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Estate-Planning Essentials for Single People

It Can Be More Complex Than for Married Couples

By CAROLYN T. GEER

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My recent columns on estate planning for couples with and without children prompted single readers to ask for equal time.

As well they should. Their ranks are steadily growing. In 1970, slightly more than a third of Americans age 15 and older were single, according to the U.S. Census. By last year, their numbers approached 50%.

Among U.S. citizens aged 65 and older more than half (53%) of women and more than one quarter (26%) of men were unmarried last year. That amounts to 18 million divorced, never-married or widowed seniors.

“For those who are single, whether they’ve always been single or they find themselves single again, there are some unique [estate-planning] issues,” says Doug Rothermich, managing director, wealth-planning strategies at TIAA-CREF.

Heirs

If you die without a will or trust, your property gets distributed according to the default rules of your state. “That might work for some married couples who have children, but it seldom works for single people,” says Matthew McClintock, vice president of education at WealthCounsel.com. Here’s why:

Typically, if you are married and you die “intestate,” without a will or trust, your spouse would inherit most if not all of your assets. If you are single and die intestate, however, your estate could get dispersed in ways you would not have wanted.

In most cases, your assets would pass along bloodlines, first to your children (if any), then to your parents (if still alive), siblings (if any), more-distant relatives and finally, if no living relatives could be found, to the state. Close friends, unmarried partners and charities you may have wanted to benefit would be out of luck.

“A lot of single people are socially involved and philanthropically active in their communities and have charitable intent, but if they don’t have an estate plan in place all their good work dies with them,” says Mr. McClintock.

So it’s important to create, at a minimum, a will and/or a revocable living trust (funded during life or at death) stating specifically how you want your assets to be distributed after you die, and naming an executor and/or trustee to carry out your wishes. (Revocable living trusts help avoid probate and can be useful in states where probate is expensive and time-consuming.)

Decision Makers

Similarly, if you fail to appoint someone to handle your financial and medical affairs in the event of your incapacity, your assets and care could fall into the hands of a distant relative or a stranger appointed by the state.

So you also should sign a general power of attorney, an advance health-care directive and an authorization under the federal Health Insurance Portability and Accountability Act (HIPAA) empowering people you trust to make financial and medical decisions on your behalf if you become incapacitated.

For those without spouses or children to fill these roles, “picking the right people is really hard,” says Mr. McClintock. Which is why it can be especially important for single people to work with estate-planning professionals, he says.

Account Beneficiaries

Accounts with their own beneficiary designations, such as individual retirement accounts, pass to the beneficiaries named on those documents regardless of what your will or trust says. If you are divorced, it’s especially important to make sure your beneficiary designations are up-to-date on IRAs, payable-on-death (POD) bank accounts, life-insurance policies and the like. Otherwise, your ex-spouse could end up with assets you never intended.

Estate Taxes

Whether and to what extent your estate will be subject to tax depends on the nature of your singlehood. If you never married or you are divorced, any portion

of your estate exceeding the federal individual exclusion amount will be subject to tax. This year that amount is \$5.34 million, minus any taxable gifts you've given during your lifetime. Next year the threshold is \$5.43 million.

If you are a recent widow or widower, your federal exclusion amount includes not only the individual estate-tax threshold but also could include any unused portion of your deceased spouse's exemption amount—a concept known as "portability." So if your husband dies this year having used only \$3 million of his \$5.34 million exemption, and you die next year, you could shelter \$7.77 million from estate tax.

This is true even if you remarry. For those who happen to survive multiple spouses, the unused exemption of the most recently deceased spouse is the one that applies, says Mr. Rothermich.

While the federal estate-tax exemption has risen in recent years, 19 states plus the District of Columbia impose estate taxes of their own and/or inheritance taxes on the heirs who receive the assets.

"So for a number of single people, estate-tax planning has shifted to state estate-tax planning," says Mr. Rothermich.

This brings additional planning challenges. Only a few states follow the federal portability rules, so special trusts might be needed to make use of two exemptions. And it can make sense for single people to give money or other assets to relatives, friends or charities during life. Such "strategic gifting" can reduce the value of an estate and therefore the estate-tax bill.

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