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# THE RETIREMENT TAX CASCADE

Why Required Minimum Distributions  
*Can Trigger a Chain Reaction of Taxes*

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## Research Topics

- Required Minimum Distributions (RMDs)
- Tax Rate Risk in Retirement
- Social Security Taxation
- Medicare IRMAA Surcharges
- Legacy and Estate Efficiency

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## RODELL RAZOR, MBA

Licensed Financial Professional

Certified Roth Conversion Retirement Specialist

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**THE RETIREMENT TAX  
CASCADE**

# **The Future of Retirement Taxation and Required Minimum Distributions.**

Author

Rodell Razor, MBA

Retirement Strategist founder  
and Retirement Strategist.

Zion Financial

Phoenix, Arizona

## **Executive Summary**

In the last 40 years, a single idea has taken over retirement planning in the United States, and this is tax deferral.

The workers have always been advised through their financial advice to contribute to traditional retirement schemes like 401(k)s and Individual Retirement Accounts (IRAs). These cars enable people to invest less during their working years through taxable income, but make investments to accumulate without being taxed annually.

The plan was effective in the accumulation of wealth.

The tax structure, together with the attraction of such accounts in the accumulation stage, however, presents a structural challenge as retirement sets in.

The conventional retirement plans are tax-deferred rather than tax-free. At some point, the federal government needs such funds to be

withdrawn and taxed. This is taxation that is triggered by the Required Minimum Distribution (RMD).

Since retirees are subject to taxation, starting at the age of 73, they have to withdraw some part of their tax-deferred retirement accounts per year. Such withdrawals boost the taxable income, whether or not the retiree is in need of the funds.

Those who are on a large-scale retirement savings plan mean that retirees will be subjected to a cascade of financial implications that will impact taxes, healthcare expenses, and retirement income planning.

Retirement Tax Cascade is what this phenomenon is termed in this report.

The cascade effect happens when Required Minimum Distributions are raised, taxable income is raised, and it might raise retirees into high tax brackets, raise Medicare premiums, and make Social Security benefits taxable.

Simultaneously, there are also larger fiscal pressures in the United States that are posing significant questions about the long-term tax background on which retirement withdrawals are going to transpire.

The level of federal debt is higher than ever, demographic pressure is placing a strain on entitlement programs, and retirement resources in trillions of dollars are not taxed.

The above factors indicate that tax planning for retirement will become a central part of financial decision-making.

This report discusses the forces shaping retirement taxation structure and also discusses the strategic decisions that retirees have in light of handling tax-deferred wealth.

## SECTION 1

# The Future of Taxation & Fiscal Pressure.

To have any insight into retirement taxation, it is necessary to look at the overall fiscal climate of the United States.

Three major forces influence federal finances:

- government spending
- economic growth
- tax revenue

In the case of a persistent rise in government spending that is higher than government revenue, the deficits and national debt result.

In the last 20 years, the American federal debt has increased tremendously.

Based on statistics released by the U.S. Treasury, the total federal debt has already topped 38 trillion, which is one of the highest debt burdens in the history of the country.

### Chart 1

<i>Growth of U.S. Federal Debt</i>	
<b>Year</b>	<b>Federal Debt</b>
2000	\$5.7 trillion
2008	\$10 trillion
2016	\$19 trillion
2020	\$27 trillion
2024	\$34 trillion
2026	\$38+ trillion

Fiscal stability is not always determined by the debt levels. More importantly, it is how the government will be able to service such a debt.

Federal debt interest has grown drastically since the level of borrowing and rate of interest have been on the rise as well.

Congressional Budget Office projections indicate that the federal interest payments will be more than \$1 trillion annually in the next ten years.

Such interest spending would make interest payments some of the greatest amounts of federal spending.

## **Demographic Pressure**

Demographic changes are also a challenge to fiscal problems.

The American population is becoming elderly very fast, with the baby boomers retiring.

Social Security and Medicare were developed in a time when the number of working people to retirees was far better.

About 5.1 workers existed to support one beneficiary of Social Security in 1960.

The ratio nowadays stands at about 2.8 workers per beneficiary.

The shift is indicative of two trends in the long run:

- increased life expectancy
- declining birth rates

Consequently, the list of people receiving benefits associated with entitlement programmes is constantly increasing, and the group of working people who pay a payroll tax is increasing at a slower rate.

