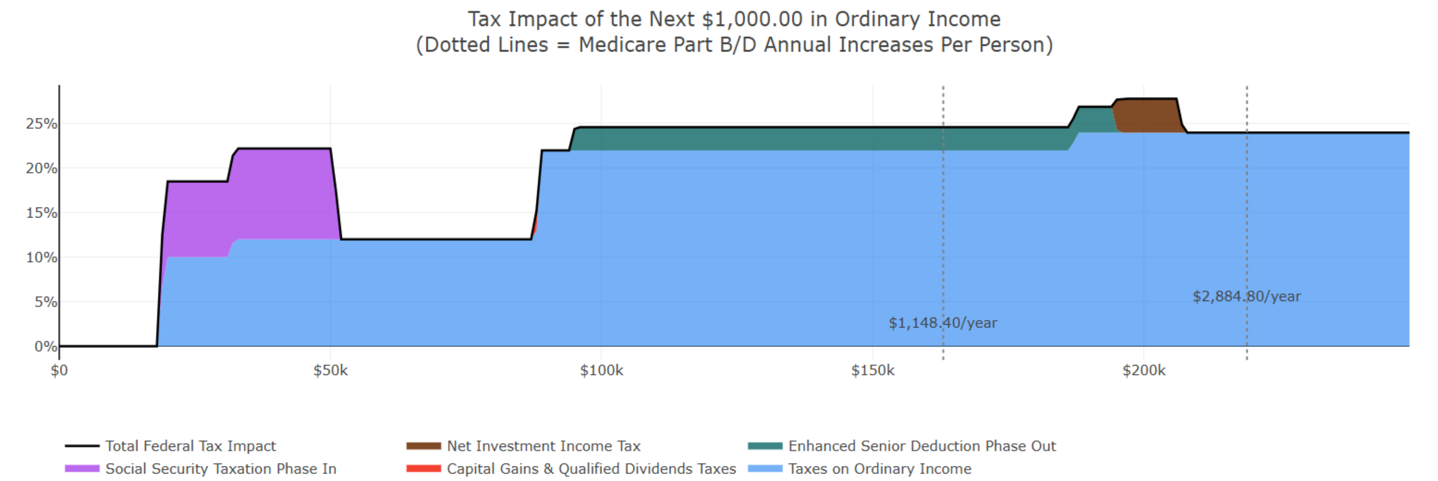
Randall & Associates Wealth Management

2026 Q1

New Year, Same Planning!

The Social Security Tax Torpedo



Often times, the most pivotal source of income for a retiree is their monthly social security benefit. Because some individuals and couples receive, or are set to receive, millions in income over the span of their lifetime via social security, they are also often eager to know how their benefit is taxed. This topic has gained additional traction since the One Big Beautiful Bill Act (OBBB) was signed into law in July of 2025. Rumors swirled that perhaps there would be no tax on social security. In the end, though social security indeed is still taxed, an enhanced deduction for seniors (up to $6,000 per eligible filer 65-years-old or older) was instituted. So, who pays taxes on social security then? Let's first visit *how* social security is taxed. Taxation on social security is based off of a calculation of provisional income, which includes the total of one's adjusted gross income (AGI) excluding social security, tax-exempt interest income, and 50% of their social security benefit. Once one's provisional income exceeds a certain threshold (in 2026, $25,000 for single filers and $32,000 for married filers filing jointly) their social security benefit begins to be susceptible to ordinary income tax. If they are below the threshold, their social security benefit remains tax-free. As their provisional income rises, however, up to 85% of their social security benefit is susceptible to taxation. This topic is particularly important when retirees are taking distributions from their pre-tax IRA's. An individual that wants to take an additional withdrawal from their traditional IRA must be aware that they may not only be paying ordinary income tax on their withdrawal, but they also may be making more of their social security benefit taxable. The above graph illustrates effective tax rates for a hypothetical married couple. As their income increases, they will eventually run into paying ordinary income tax at 10% (illustrated in blue) before jumping up to 12%, 22%, and so on. So what is the shaded purple area, then? That is the social security tax torpedo! It represents an additional portion of social security becoming susceptible to tax for every dollar taken out within that range. The torpedo can occur in different income combinations. What does the torpedo mean for this couple? It means that, though they are in the 10% bracket, their effective tax rate for every dollar taken out in that range is 18.5% ! It is important, then, for anyone collecting social security to be aware of where they are at in regard to the torpedo (before it, within it, or already beyond it) and to take that into consideration when considering adding taxable income or making an IRA withdrawal.

