



PACIFIC LIFE

Encouraging Financial Wellness Amid Grief

How to Help Your Newly Widowed Clients



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When clients become widows, it is vital to both their financial health and emotional well-being that you support them and provide guidance with compassion. Grief takes a serious toll on the body and mind, so it may not be ideal to ask widowed clients to tackle taxes, long-term planning, and so forth immediately after loss.

Beyond simply asking how you can help, below are a few specific things you can volunteer to help them address—ideally by working with the agents they have designated in their financial powers of attorney.

Acquire a Date-of-Death Appraisal for Hard-to-Value Inherited Assets

When someone passes away, the value of the property left to loved ones is stepped up to its date-of-death value for tax purposes. When the inherited asset is later sold, the new owner only owes capital gains tax on any appreciation that occurred between the date of death and the date of the sale.

For some inherited assets—such as bank and investment accounts—the value is easy to determine. But for other assets—such as real estate, artwork, and jewelry—the value on the date of death is not always clear.

That's why it's important for widowed clients to acquire date-of-death appraisals for hard-to-value inherited assets. A date-of-death valuation of the deceased's estate also is necessary to calculate any estate taxes that may be due.



According to the Tax Cuts and Jobs Act of 2017, the federal estate, gift, and generation-skipping transfer (GST) tax exemption amounts are all \$10,000,000 per person (indexed for inflation effective for tax years after 2011); the maximum estate, gift, and GST tax rates are 40%. In 2026, the federal estate, gift, GST tax exemption amounts are scheduled to revert to \$5,000,000 per person (indexed for inflation for tax years after 2011).

Diversify Assets to Help Minimize the Impact of the “Widow’s Penalty”

Losing a spouse may result in reduced income, especially if the deceased spouse was still working. While it may seem counterintuitive, widows’ tax bills can increase even when their incomes have declined. That’s because a widow can still file her taxes as “married filing jointly” in the year during which her partner passed away. But going forward, if she doesn’t remarry and doesn’t have dependent children, she will need to file as “single,” which means a lower standard deduction and potentially a higher tax bracket.

Surviving partners might see more of their Social Security retirement benefits taxed, especially if their overall income is above certain limits. For those enrolled in Medicare, premiums might increase based on the income-related monthly adjusted amount, which is based on income from two years prior.

To help reduce your widowed client’s tax bill, consider moving assets around. After all, where and how assets are invested determines their applicable tax rates. Upon distribution, assets in retirement plans are taxed as ordinary income at rates ranging from 10%–37%, while assets owned outside of retirement plans—such as mutual funds, real estate, and stocks—are taxed at capital gains rates of 20%–23.8% when they’re sold. However, a cash-value life insurance policy’s value grows on a tax-deferred basis and may provide a tax-free source of supplemental retirement income in addition to a death benefit.¹

Income Source	Examples	Current Tax Rate
Assets in retirement plans	Pensions, traditional IRAs, 401(k)s	10%–37%
Assets outside retirement plans	Stocks, mutual funds, ² real estate	20%–23.8%
Often-overlooked assets	Roth IRAs, ³ cash-value life insurance policies, ^{4,5} municipal bonds ⁶	Generally, tax-free

Source: Internal Revenue Bulletin: 2023-48. Internal Revenue Services. November 27, 2023.

¹For federal income-tax purposes, tax-free income assumes, among other things: (1) withdrawals do not exceed the tax basis (generally, premiums paid minus prior withdrawals); (2) policy remains in force until death (any outstanding policy debt at the time of lapse or surrender that exceeds the tax basis will be subject to tax); (3) withdrawals taken during the first 15 policy years do not cause, occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. See IRC Sections 72, 7702(f)(7)(B), and 7702A. Any policy withdrawals, loans, and loan interest will reduce policy values and may reduce benefits.

²Mutual funds may be subject to income tax and/or capital gains tax. Tell clients to consult their tax advisors for more information.

