

Social Security Tax Traps That Cost You Thousands

Transcript

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When most people think about Social Security, they think about income.

A check showing up in the mail—or these days, deposited into a bank account every month.

It feels simple, predictable, and safe.

But here's what most people don't realize:

Up to 85% of your Social Security benefits can become taxable.

Not because you did anything wrong—but because of how your other income interacts with it.

And here's the real kicker:

The income thresholds that determine those taxes haven't changed since 1983.

Four decades later, we're living in a completely different economy—yet we're still using the same outdated numbers.

So today, we're talking about what I call the hidden Social Security tax trap:

How Social Security interacts with your retirement income

How taxes quietly erode your benefits

And how to keep more of what you've earned

Because financial freedom isn't just about earning more.

It's about keeping more.

[Understanding provisional income](#)

Social Security taxation is based on something called provisional income.

You won't see this term directly on your tax return.

It's a behind-the-scenes calculation the IRS uses to determine how much of your Social Security becomes taxable.

Here's the formula:

Provisional income = Adjusted Gross Income + tax-free municipal bond interest + 50% of your Social Security benefits

That means IRA withdrawals, investment income, bond interest, and other earnings all count toward the calculation.

Once provisional income exceeds:

- \$25,000 for individuals
- \$32,000 for married couples

...up to 50% of your Social Security benefits can become taxable.

Cross the next threshold:

- \$34,000 for individuals
- \$44,000 for couples

...and up to 85% of your benefits may become taxable.

Think about that.

These thresholds were created when gas cost under a dollar and incomes were dramatically lower than they are today.

And they've never been adjusted for inflation.

That means more retirees are pulled into Social Security taxation every single year.

Now, to clarify:

This does *not* mean you pay an 85% tax rate.

It means up to 85% of your Social Security benefits can be included as taxable income.

But the outcome still matters:

Less money stays in your pocket.

The real problem: disconnected income planning

The issue isn't just taxes.

It's that most retirees don't realize their income sources are connected.

How—and when—you withdraw money from different accounts directly impacts how much tax you pay on Social Security.

Let me give you an example.

John and Lisa

John and Lisa were retired executives in their mid-60s.

They had strong savings, solid portfolios, and both claimed Social Security at 66.

As John told me:

“We earned it, so we figured we might as well start collecting.”

But when they came in, they weren't looking for a Social Security plan.

They were looking for a tax plan.

Their tax bill kept climbing—even though their lifestyle hadn't changed.

When we reviewed their return, the issue became obvious:

85% of their Social Security benefits were taxable.

Why?

Because they were withdrawing roughly \$150,000 annually from traditional IRAs.

Those withdrawals counted as ordinary income and pushed their provisional income far above the IRS thresholds.

So they weren't just paying taxes on IRA withdrawals.

Those withdrawals also triggered taxes on Social Security.

That's what I call tax stacking.

We rebuilt their strategy.

Instead of relying so heavily on IRA withdrawals, they used more after-tax brokerage assets and completed partial Roth conversions during lower-income years.

Within two years:

- Their taxable Social Security dropped from 85% to roughly 40%
- Their annual tax bill fell by about \$12,000

- They avoided higher Medicare IRMAA premiums

Lisa laughed and said:

“We didn’t make more money—but somehow we feel richer.”

Exactly.

Because retirement isn’t just about what you make.

It’s about what you keep.

The three biggest Social Security tax mistakes

Mistake #1: Claiming too early while taking IRA withdrawals

Many people claim Social Security at 62 or 63 while simultaneously pulling from pre-tax retirement accounts.

That combination spikes provisional income and increases taxation.

In many cases, it’s better to delay Social Security while living off savings or bridge income first.

Mistake #2: Ignoring Roth conversion opportunities

The years between retirement and Social Security—often your early 60s—can be a golden tax-planning window.

Your income may temporarily drop into lower tax brackets.

Strategic Roth conversions during this period can:

- Reduce future RMDs
- Lower taxable retirement income
- Help more of your Social Security remain tax-free

Mistake #3: Forgetting Medicare premiums

Income affects more than taxes.

It also impacts Medicare Part B and Part D premiums.

Cross certain income thresholds—even by a small amount—and premiums can rise significantly.

This is known as IRMAA.

It’s essentially a stealth tax that quietly impacts retirement cash flow.

Why withdrawal sequencing matters

Most retirees withdraw money from whichever account feels easiest.

But the order matters.

A lot.

If you pull heavily from traditional IRAs while collecting Social Security, provisional income rises quickly.

But if you instead draw from after-tax savings or Roth assets early in retirement, you may reduce taxes and increase long-term flexibility.

Think of retirement income like three buckets:

- Taxable
- Tax-deferred
- Tax-free

The art of retirement planning is knowing which bucket to tap—and when.

That coordination can dramatically reduce lifetime taxes.

I once had a client tell me:

“Glenn, this feels like cheating.”

And I laughed.

Because it’s not cheating.

It’s simply understanding how the rules actually work.

Final takeaway

The wealthiest retirees I know all have one thing in common:

They don’t make decisions in isolation.

They make decisions in sequence.

During your working years, life is about earning:

Earning promotions

Earning income

Earning investment returns

But retirement changes the game.

The winners aren't the people who earn the most.

They're the people who keep the most.

Social Security is designed to create stability.

But taxes can quietly erode that stability if you don't coordinate your plan properly.

Understanding provisional income, withdrawal sequencing, and Roth conversions aren't just tax strategies.

They're freedom strategies.

The retirees who feel most confident are the ones who understand:

Where their income comes from

How it's taxed

And how long it will last

They're not surprised every April.

They're proactively managing their income year-round.

So the next time you think about maximizing Social Security, don't just ask:

"How do I get the biggest check?"

Ask:

"How do I keep the most of it?"

Because retirement isn't a game of chance.

It's a game of coordination.

And when you master that game, you gain something even more valuable than money:

Peace of mind.