PRODUCERS PROSPECT

The Widow's Tax Penalty

WHY LOSING A SPOUSE CAN CREATE A RETIREMENT TAX SHOCK



INSIGHTS FOR A MORE SECURE TOMORROW

Introduction

Losing a spouse is one of life's most difficult challenges. Beyond the emotional impact, it can also create an unexpected financial burden—often in the form of higher taxes.

Many surviving spouses are surprised to learn that even if their overall income decreases, they could still end up paying significantly more in taxes. This is commonly referred to as the "widow's tax penalty," and it can affect retirement income, Social Security benefits, Medicare premiums, and more.

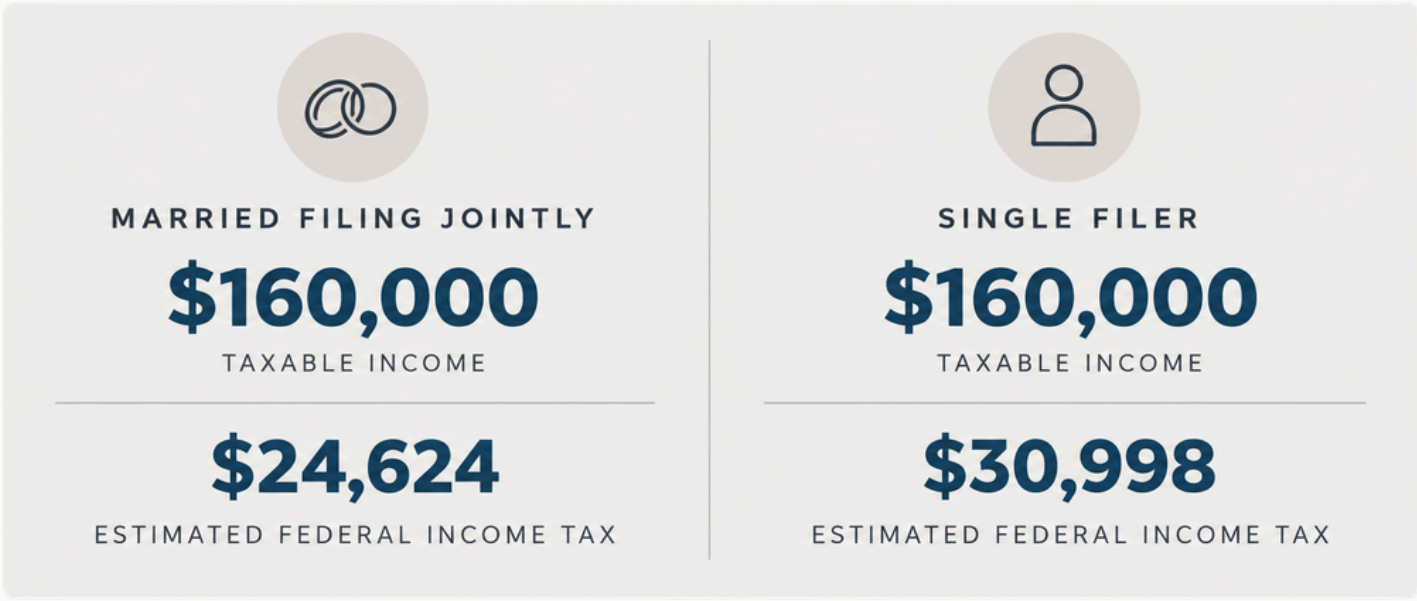
Understanding how this penalty works—and planning ahead—can help you protect your financial future and avoid unnecessary tax surprises.



A Real-World Example

Let’s look at a couple with $160,000 in taxable income in retirement. When filing jointly, their estimated federal income tax might be around $24,624.

If one spouse passes away and the survivor files as single with the same $160,000 income, the estimated tax bill could rise to $30,998.



That's $6,374 more in federal income taxes—approximately a 26% increase on the same taxable income.



Why Taxes Can Be Higher

- **Narrower Tax Brackets -** After the year of a spouse's death, the surviving spouse will generally file as a single taxpayer. Single filers face narrower federal tax brackets and a lower standard deduction, potentially increasing their overall tax burden.

- **Increased Taxation of Social Security Benefits -** Social Security taxation thresholds are lower for single taxpayers. The initial threshold is $25,000 for single filers compared to $32,000 for married couples filing jointly. Depending on income, up to 85% of benefits may be taxable.

- **Higher Medicare Premiums -** Medicare's income-related monthly adjustment amount (IRMAA) can increase Part B and Part D premiums. Lower income thresholds for single filers may cause a surviving spouse to pay higher premiums, even when household income has decreased.

- **Required Minimum Distributions (RMDs) -** A surviving spouse may consolidate inherited retirement assets into their own IRA. Future required minimum distributions could then be reported on a single tax return, potentially increasing taxes and Medicare premiums.



Preparing Before the First Spouse Dies

The best time to address the widow's tax penalty is while both spouses are alive and have the greatest number of planning options. Taking proactive steps can help reduce potential tax burdens and provide greater financial stability for the surviving spouse.

Six key planning strategies:

1. Build the Survivor's Tax Return - Project each spouse's retirement income and expenses separately, including Social Security, pensions, required minimum distributions, deductions, and Medicare premiums.
2. Consider Roth Conversions - Converting tax-deferred savings while filing jointly may take advantage of broader tax brackets and provide greater flexibility for the surviving spouse.
3. Monitor Medicare Income Thresholds - Roth conversions, IRA withdrawals, and capital gains may increase Medicare premiums. Medicare generally uses a two-year income lookback.
4. Coordinate Social Security Benefits - Delaying the higher earner's Social Security benefit may increase future survivor benefits and help create a more reliable income foundation.
5. Review Pensions and Insurance - Evaluate survivor pension options and life insurance coverage to help maintain income and reduce the need for large taxable withdrawals.
6. Create Tax Diversification - Holding assets across tax-deferred, taxable, and Roth accounts can provide greater flexibility when managing taxes and Medicare thresholds.

A strong retirement plan should be built for two—and stress-tested for one.

Preparing Before the First Spouse Dies

A retirement plan should be designed to withstand the loss of either spouse. Beyond savings and investment returns, couples should consider how taxes, benefits, and household expenses may change after a major life transition.

Both spouses should understand their retirement income plan, know where accounts and insurance policies are held, have access to important documents, and be familiar with their advisory team.

Planning ahead cannot eliminate the emotional impact of losing a spouse. However, preparing while both spouses are alive may provide greater financial stability, flexibility, and peace of mind when it matters most.

Planning today can provide greater financial stability, flexibility, and peace of mind tomorrow.



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Marc Rogers

Founder of Producers Prospect

Marc Rogers is the founder of Producers Prospect and a nationally recognized financial services leader with more than 20 years of experience helping advisors grow and scale their practices. Mentored by industry pioneer Doug McDermott, Marc has helped raise billions of dollars in assets through innovative marketing, advisor development, and consumer education strategies. His career honors include Allianz Top Peak Performer and multiple Blue and Platinum Awards. He is a member of the Forbes Finance Council, author of two Amazon best-selling books, host of the popular Prospect. Produce. Prosper. Podcast, and was featured on CNBC's Moving America Forward with Tom Hegna.

Known for his dynamic speaking style and ability to make complex financial concepts practical and actionable, Marc equips advisors with strategies designed to create meaningful and sustainable growth. Outside of business, Marc's greatest priority is his family. He and his wife, Stacy, have been married for 21 years and have three children. Together, they love boating at Bear Lake, traveling, attending sporting events, and spending time together as a family.

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