³Roth IRA: A distribution from a Roth IRA generally is income-tax-free if (1) it meets all the requirements for a qualified distribution (which include a five-year waiting period and one of several additional requirements, one being that the distribution is made to a beneficiary on or after the death of the individual), or (2) it is a nonqualified distribution to the extent of after-tax contributions (basis) (see IRC Section 408A).

⁴Life insurance: For federal income-tax purposes, life insurance death benefit proceeds generally pay income-tax-free to beneficiaries pursuant to IRC Section 101(a)(1). In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Section 101(a)(2)(i.e., the transfer-for-value rule); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Section 101(j).

⁵Life insurance: For federal income-tax purposes, tax-free income assumes, among other things: (1) withdrawals do not exceed the tax basis (generally, premiums paid minus prior withdrawals); (2) the policy remains in force until death (any outstanding policy debt at the time of lapse or surrender that exceeds the tax basis will be subject to tax); (3) withdrawals taken during the first 15 policy years do not cause, occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. See IRC Sections 72, 7702(f)(7)(B), and 7702A. Any policy withdrawals, loans, and loan interest will reduce policy values and may reduce benefits.

⁶Municipal bonds: Generally, interest paid on municipal bonds is tax-free, but not all municipal bonds are exempt from federal and/or state income tax. Some bonds may be subject to capital gains tax at sale. Tell clients to consult their tax advisors for more information.

Consider an Annuity to Provide Retirement Income

A full three-quarters of women who have lost a spouse within the last five years report being more hesitant to take on investment risk than other groups of women.⁷ While a conservative approach is understandable, it can prevent women investors from meeting their financial goals, especially since women typically earn less, live longer, have more student debt, and are more likely to have their financial lives disrupted by caregiving responsibilities than men. For that reason, your widowed clients may want to consider incorporating annuities—long-term contracts designed for retirement savings—into their overall asset mixes as a source of retirement income.

Allocating a portion of their money to an annuity allows widowed clients to create guaranteed income. This may give them the opportunity to consider using assets in other parts of their portfolios to help meet other financial goals. Annuities can:

- **Increase lifetime income.** Insurance companies rely on average life expectancy when fulfilling the promises they make to clients, which means they may be able to provide more lifetime income than a client could with a typical decumulation strategy.⁸
- **Offer protected lifetime retirement income.** Annuities offer payout options and optional benefits for additional costs that can guarantee income for life, regardless of what's happening in the market or economy.
- **Offer strategies that serve a breadth of client types.** Because there are different types of annuities for different risk appetites, you can choose a product that suits the specific needs of each client.



All guarantees are subject to the claims-paying ability and financial strength of the issuing insurance company.

⁷Schmitt, Suzanne. *Women in the U.S. are about to gain significant wealth. Here's what that means.* Fast Company, May 17, 2023.

⁸Pfau, Wade D. *Annuities as an Asset Class for Fee-Based Advisors.* Envestnet 2022.

Update Estate Plans and Beneficiary Designations

While your widowed clients will need estate-planning attorneys to help them make changes to certain parts of their estate plans, you can help them change beneficiaries on investment or retirement plans and remind them to update other documents in their estate plans. As many widows will have named their deceased spouses as beneficiaries, executors, and so forth, here are a few items that may need updating:

- **Healthcare power of attorney**

This identifies the person your client wants to make medical choices if she is unable to make decisions due to severe injury, illness, or disability.

- **Financial power of attorney**

In this document, clients must name someone else to make financial choices on their behalf should specified circumstances occur.

- **Accounts, retirement assets, and life insurance**

Clients should review how their assets are titled and who they have named as beneficiaries. Ideally, their accounts are in the name of their trusts. If not, they should consider retitling those accounts, especially if their spouses are currently named as beneficiaries. Failing to do so can create significant issues when the surviving spouse dies.

