

One Big Beautiful Bill

What it Could Mean for U.S. Savers & Their Taxes in Retirement

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Congress has passed - and the President has signed into law - the One Big Beautiful Bill¹, which includes some important tax changes with the potential to impact many U.S. savers.

Chief among the provisions impacting savers are the permanent extension of individual income tax bracket reductions first established in the 2017 Tax Cuts and Jobs Act, and the new tax deduction available to Americans age 65 and older.

What do these changes potentially mean for you - and how can you leverage this legislation to plan for a more successful retirement?

Evaluating Taxes in Retirement

There are two distinct ways we can evaluate this legislation - and taxes more generally - as we prepare for retirement.

The first is the near-term impact: What this legislation means for tax rates in the near term, and how savers may want to adjust their retirement strategies accordingly.

Of course, most of us do not plan to live in retirement only for the next few years. Because retirement is a long-term endeavor, the long-term impact of this legislation and other economic, demographic and fiscal trends are equally critical to evaluate and address.

By understanding both short-term impacts and long-term pressures, we can help ensure our retirement approach offers better protection throughout our lifetime in retirement.

Potential Near-Term Impacts

Let's start with the near-term impact of the Big Beautiful Bill.

There are many changes in this legislation with the potential to positively impact our clients - from a permanent extension of the higher estate tax exemptions to a new tax deduction for older savers offsetting the taxation of Social Security benefits¹. For the purposes of this paper, however, I'm going to focus primarily on the permanent extension of the individual income tax bracket rates that were passed as part of the Tax Cuts and Jobs Act in 2017². Previously, these tax bracket rate reductions were set to expire at the end of 2025. Now, today's current (lower) bracket rates will continue indefinitely into the future.

This could be extremely important for savers considering changing the tax status of any of their retirement assets, particularly from tax-deferred vehicles (like 401(k)s and IRAs) to tax-free vehicles (like Roth accounts or Roth alternatives like cash-value life insurance)³. The tax “cost” of conversion is lower today (and now into the future) than it was pre-reform.

How much lower?

For middle-income Americans, we’ve analyzed that individual income tax bracket rates are about 30% lower today than they were pre-reform (for example, a middle quintile single filer might pay at a 22% rate today, versus a 28% rate in the year 2000)⁴.

This means today’s tax bracket rates for many Americans are up to 30% lower than near-term historical averages - a big potential savings for those interested in converting funds to tax-free vehicles.

But the passage of the Big Beautiful Bill legislation has raised a different question in the minds of some savers:

Since Congress has passed a *permanent* extension of these bracket reductions, do we still need Roth conversions?

After all, we no longer have to worry about brackets reverting to their older, higher rates in the near future. So is there still a need to convert?

In my evaluation, the answer is a resounding: Yes.

What drives my answer is less about the near-term impact of this legislation, and more about a long-term analysis of both the One Big Beautiful Bill and other economic, fiscal and demographic pressures the U.S. faces - today and in the years to come.



Before we turn to the long-term impacts of the bill, I want to emphasize: the Big Beautiful Bill includes tax provisions that will help U.S. savers maintain lower tax rates in the years to come, and that should be celebrated.

Within that celebration, we need to leverage today’s lower tax rates to prepare for what likely lies ahead. For many savers, retirement is not about the next five or ten years; it’s about the next twenty, thirty or even forty years in the future. So when we look at lifetime retirement taxes, we need to evaluate not only the near-term rates but also what could happen to taxes over the next several decades ahead.

And that’s why it’s critical to understand the long-term outlook for U.S. taxes.

Long-Term Outlook

First, let's look at the "permanent" extension of the tax bracket rate reductions.

I've put "permanent" in quotation marks because nothing in Washington is ever truly permanent. A permanent extension just means that bracket rates will not automatically rise in the future - they will only rise if Congress votes for them to do so.

If we look broadly at tax reform efforts in the U.S. going back to cuts under President Reagan in the 1980s, we find that most low-tax-bracket rate eras in modern history - whether temporary or permanent - last somewhere around 8-12 years⁵. So one constant of the tax code is that it's never constant for long.

So as we evaluate potential tax opportunities in today's lower-rate environment, the question some savers may ask is: What is the likelihood of Congress voting to raise taxes in the future?

As I survey today's fiscal and demographic landscape, my answer is: High.

Here are the top indicators I'm watching that could mean higher taxes are coming:



U.S. Spending | In the last fiscal year, our country brought in \$4.9 trillion in revenue - and spent \$4.9 trillion on mandatory (non-Congressional) spending alone. That means expenditures like Social Security, Medicare and servicing our federal debt⁶ used up nearly every single dollar the government generated through taxes and other fees. Of course, as a nation, we still have to fund priorities outside of these mandatory government programs. And that meant every single dollar Congress appropriated for things like defense spending, military needs and transportation funding was deficit spending⁶. This is not sustainable.



