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How to Avoid Additional Medicare Premiums *(Income Related Monthly Adjustment Amount (i.e., I.R.M.A.A.))?*

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In this presentation you will learn how to avoid IRMAA tax two different ways

– 1) When client retires

– 2) Ongoing… manage Adjusted Gross Income (AGI) to stay below a "step" (see slide 6 table)

What’s IRMAA (part 1 of 2)?

- Part B Medicare is commonly called “medical insurance”
- Part D Medicare is commonly called “prescription drug insurance”

- Increase in premiums for both Medicare Part B and Part D are named Income Related Monthly Adjustment Amounts (IRMAA)

What's IRMAA (part 2 of 2)?

- IRMAA is a TAX!
- Why is it a TAX?

- It is based on 2 Form 1040 (U.S. individual income tax return) amounts:

  Adjusted Gross Income (AGI)*

+ Tax-exempt (muni bond) Interest

* - AGI for typical retiree is total income under tax law

1) How to Avoid Paying Higher Medicare Premiums the First Two Years after Retiring at age 65 or older

- The amount of additional—higher than base amounts—Medicare premiums (hereafter, *IRMAA Tax*) generally depends on Income from tax return two years prior.
  - "2020 AGI + TEI" determines 202**2** IRMAA "Tax"

- Form SSA-44 can be filed with the Social Security Administration, which requests that a more recent year's income (e.g., first year of retirement (i.e., $0 Salary) be used to determine additional Medicare premiums (i.e., IRMAA Tax)!

Form SSA-44 Mechanics

- During November, Annual Verification Notice received from the SSA says if they have to pay IRMAA next year.
- Form SSA-44 can be filed if “life-changing event” and total income would drop at least one step
- “Life-changing event” includes work reduction or work stoppage.
- File a separate form for both spouses (if married and filing a joint tax return), since IRMAA tax is charged on both spouses on Medicare.
    - If only one spouse working and then retired, the “life-changing event” for the other spouse can be the working spouse’s retirement.

2022 Medicare Parts B & D Additional Premiums by AGI + TEI

Single tax return	Married filing jointly tax return	Monthly Additional Premiums	Annual Additional Premiums
$91,000 or less	$182,000 or less		
above $91,000 up to $114,000	above $182,000 up to $228,000	$80	$965
above $114,000 up to $142,000	above $228,000 up to $284,000	$202	$2,426
above $142,000 up to $170,000	above $284,000 up to $340,000	$324	$3,887
above $170,000 and less than $500,000	above $340,000 and less than $750,000	$446	$5,346
$500,000 or above	$750,000 and above	$486	$5,833

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Note that $1 More AGI + TEI triggers higher IRMAA Tax!

Example: If Single and 2020's AGI + TEI was $91,00***1***, that last $1 had a Marginal IRMAA Tax Rate of 96,500%!

- In other words, if 2020's AGI + TEI was $91,000 (or less), no IRMAA Tax is paid.
- When AGI + TEI moves $1 above a threshold (i.e., step), IRMAA Tax is a large amount
  - $965 for the first step
  - $1,461 for the 2nd step ($2,426 − $965)…
- IRMAA Tax is ***doubled*** if married filing jointly!

How Much IRMAA Tax Can be Avoided?

– After Form SSA-44 is filed, total additional Medicare premiums avoided for the first two years of retirement can range from:

- Unmarried Retiree on Medicare:

approximately $1,930 to $10,700.

- Married Retirees - both on Medicare: approximately $3,860 to $21,400.

Summary of Planning Opportunity
1) Save IRMAA Tax when client retires

- In the first two years of retirement, “AGI + TEI” typically decreases significantly compared with “AGI + TEI” two years prior when the client was employed

- If the client is going to have to pay IRMAA Tax the first 2 years after retiring, a reduction can often be achieved by filing Form SSA-44 with the S.S.A.

2) Annual planning opportunity

– Financial planners can add value (i.e., "Tax Alpha") by assisting a client in planning to keep "AGI + Tax exempt interest" each year from being in a higher IRMAA threshold.

– This will reduce the IRMAA tax (i.e., additional Medicare Parts B and D premiums) paid two years later.

How to Keep AGI + TEI below an IRMAA tax step (i.e., threshold)?

- Determine spending needs for the year.
- Determine tax-efficient “distributions / withdrawals / sales” early in the year
- If it puts client near but under a threshold, do nothing
- If it is going to put the client partially above an IRMAA tax threshold, do more of the following 2 strategies to reduce AGI and IRMAA Tax:
    - Roth retirement account distributions
    - Qualified Health Savings Account distributions

What if your client has no Health Savings Accounts and no Roth retirement accounts?

	2020 or 2021	2022 or 2023
Salary	$170,946	
IRA distributions		$66,000
Sale of stock (Long-term cap gain $22K)		$55,000
Total Cash Inflow	$170,946	$121,000
401(k) contribution	−$18,000	−$0
FICA taxes	−$11,332	−$0
Federal income tax	−$27,716	−$10,434
State income tax at 5%	−$7,020	−$3,688
Total Cash Outflow	−$64,068	−$14,122
After-Tax Cash Flow (ATCF)	$106,878	$106,878

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Takeaways from Table!

- If ALL of the client's money is NOT in tax-deferred (i.e., traditional) retirement accounts, there is often a lot you can do to help annually
- If you did not follow tax-efficient distribution strategy (e.g., finance all spending with IRA distributions OR finance all spending by selling stocks), client would pay a lot of IRMAA Tax over their remaining life.
  - Table's last column shows BOTH tax-efficient distribution strategy AND avoiding IRMAA tax!
    - Assumes 45% in taxable and 55% in IRAs

If subject to IRMAA Tax, Strategy for client who gives to charity that will reduce AGI

– Make Qualified Charitable Distributions (QCDs) (after age 70½) from IRAs

– These always reduce AGI

– NonQCD contributions to charity are Itemized Deductions which do <u>not</u> reduce AGI

Your annual planning can be disrupted by a certain type of investment in a taxable account!

- If IRMAA tax is an issue for a client, that is a good reason to NOT have taxable money invested in actively managed mutual funds—
  - they have uncertain capital gain distributions annually!
  - this can trigger IRMAA Tax even if you do good annual planning!

Thanks for your interest and questions

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