- **Wills and trusts**

If clients have wills and/or trusts in place, they may need to update those documents. Even if a change is not needed, it is worth the time to review and ensure accuracy.



Help Clients Develop a Plan for Long-Term Care Expenses

In the past, loved ones often cared for their elderly family members at home. Today, many seniors rely on professional care at home or in nursing facilities. Medical care may start with simpler services such as in-home visits but can progress to more intensive, full-time care if health declines. And, as the level of care increases, so does the cost. There are four main ways to pay for the cost of care:

- **Government aid**

It's important to note that Medicare doesn't cover long-term care costs, even if clients are older than age 65. Medicaid may cover long-term care expenses, but to qualify, your client will need to be in a low-income bracket or pay down assets first.

- **Traditional long-term care insurance**

Traditional long-term care insurance lets you choose coverage amounts and how long it lasts, but it's not widely available, and premiums will increase over time. It may be challenging to budget for how much your client will need to pay for the desired coverage.

- **Life insurance with long-term care benefits**

Some life insurance policies offer long-term care benefits, allowing clients to use death benefits during their lifetimes. If a client passes away before needing the long-term care benefits, her beneficiaries receive the life insurance death benefit.

- **Personal savings**

Many clients end up using their own assets to pay for long-term care expenses, simply because they didn't plan ahead. You can help your clients get a head start on planning, as these costs can be substantial and increase every year.

If they haven't already, your clients should consider which options suit their needs and what type of care they want in the future. Proactive planning is imperative if they want to ensure that their wishes are adhered to.

FINANCIAL WELLNESS AMID GRIEF


Losing a spouse is among the hardest things your clients will have to endure, so it's vital that you help financially prepare them—and yourself—as early as possible.

We offer a **simple checklist of financial responsibilities** for your widowed clients that can be provided to the agents they've designated in their financial powers of attorney.

By working with these trusted people to address the items on this list, clients can take the first difficult steps on the road to a new beginning. By understanding the basics about what your widowed clients may need, you can help mitigate their stress levels and provide compassionate guidance in times of grief.

PACIFIC LIFE

Financial Wellness Amid Grief
Wealth Management Steps for Surviving Spouses



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Things to Do Right Away

☐ **Contact your pension and retirement plan administrators.**
You may be a beneficiary of your spouse's pension or retirement fund, so you may be eligible to receive any additional payments. You typically can find the name and contact information of the administrator on quarterly statements.

☐ **Contact the Social Security Administration and apply for survivor's benefits.**
Someone will need to call the Social Security Administration (SSA) at (800) 772-1233 or visit your local SSA office to report your spouse's death.
• If you're using a General Form, they can report the death for you. If your spouse was receiving Social Security retirement benefits by direct deposit, notify the bank of your spouse's death and ask them to return funds received in the month of death.
• If your spouse received physical Social Security checks in the mail, you'll need to return the one received in the month of death to the Social Security Administration; use the return address on the envelope that was mailed to you.
• A one-time death benefit of \$255 may be available for the spouse of a deceased worker if specific criteria are met. Typically, this payment is made to a spouse who lived with the worker at the time of his or her death.

☐ **Contact your spouse's employer.**
The Human Resources department of your spouse's employer can provide any necessary paperwork and help with other details you'll need to iron out. For example, you may need to choose replacement healthcare options if you were on your spouse's medical insurance plan.

☐ **Contact U.S. Department of Veterans Affairs (VA) if applicable.**
If your deceased spouse was a veteran, locate their military paperwork. They may be eligible for VA burial benefits and memorial items. You can apply online at www.gibsonandson.com/va or call (800) 827-0000 for assistance.

☐ **File life insurance claim(s).**
If your spouse had a life insurance policy contact the life insurance company to file a claim. Your financial professional should be able to help you with this.

☐ **Lean on your estate planning attorney for help.**
If they don't have them already, provide your lawyer with original copies of your spouse's will and trusts. They can help you determine if probate is necessary, and if so, what needs to be done.

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