Demographics | The reason our government's budget is so imbalanced is not primarily because of Congressional spending. It is because of demographics. The two largest areas of expenditure for our government are Social Security and government health programs like Medicare⁷. Our aging population will put increasing pressure on the Social Security and Medicare programs, driving program costs far higher than today. In fact, the CBO reports that by 2035, current taxes will only cover 75% of scheduled Social Security benefits.⁸ The outlook for Medicare isn't any better. Program spending is expected to grow at nearly 8% every year over the next decade.⁹



Debts and Deficits | The Congressional Budget Office (CBO) projects that over the next decade, the annual budget deficit will range from \$1.7 trillion to \$2.9 trillion⁶.



That makes one thing very clear: Americans are underpaying for the government we currently have. Today and into the decades ahead, U.S. revenue will not support the level. And while certainly our government could reduce spending in numerous places, as we can see in the indicators above the problem runs much deeper than any new bills the President and Congress may pass. Alas, we can't just look at our nation's deficit (about \$1.9 trillion in the last fiscal year⁷). Our national debt stands at a historical record-high - \$36.2 trillion¹⁰ as of this memo's writing - costing our government nearly \$1 trillion in debt service last year alone⁷. Layer on top of that the \$75 trillion of unfunded Social Security and Medicare obligations we'll incur as a nation in the years ahead¹¹, and a clear picture emerges: we have a growing hole between the money our government takes in and the money it sends out.

When we take these indicators as a whole, one thing is clear: Sooner rather than later, the government will need more revenue. And that means more taxes. At this point, it's primarily a demographic and debt problem, not simply a political one. And that means while control of the White House and Congress can slow or accelerate the likelihood of rising taxes, it can't solve the math challenge America faces.

Other Ways Taxes Can Change

It won't just be tax bracket rates that are impacted. One way Congress can raise additional revenue without adjusting brackets is by lowering the amount of income subject to each bracket, thereby generating more revenue as more income is taxed at higher brackets. We've seen adjustments to both rates and income levels applicable to each rate often during tax reforms⁵.



But in my analysis, moving forward some of the highest risks of rising taxes our clients will face may not be found in tax brackets at all. The fiscal and demographic pressures will encourage Congress to find new ways of generating revenue from U.S. savers.

And we're already seeing it happen.

Take, for example, IRMAA - the surcharge some Americans pay on top of their Medicare premiums based on that saver's income level.

In 2003, as part of the Medicare Modernization Act¹², Congress created a new fee for American savers, called the Income-Related Monthly Adjustment Amount (or IRMAA).

Fundamentally, the government looks at a taxpayer's income from previous years, and if certain thresholds are met, a new fee is assessed - on top of that taxpayer's regular income taxes and Medicare premiums.

Essentially, IRMAA was a way to generate new revenue without having to adjust tax bracket rates. And it worked. IRMAA surcharges have helped the Medicare Parts B and D trust funds maintain fiscal soundness even as other government trust funds are floundering¹³.

And so the government has been leaning on IRMAA to generate increasing revenue for the Medicare program. In fact, since 2019, IRMAA surcharge rates for the lowest bracket have risen more than 7% annually¹⁴ - year after year. And the government isn't done. A CMS report from last year outlined that these Medicare trust funds would be adequately financed into the future only because the government can raise IRMAA fees (and premiums) to match any expected shortfalls¹³.

IRMAA fees - and other creative revenue-generating initiatives Congress is considering - have the same effect as rising tax-bracket rates: They raise the amount of your client's retirement income going to the government, and reduce the amount going into your client's bank account.

In summary, the long-term tax outlook on both bracket and additional fees and taxes is grim.

But it's not hopeless. In fact, there are important ways U.S. savers can potentially prepare - leveraging today's lower bracket rates to protect them from what may lie ahead.

Preparing for What's Ahead

We can't know for certain where tax rates will go in the future. And part of a successful retirement approach is preparing for that uncertainty.

Because one thing hasn't changed with the passage of the One Big Beautiful Bill: Tax diversification is still a critical component of comprehensive retirement approaches for many savers.



In fact, the extension of today's lower tax bracket rates makes the case for tax-free conversions as strong as ever for many Americans. Here's why:

Today's tax rates are significantly lower than the rates we've seen in recent history.

The Big Beautiful Bill has given us a powerful tool to potentially combat future taxes. Savers can convert funds at lower rates today than they could just a few years ago. A Roth conversion or other tax-free reallocation simply “costs” less in taxes than when rates were higher.

In my opinion, it's become clear that over time, taxes have nowhere to go but up. It's hard to argue that future taxes will be lower than they are today, for all the reasons discussed in this paper. That means many savers may find themselves facing higher taxes at some point in retirement.

But the Big Beautiful Bill has given us a powerful tool to potentially combat future taxes. Because the extension is “permanent,” there's no current expiration date for these lower tax bracket rates. That can give savers greater flexibility in structuring tax-free conversions to meet their individual preferences and needs.

