Medicare Surcharge Planning

Americans generally qualify for Medicare at age 65, yet it is a complex benefit to understand. Otherwise capable adults are often confused by all of Medicare's parts and what they will cost. One of the thorniest issues to understand is the potential for surcharges on Part B and D if a recipient has significant income, partly because they "look back" at income from two years ago. Below, I offer an overview of the surcharge mechanics – and how you can lower your exposure to Medicare surcharges.

Part B and Part D premiums: Medicare charges premiums to participants in Medicare Part B and Part D to cover services such as doctor visits and prescription drugs. The basic Part B premium is $134 per month, while the Part D premium varies. Most Medicare enrollees are familiar with the process, but many are concerned about their increased premiums and wonder whether the costs could rise in the future.

Health care costs headed north: There is no denying that health care costs are on the rise and more than likely will continue to do so. The Baby Boomer generation has shifted the economy during every phase of their life span; with roughly 10,000 per day turning retirement age for the next 12 years, demand for health care services will only increase.

When surcharges kick in: On top of the increased demand for (and cost of) healthcare services, many retirees are struggling with increased premiums as well. As noted, the Medicare Part B monthly premium is $134 per month. But if your modified adjusted gross income (adjusted gross income plus tax-exempt interest income; below, "MAGI") from two years ago is above $85,000 on a single return or $170,000 filing jointly, your premium will be subject to an additional surcharge of $53.50 per month for Part B and $13.00 for Part D – a 50% increase. These charges are known as an "Income-Related Monthly Adjustment Amount," or IRMAA.

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So how can you minimize IRMAAs? There is not a lot you can do for the current year, but you can start planning for two years from now:

- **Consider planning opportunities:** First, meet with a financial planner and accountant to see how close you are to the MAGI threshold amounts. See whether there are any tax return strategies available to reduce your realized income. With the 2017 Tax Cuts and Jobs Act, standard deductions were increased, while personal exemptions were eliminated. There may be some planning opportunities available for you that were not previously.
- **Reduce future taxable income with a Roth conversion:** If you are still a few years away from 65, determine whether a Roth conversion from your qualified retirement accounts or traditional IRA make sense to reduce future taxable income. Roth IRA Distributions can be tax-free, and reduce your MAGI when determining IRMAA surcharges. This strategy should be most beneficial if you are in your early 60s.
- **Be charitable:** A number of our clients donate funds to their churches or other non-profit organizations. If you are at least 70½ and have sufficient funds in your IRA, you can transfer up to $100,000 annually to a charity tax-free directly from your IRA. These distributions are known as "qualified charitable distributions" and get excluded from MAGI. Be careful, though: The donation must go directly from the IRA to the charity. If you instead take a required minimum distribution (RMD) first and then donate the funds to a charity, you can still claim the charitable deduction. But your RMD will be included in MAGI and could subject you to Medicare Part B and Part D surcharges. These charitable distributions qualify only if they come from IRAs, and not from company retirement plans like 401(k)s.

Depending on your circumstances, you may have other planning strategies available as well. It may make sense to review your investment accounts and decide whether either (a) defer or accelerate gains or (b) do some "tax loss harvesting" (selling securities that have experienced a loss to avoid both gains and income).

Our team is dedicated to serving. If you have any questions about how you might be affected by Medicare surcharges or to plan around them, please give us a call.

Until next time,

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