TENON FINANCIAL
RETIREMENT PLANNING & INVESTMENT MANAGEMENT

Retirement Planning Insights

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Up Front

Candy dispenser and Benjamin Brandt

I've been a serious woodworker for nearly 20 years and have a fully outfitted 250ft^2 workshop at our house. A few weeks ago, my youngest daughter (age 10) said she wanted to start building things. It was a proud dad moment.

After browsing the web to come up with projects she wanted to try, she said she wanted to build a desk. Needless to say, I had to wrangle in her aspirations a bit and have her start with something a tad more modest…we instead built a candy dispenser. I'm super proud of her!

In other news, I'm excited to announce that I was invited to be a special guest on one of my favorite retirement planning podcasts, **Retirement Starts Today Radio,** by Benjamin Brandt. If you haven't already, I highly recommend subscribing to the show. It provides LOADS of great retirement planning info.

Benjamin was kind enough to invite me to record an upcoming show dedicated to answering listener questions. And the best part of it…we'll be answering questions from members of my Facebook group, **Taxes in Retirement**! I'll be sure to let you all know when the episode is slated for release.

-Andy

Retirement Planning News

Social Security underpaid widow(er)s

On June 15, InvestmentNews posted an article, **Social Security underpays more than 15,000 survivors**.

The article summarizes the findings of an internal audit conducted by the Social Security Administration's Office of the Inspector General. The audit findings show that approximately 15,000 widows and widowers who were receiving Social Security benefits on their own work records were entitled to - but not receiving - higher benefits based on the records of their deceased spouses.

Persons who were married at least nine months before their spouse died may be entitled to "survivor benefits" based off the deceased spouse's Social Security record. Divorced persons may also be eligible for survivor benefits off the record of their deceased ex-spouse if they were married at least 10 years and meet certain other conditions.

Apparently, the Social Security Administration ("SSA") has a process in place to notify survivor benefit recipients if/when their own benefits would be higher. In those cases, the SSA will proactively notify such persons so they can switch to the higher benefits.

However, the SSA does NOT have a similar process for the opposite situation… i.e. when someone is receiving their own benefit but is instead entitled to a higher survivor benefit.

The audit estimates those 15,000 persons have cumulatively missed out on roughly $194 million of additional benefits as of September 2019. That's nearly $13,000 per person!

The SSA stated they will develop additional processes to begin notifying persons who are receiving their own benefits if they are also eligible for higher survivor benefits.

Until then, if you lose a spouse, make sure you reach out to the SSA after your spouse's passing to see what benefits you're entitled to. You want to ensure you get the largest benefit available to you.

We provide a Social Security maximization analysis that will help you make sure you get the most out of all your available Social Security benefits. The analysis costs $300 for a couple or $250 for a single person. If you're interested in maximizing your Social Security benefits, **Contact Us** for more information.

Practical Retirement Planning

Beware of higher taxes if you are a recent widow or widower

As if losing a spouse is not hard enough from an emotional, mental and potentially even physical perspective, there can be unwanted financial consequences as well.

When married couples are retired and one spouse dies, the surviving spouse's expenses may not go down as much as you would think. Chances are mortgage or rent expenses won't change and neither will maintenance costs. Utility expenses may decrease, but only by a little. There may be one less car and auto insurance to pay for and there will be less in healthcare expenses and a bit less food and clothes to buy. However, to increase social connection and interaction, the surviving spouse may eventually spend more on dining out, doing hobbies and activities, traveling, etc. All said and done, the surviving spouse's expenses may see only a modest decrease.

Depending what income sources the couple had before the first spouse's death, there could potentially be a sizable drop in income. If both spouses were receiving Social Security, the lower of the two benefits will go away upon the first death. If the deceased spouse was receiving a pension or annuity, the payment may stop at death – it depends what payout type was selected when payments began. With regards to retirement accounts such as IRAs, 401(k)'s and 403(b)'s, the surviving spouse will likely be the beneficiary of the deceased's accounts. Therefore, there presumably will not be much of a drop, if any, in income from such accounts.

There are a lot of moving parts and everyone's situation will be unique. Nonetheless, there is a likelihood the surviving spouse's income may decrease more than his or her expenses.

Unfortunately, the surviving spouse's taxes may go up, too. This is called the widow or widower tax penalty.

Dollar-for-dollar, single persons pay higher taxes than married persons. This is due to single tax filers having smaller standard deductions and smaller income tax brackets as compared to married tax filers.

There are also other retirement-specific taxes, such as Medicare premium surcharges, that impact single persons more than married persons.

What can you do to prevent or minimize the widow or widower tax penalty???

The first step is to be aware of its existence.

Next, make sure you account for it in your retirement plan. Death is unfortunately inevitable. Chances are you and your spouse will not die at the same time. Therefore, one of you will potentially be subject to the widow or widower tax penalty.

Finally, some proactive tax planning can help eliminate or reduce its effects.

For more information, watch my recent YouTube video, **What is the Widow and Widower Tax Penalty?**