This demographic change places an augmented fiscal strain on government funds in the long run.

## Government Revenue Sources

Governments finance their spending through taxation, borrowing, and economic growth.

In the United States, individual income taxes and payroll taxes are the largest sources of federal revenue.

### Chart 2

<i>Major Federal Revenue Sources</i>	
<b>Revenue Source</b>	<b>Approximate Annual Revenue</b>
Individual income taxes	\$2.6 trillion
Payroll taxes	\$1.7 trillion
Corporate taxes	\$420 billion
Tariffs and customs duties	\$195 billion

This debacle underscores a major fact: tariffs contribute a comparatively low percentage of federal revenue in relation to income-based taxes.

## SECTION 2

# The Tariffs and the Revenue Reality.

Tariffs have been suggested in recent years as a way of raising government revenue.

Tariffs may have a significant revenue-generating capability; however, the magnitude of such tariffs is small compared to the federal budget.

The data provided by the Treasury Department indicates that the customs duties have brought about revenue of about 195 billion dollars in the year 2025 alone.

In comparison, the total federal expenditure was more than \$6 trillion in the same period.

Even substantial growth in tariff revenue would thus constitute a large share of the total federal funding needs.

This analogy is a depiction of a significant fiscal truth.

Taxation of income remains the major source of federal revenue.

This consists of income taxes as well as payroll taxes.

This dynamic is of particular concern to retirees who have large tax-deferred retirement accounts.

Distributions of conventional retirement plans are subject to normal income taxation by the federal government. They are, therefore, a huge potential tax source.

## SECTION 3

# Scale of Untaxed Retirement Wealth.

The US presently has one of the largest retirement savings in history.

The United States, as shown by data released by the Investment Company Institute and the Federal Reserve, has more than 50 trillion in total retirement assets.

These funds are allocated into a number of types of retirement funds.

### Chart 3

<i>Composition of U.S. Retirement Assets</i>	
<b>Account Type</b>	<b>Assets</b>
<b>Individual Retirement Accounts</b>	\$19 trillion
<b>401(k) plans</b>	\$8 trillion
<b>Defined benefit pensions</b>	\$10 trillion
<b>State and local government plans</b>	\$8 trillion
<b>Annuities and other accounts</b>	\$7 trillion

Many of these assets are represented by tax-deferred accounts.

Since these assets are yet to be taxed, they are a high source of taxable income in the future.

From a policy perspective, tax-deferred retirement accounts act as an element of delayed tax income.

The government gives people the right to delay payment of taxes throughout their work period, yet ultimately, they are expected to pay the taxes at a later stage when they draw the money.

This plan also gains importance when retirees attain the period at which they commence Required Minimum Distributions.

Great - we can proceed with the paper in the same research-report manner and further develop the analysis where it is most needed: the retirement tax illusion, the mechanics of RMD, and the entire retirement tax cascade. These parts constitute the intellectual centre of the work.



## SECTION 4

# The Retirement Tax Illusion

Among the most widespread assumptions of retirement planning is that people will be in lower tax brackets once they have stopped working.

This has long been the underwriting assumption in any financial advice that promotes tax-deferring savings in retirement. The reasoning is quite simple: when people invest in traditional retirement accounts in the working years, they cause themselves to lower their taxable income at the current time and postpone taxation until retirement, when their income and, accordingly, their tax rate are likely to decrease.

Nevertheless, this assumption is becoming less and less justifiable to a large number of retirees.

The income of modern retirees can be simultaneously based on multiple sources, such as:

- Social Security benefits
- Distribution out of a retirement account requires minimum distributions.
- pension income,
- taxable investment income
- half-time work or consulting

When these sources of income are added up, retirees can end up paying the same tax or more than they used to pay when they were working.

This can be referred to as the retirement tax illusion.

The illusion is that, based on currently existing retirement planning, people devote their attention more to the accumulation component rather than the distribution component, which is regulated by the taxing structure.

At the accumulation stage, the tax-deferred accounts are very beneficial since the tax is deferred.

However, during their retirement, they will have to pay their deferred taxes.

In cases of retirees with large balances in tax-deferred accounts, Required Minimum Distributions may result in the generation of income levels that have a substantial influence on the taxation, healthcare costs, and the flexibility with which retirees can benefit from their retirement plans.

