

Advanced Medicare Premium Strategies

When it comes to Medicare premiums, all is not equal. In 2017, the standard premium for Medicare Part B is \$134 a month. Most enrollees pay for Part B via reductions in their Social Security benefits, and the overall average monthly fee is \$109. Yet some seniors pay almost quadruple that much \$428.60 a month (\$957.20 for married couples) – for the exact same insurance.

Seniors who pay more for Part B also pay Medicare as much as \$76 per month extra for prescription drug coverage, known as Part D.

This is called the IRMAA (the income-related monthly adjustment amount). The IRMAA is added to your standard premium if you have a Modified Adjusted Gross Income (MAGI) over \$85,000 or \$170,000 on joint returns. The IRMAA amount increases as MAGI hits certain thresholds. It is important to note that the MAGI calculation for Medicare includes tax-exempt interest income.

If your yearly income in 2015 (for what you pay in 2017) was			You pay each month (in 2017)
File individual tax return	File joint tax return	File married & 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

Those MAGI thresholds won't increase with inflation until 2020. The Medicare trustees' 2016 report projects that Part B monthly premiums, which have risen from a maximum of \$161.40 in 2007 to \$428.60 today, will continue to climb, reaching as much as \$564 in 2025.

THE TWO-YEAR HITCH

One key is to realize that there is a two-year lag between the income observed by Medicare and the resulting payments. Income that is received in 2017 will be reported on a tax return filed in 2018, which determines Part B premiums due in 2019.

When seniors retire, they may pay the higher premium for two more years until that income history drops off their records. In order to reduce Part B premiums sooner than two years, seniors may appeal their higher IRMAA premium immediately upon retirement, if their income has dropped dramatically. One of the things that could qualify Medicare recipients for an IRMAA reduction is that they have stopped working.

Also listed by the federal government as acceptable reasons for Part B relief are marriage, divorce, annulment, death of a spouse, work reduction, loss of income-producing property, loss of pension income, and an employer settlement payment. Here is a link to the appeal form: [Medicare Income-Related Monthly Adjustment Amount, Life-Changing Event, Form SSA-44](#).

It is important to note that one reason not listed on Form SSA-44 is a one-time increase in income. A typical one time increase may include a sale of property or stock. A sale of a capital asset may impact Medicare premiums in the future.

The list on the form excludes other reasons that could bump up two-year-ago income. It is not uncommon to have an outlier year of high income, due to stock option exercises or a sale of a capital asset (ex. stock or real estate). Then the higher Medicare premium is just another cost of having that higher income. A million-dollar profit on a real estate sale could trigger thousands of extra dollars in Part B premiums two years hence, in addition to other taxes generated by the deal.

WHEN IRMAA PERSISTS

For other Medicare enrollees, a high MAGI is not a one-time occurrence. If that is the case, Part B planning can become part of ongoing tax planning. Each individual or family may have a unique income strategy. There are times that paying taxes in advance may hold down the increase in IRMAA. Two prime candidates on timing issues are when to sell capital assets and potentially reducing the Required Minimum Distribution (RMD) from a retirement plan. One approach to reducing RMDs is to gradually transition dollars from a Traditional IRA to a Roth IRA. The increase in income taxes generated may be less than the increase in on-going IRMAA

The important part is to understand what drives the premium calculation and to pay attention to income streams that you may have some level of control.