The changing notion of a family and its unique financial needs

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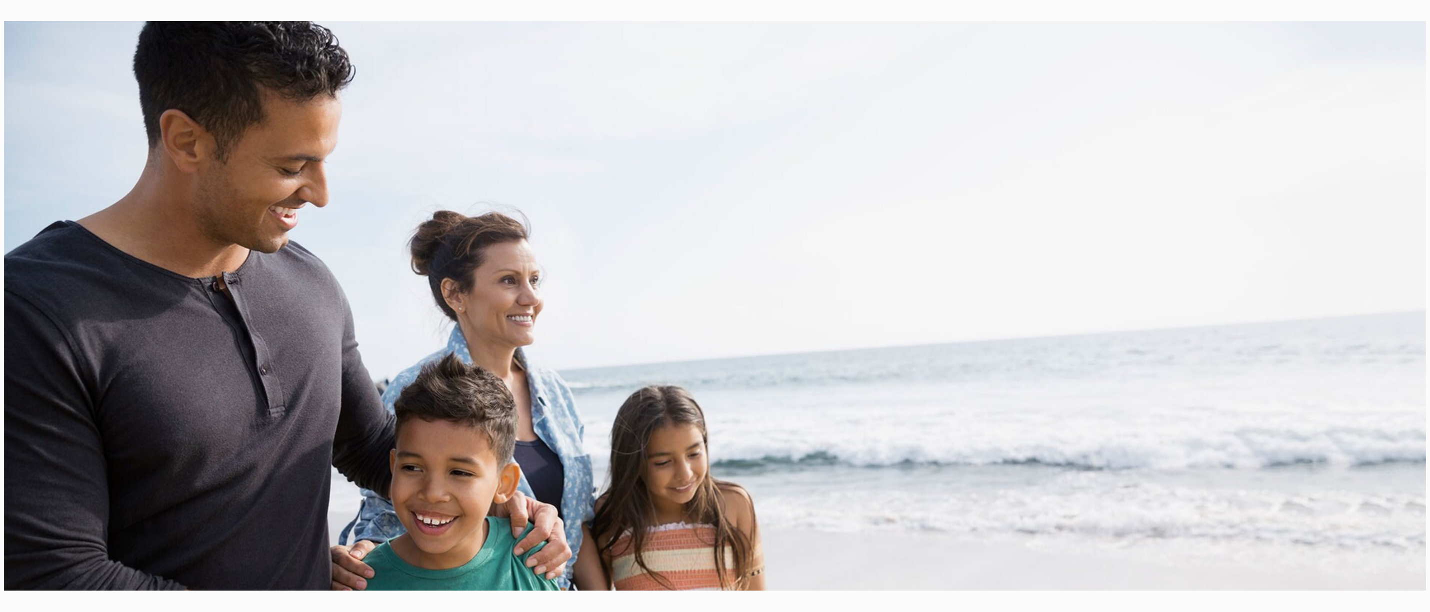

More than 50 different family structures make up American life now, according to one statistician's analysis of U.S. Census data. That means there's no place for one-size-fits-all financial advice. Different types of families have different needs.

Yes, all households need emergency funds and retirement savings, but unique challenges that today's modern families face complicate saving and planning. So, it's no surprise that these families may be less likely to feel financially secure compared with their "traditional" counterparts.

Families are smaller these days, and two-parent households are less common. Same-sex couples can legally wed in all 50 states. And a "dependent" is no longer always a biological child younger than 21; it may be an older parent, a same-sex partner, a spouse, or stepchild from remarriage, a former spouse, or even in a sense oneself.

We've taken a look at five of the more common types of modern family arrangements:

- **Blended families**
- **Single-parent households**
- **Singles**
- **Same-sex couples**
- **Multigenerational households**

How has the changing notion of a dependent affected family finances and financial planning?

Blended families

It's common these days for adults who decide to marry or live together to bring children from a previous relationship into the picture. That can mean more dependents to take care of. A family might include children from each spouse's previous marriage, plus new children from the new union.