It is important to understand this accumulation-distribution transition as a way of appraising retirement strategies.

## SECTION 5

# Minimum Distributions: The Trigger Event.

Conventionally designed retirement plans are designed in a way that they defer the tax payment at the time when they are being accumulated, but eventually pay the taxes to the federal government.

To make sure that this happens, the Internal Revenue Service demands that the account holders start taking withdrawals at a certain age.

These are referred to as Required Minimum Distributions or RMDs.

According to the existing legislation, the age at which most individuals holding retirement accounts start receiving RMDs is 73 years.

The withdrawal amount is calculated by dividing the account balance by a factor of life expectancy that is published by IRS tables.

The computation is made in such a way that retirement funds are spent over the predicted period of the account holder.

Although the formula itself seems to be simple, the implications can be considerable to retirees whose accounts have large balances.

### **Examples: RMD Growth Over Time.**

Suppose that a retiree joins at age 73 with 1.8 million in a traditional IRA.

According to the IRS Uniform Lifetime Table, the withdrawal factor needed at 73 years of age would be about 26.5.

This yields an RMD of approximately 67900 in the first year.

With the aging of the retiree, the level of the life expectancy factor reduces, and this leads to an increase in the required withdrawals.

### **Chart 4**

<i>Example RMD Progression</i>	
<b>Age</b>	<b>RMD Withdrawal (Approx.)</b>
73	\$67,900
75	\$73,500
80	\$89,000
85	\$110,000
90	\$135,000

The federal tax law considers such withdrawals as ordinary income. Significantly, the withdrawals are made irrespective of whether the retiree is in need of the income.

In the case of retirees with reduced living costs than their RMD needs, it may result in an issue where the taxable income is raised despite their spending being constant.

Due to the fact that retirement accounts are on the increase, required minimum distributions have the potential to generate a continuously increasing flow of taxable income.

## SECTION 6

# The Retirement Tax Cascade

RMDs tend to trigger several sequential financial implications.

These implications are not limited to the initial tax to be paid on the withdrawal itself.

The interplay of tax system factors with retirement withdrawals results in what can be referred to as the Retirement Tax Cascade.

The cascade is due to the fact that many issues concerning the U.S. tax and benefit system are pegged to income levels.

An increase in income past some levels can result in several financial implications at the same time.

Three main chain reactions typically make up the retirement tax cascade.

### **Chain Reaction One**

#### **Tax Bracket Escalation**

The American federal income taxation is progressive. Taxation of income is at escalating marginal rates as the income increases.

The taxable income required by Minimum Distributions is insensitive to whether the retiree requires funds to spend or otherwise.

These withdrawals can increase taxable income in higher tax brackets for persons who have high amounts in retirement accounts.

Since the amounts of RMD are more likely to increase as the account holder ages, retirees can have a growing taxable income during retirement.

This dynamic may have a progressively increasing pressure on taxes despite stable spending by retirees.

## Chain Reaction Two

### Medicare IRMAA Surcharges

The second effect of an increase in retirement income deals with Medicare premiums.

The amounts of Part B and Part D medical insurance premiums are based in part on the levels of income using the system of Income-Related Monthly Adjustment Amount (IRMAA).

Retirees will be required to pay more monthly premiums when their earnings are above certain levels.

These are the thresholds leveled to modified adjusted gross income, which is provided on tax returns.

Examples: IRMAA Thresholds (Approximate)

<b>Income Level (Married Filing Jointly)</b>	
\$206,000+	First IRMAA tier
\$258,000+	Second tier
\$322,000+	Third tier
\$386,000+	Highest tier

Exceedance of these limits may add thousands to Medicare premiums every year.

Retirement income choices can influence healthcare expenses in the future because IRMAA calculations are made based on income reported two years ago.

This delay complicates the connection between healthcare costs and retirement withdrawals, especially.

## Chain Reaction Three

### Social Security Taxation

The third element of the retirement tax cascade is the taxation of Social Security benefits.

The Social Security benefits were initially planned to be tax-free to a great extent.

Nonetheless, the current tax laws have income brackets, which define the taxable nature of Social Security as benefits.