RANDALL & ASSOCIATES
WEALTH MANAGEMENT

122 S Washington Street
Butler, PA 16001

50 Pennwood Pl
Warrendale, PA 15086

Phone: 724-602-0075
Fax: 724-256-5604
Email: info@randallawm.com

We're on the web!
RandallAWM.com

It All Begins With a Plan!

Our Services …

Retirement Planning

- *Retirement Goal Setting*
- *Cash Flow Analysis*
- *RMD and Withdrawal Strategies*
- *Roth Conversions*
- *Socials Security and Pension Analysis*

Investment Planning

- *Asset Allocation*
- *Withdrawal Strategies*
- *Account Consolidation*

Tax Planning

- *Tax Sensitive Investing*
- *Review of Realized and Unrealized Gains*
- *Tax Loss Harvesting*
- *Roth Conversion Opportunities*
- *Tax Return Review*

Trust & Estate Planning

- *Minimize Estate Taxes*
- *Analyze Trust Needs*
- *Analyze stepped up cost-basis for highly appreciated assets*

Assistance to Others

- *Charitable giving through Qualified Charitable Distributions (QCDs)*
- *Charitable giving of appreciated assets*
- *529 College Saving Plans*
- *Donor-Advised Funds*

Reviewing Your Beneficiaries

The opening of an investment vehicle or purchase of various insurance products often coincides with the designation of beneficiaries in the event the owner predeceases the liquidation of the account. A common mistake however is not making sure one's beneficiaries are up to date with their current life circumstances. There have been many accounts of individuals dying with an investment account or life insurance policy with their ex-spouse named as primary beneficiary, for example. This is simply due to the fact that we often forget to continue to update over time who we want to inherit our funds once we pass. Another common example of a need for updated beneficiaries is when a beneficiary of the owner of the account has a child of their own. This may be cause for the addition of what is known as a "Per Stirpes" designation onto the account for that beneficiary. Here, if a beneficiary of the account owner predeceases the account owner, that beneficiary's designated portion of the proceeds goes to their lineage. In essence, it makes sure a beneficiary's portion of the inherited account stays in their lineage and does not get divided amongst other beneficiaries or to the estate of the account owner.

There are many other examples of life changes that would cause for an update to the beneficiaries on an account or insurance contract. The true emphasis here is to understand who your beneficiaries are, on what accounts they are named, and how much they are getting. If you want to dive in deeper, you can analyze your beneficiaries based off of how their proceeds are taxed. Charitable organizations, for example, can often times inherit pre-tax IRA dollars tax-free. It may make sense then, if you want a portion to go to a charity, to allocate pre-tax dollars to said charity and then allocate non-qualified or tax-free dollars to individual inheritors whose inheritance would otherwise be susceptible to tax. Regardless of how in-depth you want to make your review, it is important to make sure you understand who is inheriting your wealth when the time comes.

2026 Retirement Plan Limits

- 401(k), 403(b), 457(b) plan deferral limit - **$24,500**
- 401(k), 403(b), 457(b) catch up limit - **$8,000**
- 401(k), 403(b), 457(b) enhanced catch-up - **$11,250**
- Traditional and Roth IRA contribution limit - **$7,500**
- Traditional and Roth IRA catch-up limit - **$1,100**
- SIMPLE plan contribution limit - **$17,000**
- SIMPLE plan catch-up limit - **$4,000**
- SIMPLE plan enhanced catch-up limit - **$5,250**

(**Note: catch up contributions are reserved for individuals 50 and older. Enhanced catch-up contributions are reserved for individuals aged 60, 61, 62 and 63)**

First Quarter Dates to Remember

January 1st - New Years Day - **MARKETS CLOSED**
January 1st - 2026 Tax Season Begins
January 1st - 2026 Social Security and Medicare Changes Take Effect
January 15th - 4th Quarter Tax Estimates Due
January 19th - Martin Luther King Day - **MARKETS CLOSED**
February 16th - President's Day - **MARKETS CLOSED**