Tuesday, October 11, 2011

4 Biggest Money Mistakes Single People Make

By David Pitt of the Associated Press

The single life isn't always the simple life. When it comes to financial planning, being on your own doesn't mean managing your money is a cakewalk.

That's especially true today. Just try sorting through the rainbow of credit cards on the market. For starters, there's gold, silver, black, and green. Workers must also choose the best way to maximize their retirement savings from an increasingly complex mix of choices, including target-date funds, exchange-traded funds and index funds.

Across the country more than 31 million people live alone and it's hard not to think they might appreciate a partner to help make some of these financial decisions. That's particularly true when you consider that most people don't receive any practical education on money matters.

Witness that just 27 percent of young adults could do simple interest rate calculations or understood inflation or diversifying investments, according to a study funded by the Social Security Administration last year. Roughly 34 percent of unmarried adults are aged 18-29, so there's a large chunk of singles lacking enough financial savvy to make good decisions.

But knowing the basics is equally important in later years.

"We often see when one spouse dies and the other has to take things over and has never done it before, it creates a very precarious situation," says Kelly Campbell, president of Campbell Wealth Management in Alexandria, Va.

It may feel as if you're left on your own to figure it all out. Consider these four common mistakes singles make at all ages and what can be done to avoid them.

1. Failure to build and protect a nest egg.

Problem: The stock market has taken a toll on retirement accounts and that's left many workers feeling as if they'll never be able to stop working. Yet contributing too little to a 401(k) or cashing out when switching jobs will put many workers at risk.

Solution: Start saving for retirement as soon as you can

In order to maintain their lifestyles, experts say workers between age 18 and 30 need 18.7 times their final pay saved at retirement. This includes Social Security, retirement accounts and their personal savings. That means individuals who make $50,000 when they retire need to have $935,000.

Yet just half of the workers between 18 and 30 participate in a 401(k) plan. Research also shows that nearly 60 percent of young workers cash out their 401(k) when changing jobs.

For older singles, it's important to focus on having the right mix of investments. As they get closer to retirement, their portfolios should be more heavily invested in bonds or fixed-income assets to lower their risk of losses from a stock market downturn.

2. Failure to live by a budget

Problem: Single people have been known to spend to impress a potential mate. And when was the last time you heard someone

speak of their dating budget? Controlling this spending can be an important first step. Older singles may be dealing with debt incurred from a divorce, a job change or just working to get caught up from overspending.

Solution: Budgeting, like reading, is fundamental. Many college graduates entering the job market are stretching their entry-level salaries to pay off credit card debt and an average of $18,000 in student loans.

Learning the discipline of tracking your spending can help you pay down debt more efficiently, and assist in planning for the future — whether you're saving for a wedding, a home or a car. Any budget also should include an emergency fund.

All kinds of electronic tools and mobile apps are available to make it easier. Tools at www.bundle.com help track spending by synchronizing credit cards and other accounts. Users can also compare their spending on certain things like food, for instance, with other people in their area or age group.

One of the most popular budgeting sites is www.mint.com , which helps organize and track spending on a computer or mobile device.

3. Failure to have an up-to-date estate plan

Problem: Single people frequently don't think about what would happen to their belongings and their financial assets if something happened to them. It's important that life insurance policies and retirement accounts have named beneficiaries.

Solution: Everyone should have a will to spell out how their estate will be managed after their death.

But it's also important to recognize the importance of the beneficiary forms that accompany life insurance policies, annuities, and retirement plans — including 401(k), IRA, and Roth IRA plans. Courts have ruled that beneficiary forms attached to life insurance policies and retirement accounts may supersede other documents. A blank beneficiary form could mean the money goes to your estate and a court will decide who gets it.

"What I see a lot is that the seniors and other single people are not checking their beneficiary forms," says Jean Dorrell, founder of Senior Financial Security Inc. in Summerfield, Fla. "They're relying on their wills or trusts to make distributions on retirement accounts, but that's a huge mistake."

It's also important to update these beneficiary forms annually, especially to reflect any births, deaths, marriages and divorces that may warrant changes.

4. Failure to learn about investing

Problem: Making investment decision for a 401(k), IRA or other retirement account can be a daunting challenge for many workers who haven't had a lot of investing experience.

Solution: Look for a support services or ways to make the process more manageable. If you have a 401(k), be sure to check with your benefits manager to see if your plan offers online tools, telephone help lines or even one-on-one counseling with an adviser. Your plan also may offer target-date funds which automatically set the mix of investments according your risk tolerance and the amount of time left until retirement.

Many people may find themselves newly single after losing a spouse or through divorce. There's a wealth of information online to help you move up the learning curve. A good general personal finance site is offered by the federal government's Financial Literacy and Education Commission at www.mymoney.gov .