's maximum pensionable earnings amount. Although some low income earning years and years away from the workforce as a result of caring for children under 7 years of age are eliminated from the pension calculation, it might not be enough to guarantee the maximum pension payment. In addition, CPP credits built up by a couple during the time they lived together are considered to be assets. When a relationship ends, the credits can be divided equally in the same way that other assets are. This division is called "credit splitting". If you are the lower wage earner or if you were not employed during the time you lived together, credit splitting could increase the amount of your CPP benefits or make you eligible for CPP benefits for which you might not otherwise qualify. If you are the high wage earner, the amount of your credits will decrease and so will your CPP benefit amount.

Ever Singles or suddenly singles who wish to increase their CPP entitlement may need to consider working a few more years.

Private pension

Everyone must understand what kind of pension plan their place of employment provides. Not all plans are created equally and it is critical to understand how the pension is calculated to maximize its value. Is the pension a Defined Benefit, where the amount of pension income in retirement is guaranteed for life, or Defined Contribution, where income is based on investment performance? In recent years, the trend has been away from offering 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 spouse or common-law partner?

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. This can be particularly problematic when two individuals living together and sharing their living expenses have not identified themselves as being in a "marital" relationship. Retired singles may be surprised to learn that their defined benefit pension income may stop upon their death if there is no surviving spouse or common law partner 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 their spouse.

Income source	Couple	Ever Single	Suddenly single
CPP	$21,200	$10,600	$10,600
OAS	$12,400	$6,200	$6,200
Employer pension	$37,500	$18,750	$18,750
Employer pension 60% survivor benefit			$11,250
Total income	$71,100	$35,550	$46,800
Income advantage			**$11,250**

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
- Hydro
- Cable

In addition, suddenly singles may incur new costs to replace some of the tasks 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. Travellers 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 cognisant 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. 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 neighbourhood 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 Girl" trend is, but the U.S. National Directory Service speculates 65,000 or more seniors are involved in some kind of shared housing arrangement.[6]

Having a roommate during retirement can pay dividends well beyond financial interests and can be beneficial from a social, emotional and health wise 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 a lawyer and a 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 behaviours can have a direct, positive impact on physical health.

Home Alone?

- 41% of women and 16% of men age 65 or older live alone – an 80% increase from 1970. (AARP, 1995)
- In 2006, seniors aged 65 and over represented 33.9% of people who lived alone. (Statistics Canada, 2006)
- A large portion of seniors are renting, and half of renters living alone spent 30% or more of their income on shelter in 2006. (Statistics Canada, 2006.)

Community works

According to a 2007 Healthy Living report published by Statistics Canada, seniors who reported a strong sense of community belonging were more likely to be in good health (62%) than those who were less connected (49%).

In Canada there is growing recognition of the contributions seniors make to their families and communities through unpaid activities. Similarly, in the U.S., the National Senior Service Corps has achieved immense success by challenging retired Americans 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. 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 greater need to plan for the possibility of private health care.

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 investing in Disability, Critical Illness and/or Long Term Care insurance.

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 Power of Attorney is a legal document that allows one person to grant another 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 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 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 their entire 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 2006 National Population Health Survey, 43% of Canadian women who have undergone a marital breakup (divorce or separation) had a substantial decrease in household income, while only 15% of separated or divorced men had a financial decline.[7]

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

When it comes to retirement savings, history shows women in particular lean towards GIC's as the 'safe' investment option, but there is a real risk of GIC's being too conservative, yielding 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.

We believe proactive planning and professional advice go hand in hand. By working with a BMO Investment Professional who understands the diverse issues facing singles in retirement, Canadians can develop a thoughtful plan and enjoy greater peace of mind.

1 2001, Census Canada Retirement Planning Institute, Vol 7, No 2, June 2004
2 www.usnews.com/articles/business/retirement/2008/06/12 "How to financially cope with being suddenly single."
3 Statistics Canada, Canadian Social Trends, The retirement puzzle: sorting the pieces, 2007
4 Government of Canada, Addressing the challenges and opportunities of ageing in Canada, 2002
5 Leger Marketing research conducted for BMO Financial Group, Dec. 2008
6 Marilyn Bowden, Bankrate.com, 2008
7 National Population Health Survey, Statistics Canada, 2006

08/13-1561