More kids mean more expenses, the biggest of which is college. Who should pay? The biological parent the child lives with most? The biological parent with the most resources? The stepparent? And who do colleges expect to shoulder the costs? Figuring out how to maximize financial aid for college can be tricky in blended families since there are both FAFSA guidelines and, for many private schools, CSS/PROFILE guidelines to learn the ins and outs of. (**Related**: A primer on college financial aid)

The good news is that blended families can pool their assets. They might be able to afford things that single and divorced parents can't. Blended families can find it difficult to save, though, because of financial liabilities created by a previous marriage, such as child support and alimony, not to mention the loss of shared assets that were divided in the divorce settlement. (**Related**: Budgeting for blended families)

Also complicating finances are tax matters related to selling previously shared assets and claiming dependents.

Blended family estate planning is more difficult, too.

"Decide if you are going to divide your estate among all your children, both biological and step, or not," said San Diego-based CFP™ professional Chris Cooper. Then set up trusts to make sure your wishes are carried out. (**Related:** 7 situations where a trust could help)

Carrying life insurance to provide for your new dependents and updating beneficiaries on old policies are key. You don't want proceeds accidentally going to your former spouse.

Further, Cooper said that there may be a need for increased life insurance in blended families where the parents are not married because of the loss of survivor's benefits or the ability to draw on the higher earner's Social Security benefits.

Single-parent households

In 2020, there were about 15.31 million children living with a single mother in the United States, and about 3.27 million children living with a single father, according to one analysis. In these families, caring for a dependent can be especially tough, because divorce often slashes a family's income and assets, as does never partnering up in the first place.

Single parents are less likely to be saving enough for their own retirement and may be extra stressed by trying to save for themselves while wanting to help children pay for college. Alimony and child support may be insufficient to pay for major expenses like childcare during work hours, extracurricular activities, braces, and college because the original arrangements were made without the child's long-term needs in mind. (**Related:** 10 single parent money challenges)

LeeAnn Arens, a CFP™ professional in Mt. Pleasant, Michigan, said that what will happen to the child if the single parent becomes ill or passes away is the primary concern for single-parent households. So, a sole breadwinner should focus on disability planning and insurance.

To that end, the parent should establish an emergency fund and secure disability income insurance. The emergency fund is key because disability income insurance policies typically have a waiting period before making payments on a claim. The emergency fund can provide for living expenses before the disability income insurance policy's waiting period is up and even while it's paying benefits, since the insurance typically will only replace 50 percent to 70 percent of monthly income. (**Calculator:** How much disability income insurance do I need?)

Life insurance is also a priority to help ensure children's financial needs will be met if the parent passes away before they become financially self-sufficient. (**Calculator:** How much life insurance do I need?)

Single parents must resist the urge to put saving for their children above saving for their own retirement because they have no spouse to help with retirement savings or retirement expenses and since the division of assets in a divorce may have taken a bite out of their retirement savings. Further, federal financial aid doesn't count a parent's retirement assets against a child's college financial aid package.

One simple thing single parents can do to improve their finances is to file as head of household on their annual tax returns. This status will result in a lower tax rate and higher standard deduction than filing single. (**Related:** 6 tax breaks for parents)

If you feel as though things are particularly precarious as a single parent, keep this in mind: no family style is guaranteed to be stable. All families must create their own stability and recognize what they can and cannot count on, Cooper said.

Single person, living alone, with no children

For singles living alone with no children, your primary dependent is yourself. And single-person households make up more than a fourth of all U.S. households nowadays.

Not having a partner can make it harder to save — you don't have two incomes and you don't have the economies of scale that you get from sharing housing, utility, and food costs. In expensive parts of the country, home ownership can be out of reach for singles.

On the plus side, not having children means incredible savings. There may be less of a need to purchase life insurance since, depending on circumstances, no one directly depends on your income. On the other hand, some single situations may contradict that thinking. (**Related:** Single? 3 reasons you may still need life insurance)

While everyone should plan to be financially self-sufficient, considering long-term care insurance options is extra important for this group, who can't count on children to help care for them in old age.

