FIRST RESPONDERS | BENEFIT COLLISION

The Social Security Tax Shield

Preventing Social Security income from becoming 85% taxable through strategic Roth conversions and income smoothing.

BOTTOM LINE UP FRONT

Failing to plan for "gap years" can cause 85% of your Social Security check to become taxable. Forced withdrawals from Traditional IRAs at age 73+ can "detonate" your tax bracket, creating a massive traffic jam of taxes.

The Problem: The Tax Torpedo

Most first responders don't realize that Social Security benefits can be taxed. The IRS uses a formula called "Provisional Income" to determine how much of your Social Security is subject to tax. When pension payments, Required Minimum Distributions, and other income push your Provisional Income above certain thresholds, up to 85% of Social Security becomes taxable.

For a typical retired first responder receiving a $60,000 pension and $30,000 in Social Security, adding even $25,000 in Required Minimum Distributions can push the combined Provisional Income past the upper threshold -- making $25,500 of the Social Security check suddenly taxable. This creates an effective marginal tax rate that can exceed 40% on the RMD dollars.

This phenomenon is called the "tax torpedo" because it detonates unexpectedly, creating tax rates far higher than the statutory bracket would suggest.

The Solution: Income Smoothing

We perform "Income Smoothing" by moving money to "tax-never" accounts during your lower-income transition years. This strategy has three components:

1. Identify the Gap Years

The period between service retirement and age 73 (when RMDs begin) is the critical planning window. During these years, total income is typically lower than it will be in full retirement, creating a tax "valley" that we can exploit.

2. Systematic Roth Conversions

We convert Traditional IRA and retirement plan balances to Roth accounts during the gap years, paying taxes at today's lower rate. Each dollar converted is a dollar that will never generate a Required Minimum Distribution -- and will never contribute to Provisional Income.

3. Provisional Income Target

We calibrate annual conversions to keep Provisional Income below the threshold where Social Security taxation begins. This requires annual modeling that accounts for pension cost-of-living adjustments, investment returns, and projected Social Security benefit amounts.

The Goal

To ensure your future retirement income is "invisible" to the IRS, protecting your Social Security check from double taxation. The result is a retirement where the combined tax rate on all income sources is minimized -- not just in any single year, but across the entire retirement horizon.