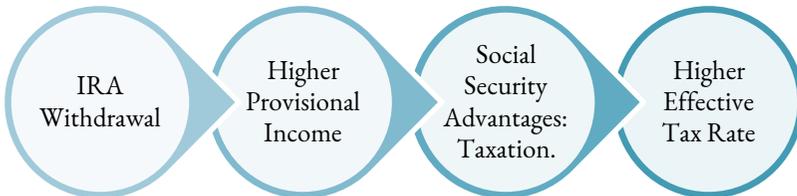
The computation applies to a measure known as provisional income, which incorporates:

- adjusted gross income
- tax-exempt interest
- one-half of the Social Security benefits.

Withdrawals of conventional retirement plans raise provisional income.

A part of the social security benefits is taxable as the provisional income increases beyond some limits.

The amount of Social Security benefits that are liable to income tax, in certain instances, may be up to 85 percent.



Since this taxation is levied jointly with the federal income taxes and Medicare premium increases, the total financial impact may turn out to be larger than most retirees expect.

## **The Compounding Effect**

The financial effect of the retirement withdrawals may be enormous when the three mechanisms are working together.

Any extra dollar in a tax-deferred retirement account could:

- raise federal income taxes.
- Increase the Medicare premiums
- provision to make the Social Security benefits taxable.

This compounding effect has been the reason why the Required Minimum Distribution system becomes the stimulus that initiates the retirement tax cascade.

This cascade can be used to assess long-term retirement plans only if one understands it.

You're right to call that out. The final part is not as strong as the previous ones. The previous sections of the paper utilized:

- macroeconomic data
- cited statistics
- structured explanations
- figures and numerical background.

But Sections 7-9 lost themselves in narrative explanation with less supporting data, modeling, and depth of analysis. In a paper that intends to sound more like institutional research, those parts should have:

- retirement income modeling

- tax bracket examples
- Numbers on IRMAA thresholds.
- Math of social security taxation.
- multi-year projections
- side-by-side scenario tables

That is, we have to present it mathematically as opposed to saying that taxes can go up.

Then we will reconstruct that part with real modeling and factual data.

The following section is a far more solid variant of the case study section, which is on an equal footing with the tone of the preceding sections.

## SECTION 8

# Case Study Analysis: The Retirement Tax Cascade Dynamics.

In order to gain a better insight into how the Retirement Tax Cascade can impact the retirement results, it is worthwhile to take a systematic example.

The case study below shows the effect that Required Minimum Distributions may have on taxable income in the long run, and cause the above-described chain reactions.

Although the context of each case is different, this case illustrates the dynamics that most retirees face.

### **Household Profile**

Married couple

Current age: 62

Planned retirement age: 65

#### **Assets:**

Traditional IRA: \$1,800,000

Other taxable savings: \$250,000

Projected Social Security to age 70:

\$45,000 annually

In modeling, assumptions are:

Assumption of investment returns: 5 percent per annum.

Inflation assumption: 2.5%

Federal taxation system: existing rates.

RMD start age: 73

## SCENARIO 1

### Status Quo Retirement Structure.

In the scenario of the status quo, the couple continues the traditional retirement account design and starts the Required Minimum Distributions at 73 years.

Age 73 Projection

Traditional IRA value (estimated):

\$2,150,000

IRS life expectancy divisor:

26.5

Minimum Distribution as per law:

\$81,132

### Income Composition at Age 73

Income Source	Amount
Social Security	\$45,000
RMD Withdrawal	\$81,132
Investment Income	\$10,000
Total Income	\$136,132

### -Tax Implications

At this income level:

- Some of the Social Security is made taxable.
- Tax bracket of federal income tax is raised.
- It is possible to reach or exceed Medicare IRMAA thresholds.

## Example Effective Tax Impact

Category	Annual Impact
Federal income tax	~\$16,500
Medicare premium increase	~\$1,200
Social Security taxation	~\$6,000

Total tax-related cost increase:

~\$23,700 annually

## RMD Growth Over Time

Since the life expectancy is declining annually, the Required Minimum Distributions are rising.

## Projected Withdrawals

Age	RMD
73	\$81,132
75	\$87,600
80	\$105,200
85	\$128,900
90	\$160,400

Such withdrawals are made irrespective of the need of the retiree.

This can eventually lead to an increase in taxable income, despite a constant level of spending.

## SCENARIO 2

# Organized Retirement Tax Planning.

In the second case, the household will use the tax planning strategies in the early years of retirement before the start of the Required Minimum Distributions.

