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MEDICARE PREMIUM ANALYSIS: PARTS B & D

If you do not fall into Medicare's lowest income bracket for determining premiums, you could be paying more than 3 times the amount someone else is to get the same coverage they do. (REWORD)

Premium Pricing

Medicare enrollees with modified adjusted gross income above a certain amount may pay an income-related monthly adjustment amount.

MAGI In 2015			Monthly payment for Medicare Part B in 2017
File individual tax return	File joint tax return	File married and separate tax return	
$85,000 or less	$170,000 or less	$85,000 or less	$134
Above $85,000 up to $107,000	Above $170,000 up to $214,000	Not applicable	$187.50
Above $107,000 up to $160,000	Above $214,000 up to $320,000	Not applicable	$267.90
Above $160,000 up to $214,000	Above $320,000 up to $428,000	Above $85,000 and up to $129,000	$348.30
Above $214,000	Above $428,000	Above $129,000	$428.60

Source: Medicare.gov

IRMAA

The reason some people pay more than others for the same coverage is the "Income-Related Monthly Adjustment Amount" ("IRMAA"). This concept provides that if you are on Medicare and your tax-return shows a greater income than the IRS's lowest income bracket of $85,000 (or $170,000 for married couples filing jointly), your Medicare premiums will be "adjusted" upwards according to the higher bracket you fall in. As seen in the chart above, someone taking income greater than 214,000 would have an IRMAA that increased their premium almost 325%! Prescription drug coverage under Medicare Part D will also raise with a higher IRMAA. The additional premium amounts will continue to increase.

Two-Year Lag

One concept that can increase the amount of additional premiums that high-income individuals pay is the "Two-Year Lag" ("Lag"). The Lag happens because the enrollee would receive income during 2017 and report that income in the 2018 tax return, which determines Part B premiums for the 2019. This can put you in a position to pay more in premiums for two years than your current income during those years would otherwise dictate, such as the two years following your retirement where your income in retirement is substantially less that what you were making while employed. However, there are ways to both plan ahead using IRMAA reduction strategies and/or request an appeal of the current IRMAA to reduce the current year's payments due to one of the IRS's acceptable reasons.

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REACTIVE IRMAA REDUCTION STRATEGIES

The Appeal

There are several "Acceptable" changes to your life that will qualify you for an immediate IRMAA reduction if you file an appeal with the Social Security Administration. Some common changes include:

- *Work-stoppage or Substantial Work-reduction*
- *Marriage, Divorce, Annulment*
- *Death of a Spouse*
- *Loss of Income-producing property*
- *Loss of Pension Income or Loss of an Employer-Settlement Payment*

Under one or more of these changes, you can appeal your current year's IRMAA by either calling the SSA office or going in personally to present them with evidence of the change. It is important to note that not all income-reductions will qualify you to appeal your current IRMAA. (e.g. appealing the year after there was a large option exercise or sale of a capital asset)

PROACTIVE IRMAA REDUCTION STRATEGIES

Roth Conversions

Because a reduction in taxable income will equate to a reduction in IRMAA, converting IRA assets to Roth IRA assets over a number of years in tax-efficient amounts will allow you to reduce the taxable income you take in retirement. This strategy will allow you to "receive" taxable amounts from your IRA now, and put it into your Roth IRA now, so that you will not be taxed again on this money during retirement as you need to withdraw it from the Roth IRA account. This can be particularly useful to help control your taxable RMDs.

Monitor Year-End Distributions

Some funds in which Medicare enrollees may be invested could produce year-end distributions, such as short-term gains. In this scenario, an analysis of potential taxable gains could demand one of two choices. First, the distribution by the investment is smaller than the gains from selling the fund. This would demand that you remain in the fund to realize the lowest possible taxable income by taking the distribution. Second, if the distribution amount would produce a greater tax burden than the gains from a sale of the investment, selling the investment before the gains are distributed would be the best strategy. Trading costs and other factors may also play a significant role in this strategy.

Bunching Deductions

Similarly to monitoring the year-end distributions, you can "bunch" your itemized deductions in order to increase them every other year. This works when the itemized deduction amount is just below the standardized deduction amount so you can alternate years in which you choose itemization. Straddling is a similar concept where year-end decisions are made as to how/when to take income tax-efficiently.