

DAVID M. EDWARDS & ASSOCIATES FINANCIAL SERVICES, INC.

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Life and Health, Disability, Long Term Care, Annuities, IRAs and Rollovers, Pension and Retirement Plans

Strategies to Reduce Medicare Premiums

One in six Americans receive basic healthcare coverage under Medicare, but not all Medicare beneficiaries pay the same monthly premiums for equal benefits. Individuals may face surcharges on top of their premiums for Part B, covering most medical costs, and Part D, for prescription drugs. High-income beneficiaries, individuals who make over \$85,000 and couples who make over \$170,000, can face Income-Related Monthly Adjustment Amount, or IRMAA, surcharges. Depending on income, the IRMAA surcharges can more than double the monthly costs of both Medicare Part B and Part D coverage. Starting this year, it now takes far less income for a household to reach the top IRMAA tiers.



Medicare beneficiaries are categorized into tiers based upon the modified adjusted gross income (MAGI) reported on their federal income tax returns. Depending upon a person's filing status, a beneficiary may be categorized into one of five surcharge levels based upon individual or joint MAGI. Typically, the income tier is determined by the MAGI of two years prior, because the Social Security Administration uses the most recent tax return on file. In 2018 taxpayers will file returns based upon 2017 income, so 2019 premiums will be determined by the reported 2017 income.

There are strategies that individuals may consider to reduce their MAGI, and subsequently Medicare Part B and Part D premiums in present and future years.

- 5 **Maximize contributions.** Maximizing contributions to retirement accounts like IRAs and health savings accounts can lower an individual's taxable income immediately while providing potentially tax exempt growth and distributions in the future.
- 5 **Consider a life insurance policy.** A permanent life insurance policy can maintain a cash value that earns tax advantaged interest. Policy holders can take tax exempt distributions, providing an option for retirement income that will not increase a taxpayer's MAGI.
- 5 **Make charitable gifts.** After age 70½, IRA account owners must take minimum required distributions, which are calculated from the account balance. Distributions from traditional IRAs are taxable as income, thus resulting in a higher MAGI. An individual may consider a qualified charitable distribution from his or her IRA to both fulfill the annual distribution requirement and avoid income tax on the distribution.

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- 5 **Identify sources of deferred retirement income.** Tax-deferred vehicles such as deferred-income annuities allow investors to spread out the timing of taxable income over years. This strategy may allow retirees to maintain modified adjustable gross income below an income threshold and avoid paying a higher monthly surcharge.

- 5 **Consider a Roth conversion.** An existing IRA can be partially converted into a Roth IRA which will provide tax exempt income when distributed. This conversion will result in a high MAGI in the present year, but less taxable income in the years that Roth distributions are taken. Take note that the tax reform signed into law in December 2017 changed the rules regarding IRA characterizations. Previously, a Roth conversion could be re-characterized, or ‘undone,’ if the tax consequences were unfavorable. Starting in 2018, if a Roth conversion is completed the transaction is permanent.

- 5 **File with the Social Security Administration.** The SSA provides a form for Medicare beneficiaries who no longer have high household income due to retirement or major life event, but their previous tax returns place them into higher IRMAA surcharge tiers. The SSA-44 requires taxpayers to declare one of the qualifying life-changing events such as work reduction or retirement, or death of spouse. Filers must provide proof of event along with their current estimated or actual income. The SSA will review the submitted form and documentation, and adjust the IRMAA accordingly.

Planning ahead may help avoid surcharges applied to monthly Medicare premiums. To further discuss the retirement income strategies that will benefit you the most, please call (717) 533-6243 to schedule an appointment.