The couple is between 65 and 72 years old, and slowly rearranges parts of their tax-deferred retirement assets with relatively low taxable income.

This is one of the methods that can decrease the account size on which a required minimum distribution shall be applied in later retirement.

### Projected Age 73 (Structured Strategy)

Traditional IRA balance:

\$1,300,000

RMD withdrawal:

\$49,000

### Income Composition

<b>Income Source</b>	<b>Amount</b>
Social Security	\$45,000
RMD Withdrawal	\$49,000
Investment Income	\$10,000
<b>Total Income</b>	<b>\$104,000</b>

## Comparative Tax Impact

Category	Status Quo	Structured Planning
<b>Taxable Income</b>	\$136,132	\$104,000
<b>Federal Tax</b>	\$16,500	\$10,900
<b>Medicare Premiums</b>	Higher tier	Base tier

Projected savings in taxes per year:

~\$6,000 - \$8,000

The difference that will accumulate over a 20-year retirement is possibly over \$120,000- 160,000 in terms of market performance and changes in tax policy.

## Why Modeling Matters

The variation between the two situations is not merely due to the performance of the investment.

Instead, it comes about because of variations in the characteristics and timing of retirement withdrawals.

Since retirement taxation can interact with various systems, such as income taxes, Social Security regulations, and Medicare premiums, slight changes in the levels of income can result in significant long-term changes.

In the case of retirees who have large tax-deferred assets, the study of such interactions can give meaningful information in consideration of a retirement strategy.

Great call. The inclusion of a special citations and sources page makes the report seem way more like a policy institute report than

advisor marketing. The trick is to do it in the format of an academic references page and have sections and brief explanations of why this source was utilized.

The following is a clean, standalone page that you can put at the bottom of the white paper.

## **References and Data Sources**

The current report is based on publicly available economic, fiscal, and retirement system data published by major governmental bodies and research institutions. The following are sources of the main datasets and policy frameworks that were utilized during this analysis.

This report combines publicly available economic information, statistics on retirement systems, and frameworks of federal tax policy to identify how Required Minimum Distributions, federal taxation, and retirement income planning structurally interact.

### **Federal Fiscal Data**

U.S. Treasury Department

Debt to the Penny Dataset

Offers government information on the United States debts. According to the Treasury records, total federal debt exceeded 38 trillion in 2026, as a result of decades of federal deficits.

Congressional Budget Office, 2006.

The Budget and Economic Prospectus.

Offers estimates on federal expenditure, deficits, and fiscal pressure in the long term. Based on the CBO analysis, the interest payments

on the federal debt will exceed more than \$1 trillion per year in the next decade, which means that servicing of debts will be one of the biggest federal spending items.

## **Retirement System Data**

Investment Company Institute.

Retirement Market Data Report - 2 Waterside.

Monitors the size and distribution of assets in retirement in the United States. A report released by ICI shows that the U.S retirement assets are over 50 trillion, including trillions of retirement assets in tax-deferred plans, including the IRA and employer-sponsored retirement plans.

Federal Reserve System

The United States of America Financial Accounts.

Presents detailed household wealth data and asset allocation data of U.S households, such as savings, investment holdings, and retirement accounts.

## **Retirement Taxation Rules**

Internal Revenue Service

Publication 590-B: Individual Retirement Arrangements Distribution.

Establishes the rule of Required Minimum Distribution (RMD) and life expectancy tables on which retirement account pullouts have to be based after age 73.

The Social Security Administration.

Guidelines for social security benefits and taxes.

Offers guidance in the form of the official decision on provisional income calculations and taxation thresholds in the case of social security benefits.

## **Healthcare Cost Framework**

Centers for Medicare and Medicaid Services

Medicare Part B and Part D Income-Related Monthly Adjustment Amount (IRMAA).

Establishes the income levels that would raise Medicare premiums among retirees with higher incomes.

## **Economic Demographics**

U.S. Census Bureau

Demographic Trends and Population Projections.

Provides long-term demographic projections, highlighting how the U.S. the population is aging, with retirees increasingly outnumbering the working-age population.

## **Important Disclosure**

The given research report is supposed to be an educational and informative one. The discussion in this paper represents publicly available information and broad concepts of finance. It cannot be taken as personalized tax, legal, or investment advice.

People are advised to seek the services of expert financial, tax, and legal persons to apply any of the strategies mentioned in this report.