Planning for unemployment and disability is also essential for singles, since there's no second income to fall back on. Saving a substantial emergency fund to cover several months' worth of expenses, purchasing disability income insurance, and starting a side job or piece work to diversify your income stream can make things less precarious.
It's also important to have a will and a trust to spell out what should happen to your assets when you die and keep the process out of probate court.

"There are strategic ways to gift money to charities — smart and efficient ways versus reckless and inefficient ways — that can make a gift, pledge, or donation much more meaningful if done correctly and with the right vehicle," said Scott Stanley, founder and wealth advisor with Pharos Wealth Management in Sausalito, California.

Same-sex couples

Thanks to the Supreme Court decision legalizing same-sex marriage nationwide on June 26, 2015, same-sex couples now face simpler financial planning that makes it easier to jointly own assets, inherit assets, and file taxes. Their notion of a dependent is no longer unique.

"So many of the same-sex couples that I manage portfolios for get the same advice from me that I would give to a heterosexual married couple," said Stanley, who frequently works with same-sex couples who need help managing their finances. "With the evolution of a law that equalizes same-sex couples, the need to give different advice is slowly going away."

Nonetheless, establishing trusts and making an estate plan provide extra protection through clear legal documentation, especially in states that are still fighting against the law.

And same-sex couples that consist of two high-earning professionals may need extra help investing their money wisely. (**Learn more:** Estate planning for LGBTQ couples)

What else is still different about financial planning for same-sex couples?

Because they are not guided by the traditional relationship mores, "they have to make big decisions about how intertwined they want to be with one another from a financial perspective," Stanley said.

Even life partners can have a hard time comingling their finances because some people are very protective about their money, Stanley said. One partner might want to plan as if their money is one, and the other might want to approach assets as being individually owned.

"One of the most common pieces of advice that I give to my same-sex [couple] clients that aren't married is to consider marriage for the sake of love, and nothing else," Stanley said. "When finances become a part of the marriage decision-making factor, it almost never works. In fact, if love wasn't a part of marriage, my advice would generally be to stay unmarried for the sake of their finances. Managing individual investment portfolios simplifies tax implications, investment decisions, income distributions, et cetera."

Multigenerational families

In a multigenerational family, two middle-aged adults might find that their dependents include not just children, but also an aging or disabled parent.

"Financial hurdles for multigenerational families include loss of income and retirement assets due to providing assistance to a parent," Arens said. "When you have an aging parent living with you, just the normal day-to-day living costs can start to add up, which can affect the couple's cash flow and savings. While any income the parent receives can help offset the additional living costs, often that income is used to pay for medical and health care expenses for that parent." (**Related**: Living in the 'Club' Sandwich Generation)

Further, that parent may need around-the-clock assistance at some point, which will put further stress on the family.

"Considering paying for full-time care is extremely expensive. Some families have elected to have one spouse stay at home and be the caregiver," Arens said. "The decision to quit your job to stay at home with Mom or Dad has an impact on your current financial situation and a lasting impact on your future retirement." Leaving work means losing not just current income but also future Social Security or pension income, as well as employer benefits such as health insurance and 401(k) contributions.

Arens recommended working with a financial professional to explore the ramifications of becoming a full-time caregiver before making the commitment. She also suggested keeping in mind that it's a huge emotional and physical commitment, too.

"If you do not take care of your own physical, mental, and financial health, then ultimately no one will benefit from this arrangement," she said.

The bottom line

"Each and every person deals with uncertainty in planning for his or her financial future. The next market crash could come, their life partner could die, they could win the lottery — it's not a traditional versus nontraditional family matter, it's an everyone matter," Stanley said.

Oftentimes the best way to deal with that uncertainty is to work with a financial professional to create a financial plan that accounts for all possible outcomes, good and bad.

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This article was originally published in September 2017. It has been updated.

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