EMPYRION™
WEALTH MANAGEMENT

LOCAL FIRM, NATIONAL PROMINENCE

Issue #10 • Volume 13

The Monthly E-Newsletter

Kimberly Foss, CFP®, CPWA®
PRESIDENT
Empyrion Wealth Management

October 3, 2017

Advance Planning Can Help Avoid Unpleasant Surprises with Medicare Premiums

Many approaching retirement look forward to the day when they can sign up for coverage with Medicare. But what some may not realize is that Medicare includes a provision known as the income-related monthly adjustment amount (IRMAA). The acronym may make this sound like a kind, elderly aunt, but IRMAA actually increases the cost of certain types of coverage under Medicare, based on the recipient's taxable income. In other words, the more you make in retirement, the more IRMAA takes for the privilege of maintaining your Medicare coverage. Not kind at all! And yet, there are strategies you can use, if not to eliminate IRMAA's unpleasant effects, at least to anticipate and decrease them.

Most of us know that Medicare consists of multiple types of coverage, or "parts." Medicare Part A covers most of the expenses incurred by hospital care, including skilled nursing, hospice, and certain types of home health care. Medicare Part B covers expenses such as visits to your physician, outpatient care, medical supplies, and preventive services. Medicare Part C, which is administered by private insurers under contract with Medicare, actually delivers the benefits provided under Parts A and B. Often referred to as "Medicare Advantage Plans," Part C plans may also include certain prescription drug coverage and Medicare Medical Savings Account Plans, as well as other services that can be obtained by paying extra premiums in addition to your Part B premium. Services provided through Medicare Part C are not paid for through Original Medicare (Parts A and B). Also, you must have Parts A and B to enroll in a Part C plan. Medicare Part D covers prescription drug coverage. So basically, your choices are to enroll in Medicare Parts A and B, or obtain those same coverages through a Medicare Advantage Plan (Part C). If your Part C plan doesn't include prescription drug coverage, then you'll also need to sign up for Part D (for more information, visit www.medicare.gov.

IRMAA applies to Parts B and D. Basically, for individuals filing a single return and earning $85,000 or less annually, Part B costs $134/month in 2017. Couples filing jointly can make up to $170,000 and still pay the lowest amount. But once you get above these amounts for single filers and joint filers, the monthly premiums for Part B rise to as much as $428.60 per month (in 2017) for single filers making more than $214,000 and couples making more than $428,000. In addition, Part D premiums can go up by as much as $76 per month.

This can be especially problematic when you first retire, because IRMAA is calculated by using income information that basically has a two-year lag time. For example, let's say that 2017 is the last year you will work before retiring. You report your income on your 2017 tax return, which is filed in 2018. That information determines your Part B premiums for 2019. So, when you are two years into retirement, IRMAA figures your Medicare premiums based on what is likely your highest-earning year—probably much more than you are making in retirement!

But there are measures you can take. One is the appeal process through Medicare. Certain life events—such as cessation of employment—may qualify you for a reduction in your premiums. So, if you appeal your IRMAA premium immediately upon retirement (assuming your income will be reduced), you may qualify for a reduction in premiums. Other qualifying life events include marriage, divorce, death of a spouse, and loss of income-producing property. Detailed information is available on Social Security Administration Form SSA-44.

But for some retirees, high levels of income persist. Just as with income taxes, the more you earn, the more IRMAA charges you. Those with consistently high modified adjusted gross income (MAGI) may need to take advantage of other means to limit IRMAA's impact on their monthly cash flow. Given the fact that IRMAA is periodically adjusted for inflation, estimates are that the maximum could increase from its present level to as much as $564 per month by 2025. Clearly, financial planning should include strategies that take into account the amount and timing of your taxable income.

One useful idea may involve transferring retirement savings from regular to Roth IRAs. Because Roth IRAs, unlike regular IRAs, have no mandatory minimum distribution requirements, they may allow high-income retirees who don't really need the income from their retirement accounts to "park" money that is not needed for current income, decreasing the amount IRMAA uses to calculate their premiums.

You may also want to defer year-end distributions of income, where possible. If you can defer a payment from December to the following January, you will have that much less MAGI for IRMAA to target. This can also apply to distributions from mutual funds—especially those that distribute short-term gains at year-end. Depending on the transaction costs, it could make sense to liquidate the fund early, prior to the distribution date. A qualified financial advisor can help you determine what offers you the best tax advantage: holding the fund and accepting the gain, or selling early to avoid or defer the distribution.

The timing of deductions should also be considered. This is very much related to the tax accounting axiom, “Defer income and accelerate expenses.” If you can pay a deductible expense this year instead of delaying it until next year, you may be able to decrease your MAGI and reduce the toll IRMAA can impose on your Medicare premiums.

Your financial advisor can help you analyze your income streams in order to take maximum advantage of timing and other factors that you can control. The more you can be in the driver’s seat of taxable income in retirement, the less gas IRMAA will suck out of your tank.

Stay Diversified, Stay the Course!

Kimberly Foss, CFP®, CPWA®
Empyrion Wealth Management, Inc.
www.empyrionwealth.com
(916) 786-7626
(800) 787-7634