Additionally, because Roth income and supplemental income generated from tax-free alternatives like cash value life insurance³ aren't included in income calculations for IRMAA¹⁵, tax-free strategies can potentially help address multiple ways taxes can rise for us in retirement.

Preparing for the Future

A lot has changed with the passage of the One Big Beautiful Bill. But what hasn't changed is this:

Retirement is a long-term endeavor. And long-term, our country needs more revenue.

Higher taxes are coming. And while we don't know the exact timing of when they'll go up, we do know the exact timing of when our clients need to prepare: Now.



It all comes down to legislative risk: The risk that Washington changes the rules, and those changes negatively impact savers and their retirement approach. In my opinion, one of our era's core truths is this: The biggest driver of legislative risk in retirement is not whether Republicans or Democrats are in control in Washington. It's our nation's two-year election cycle.

Every two years, we have a new government in America. Because President Trump has already served one term as President, this will be his last term in the White House. Regardless of what his administration accomplishes, we will be electing a new leader soon. The 2024 election did not solve the problems we face as a divided nation; in fact, it created fiercer battlegrounds going into the elections ahead.

Into this uncertainty, savers may want to protect their retirement assets from the legislative changes of future Presidents and Congresses.

A key goal of retirement planning is often to help address financial risks in retirement. Diversification can be a powerful tool to help mitigate unknowable future conditions - like taxes, government fees, and legislative changes.

In fact, I believe future taxes are one of today's great unknowns - and American savers deserve protection against this risk. I personally believe many savers can't achieve an adequate level of protection if all or the majority of their retirement funds are saved exclusively in tax-deferred vehicles like 401(k)s and IRAs.

The case for tax-diversification in today's environment remains as strong as ever. With the passage of the One Big Beautiful Bill, savers have an opportunity to leverage the tax code we have today to prepare for potential volatility that could impact the tax code we have in the future.

The time for evaluation is now.



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Notes & Disclosures

This paper represents the author's opinion only and is not to be construed as a prediction of future events. This document is not intended to provide tax, legal or investment advice. Please consult with qualified professionals about your individual situation.

¹ "H.R. 1 - One Big Beautiful Bill Act," 119th Congress, Signed into law 07/04/2025, Available online at congress.gov/bill/119th-congress/house-bill/1

² H.R. 1 ("Tax Cuts and Jobs Act"), 115th Congress, Public Law 15-97, Available online at congress.gov/bill/115th-congress/house-bill/1/text

³ This is not a complete discussion of any qualified, Roth, or life insurance product. Products may have limitations and requirements and may not be equally suitable for all.

⁴ For a complete discussion of Middle Quintile income tax bracket rates and our belief that rates today are around 30% lower than near-term historical averages, visit tinyurl.com/taxcutrates

⁵ Individual tax reform data can be found through the Congressional Research Service's Bill Search, accessed 07/06/25 and available at congress.gov.

⁶ "Budget and Economic Data," Congressional Budget Office, Accessed 07/06/25 and available online at cbo.gov/data/budget-economic-data

⁷ "The Federal Budget in Fiscal Year 2024," Congressional Budget Office, Accessed 07/06/25 and available at cbo.gov/publication/61181

⁸ "CBO's 2024 Long-Term Projections for Social Security," Congressional Budget Office, August 2024. Available online at www.cbo.gov/system/files/2024-08/60392-Social-Security.pdf

⁹ "National Healthcare Expenditure Projections 2024-2033," Centers for Medicare & Medicaid Services, June 2024. Available online at www.cms.gov/data-research/statistics-trends-and-reports/national-health-expenditure-data/projected

¹⁰ "What is the National Debt?" Fiscal Data, U.S. Treasury. Accessed 07/06/25 and available online at fiscaldata.treasury.gov/americas-finance-guide/national-debt/

¹¹ "Three Layers of Massive Debt," Federal Budget in Pictures, updated January 9, 2025. Chart developed from data obtained from the Social Security Administration and Congressional Budget Office, available at ssa.gov/oact/pubs.html and cbo.gov/publication/61181, Accessed 07/06/25

¹² "H.R. 1, 108th Congress" Public Law 108-173, Accessed 07/06/25 and available online at congress.gov/bill/108th-congress/house-bill/1

¹³ "2024 Annual Report of the Boards of Trustees of the Federal Hospital Insurance and Federal Supplemental Medical Insurance Trustees," Centers for Medicare and Medicaid Services, published May 6, 2024. Available online at cms.gov/oact/tr/2024

¹⁴ "Rate Announcements and Documents," Centers for Medicare & Medicaid Services. Accessed 07/06/25 and available online at cms.gov/medicare/payment/medicare-advantage-rates-statistics/announcements-and-documents

¹⁵ "HI 01001.010 Modified Adjusted Gross Income (MAGI)," Social Security Administration Program Operations Manual System, Accessed 07/06/25 and available online secure.ssa.gov/poms.nsf/lnx/0601101010

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