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IRMAA Medicare Premiums Are Costly

Guest IRA Expert



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In 2023, most enrollees will pay the base premium for Medicare Part B of \$164.90 per individual per month. This Part B coverage includes physician services and outpatient hospital services. However, some seniors will pay much more — up to \$560.50 per individual per month — for the same federal health insurance. Similarly, a surcharge of up to \$76.40 per individual per month is imposed on some seniors' 2023 Medicare Part D premiums, for prescription drugs.

These plus-sized premiums are called an income-related monthly adjusted amount, or IRMAA. The Social Security Administration (SSA) determines the size of a taxpayer's IRMAA by comparing their modified adjusted gross income (MAGI) from two years ago to the current IRMAA thresholds. MAGI is calculated by adding tax-exempt interest to a taxpayer's regular adjusted gross income (AGI). Seniors whose MAGI is even \$1 over a threshold are issued that threshold's IRMAA as their Medicare premiums.

For example, a single taxpayer who reported a 2021 MAGI of \$124,000

will face a Medicare IRMAA of \$329.70 per month for Part B in 2023. This taxpayer faces the full IRMAA for that threshold, even though an MAGI of \$124,000 is barely over the \$123,000 threshold. This is how a small mistake in a tax plan can be very costly to seniors.

Let's imagine, though, that this taxpayer recently retired, and MAGI has fallen sharply since 2021. Fortunately, IRMAA relief is possible with an acceptable request.

Being Proactive Pays Off

Enrollees who are issued an IRMAA will receive an Initial IRMAA Determination Notice from the SSA in the mail. These determination notices can be questioned through a reconsideration process, but being proactive and knowing the rules might help to avoid the initial determination entirely.

The SSA has defined seven life-changing events that can change how an IRMAA is calculated. The four most common of those events are getting married, getting divorced, the death of a spouse, and reducing or stopping work hours.

If one of these seven life-changing events affect a Medicare enrollee, he or she can proactively notify the SSA by using [Form SSA-44: "Medicare Income-Related Monthly Adjustment Amount - Life-Changing Event."](#) This form is filled out one per impacted person. So, even if only one spouse

experienced the precipitating event, joint filers can each submit an individual life-changing event form.

On this form, the impacted individual reports the type and date of the life-changing event in step 1, the MAGI from the year with the event in step 2, the following year's lower MAGI in step 3, and then also provides evidence of the event.

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According to the Code of Federal Regulations, the SSA uses more recent information than the two-year look back when it is available. For example, if the SSA has a life-changing event form that reports an estimated 2022 income, that income would be used to calculate new IRMAAs instead of a 2020 or 2021 tax return.

Applicants must be faithful and accurate in MAGI estimates, but they are not required to file a life-changing event form just because they have had a qualifying event. For instance, if a taxpayer expects a higher MAGI after a recent marriage, that taxpayer is not required to tell the SSA right away. Instead, when the SSA finds out via the two-year lookback, the IRMAA will naturally change.

Depending on when this form is filed, it is possible that the SSA could issue reimbursement for already paid IRMAA surcharges. It is also possible, if the estimates on the life-changing event form prove inaccurate, that the SSA can retroactively reissue an IRMAA.

Anticipating Lower Earnings

The most common life-changing event for an IRMAA comes from seniors who were working at age 63 but retired before age 65. In this scenario, being proactive and submitting a life-changing event form to the SSA helps to ensure a smooth and affordable enrollment into Medicare.

Unfortunately, there are some times when a Medicare enrollee projects future income to be substantially lower but does not have a qualifying life-changing event. For example, they may have sold an income-producing passive activity property, had an outlier IRA distribution, executed a Roth conversion, or realized capital gains.

The SSA has made it very clear that such one-time income will affect an enrollee's MAGI for that one affected year. Despite the SSA's policy, we have found that it never hurts to ask for an IRMAA exception.

Although a life-changing event form cannot be filled out for such income changes, Medicare enrollees still can schedule an interview with their local Social Security office to discuss their specific case. As long as the petitioner honestly presents current and future MAGI as well as the reason for the income change, the worst that can happen is the agent says no.

In my experience, many clients who have taken the time to schedule an in-person meeting to describe their one-time income changes have received an IRMAA

exception, even when the official SSA position would suggest a denial.

Time Taxable Income to Reduce IRMAAs

During Medicare-relevant years, seniors and their advisors should pay attention to the IRMAA thresholds when developing tax plans.

For IRMAA calculations, MAGI starts to matter two years before enrollment in Medicare. For most seniors, enrollment will be at age 65 and MAGI will start to matter at age 63.

Alternatively, if a life-changing event will occur during those two years, then the year after the life-changing event is the first year that matters. For example, if an enrollee retires at age 65, then with the appropriate filing of a life-changing event form, their age 66 estimated MAGI will determine their IRMAA.

Large retirement bonuses and benefits generally will not trigger IRMAA surcharges as their receipt is typically paired with the life-changing event of work stoppage. However, retirement packages that either continue for a few years after retirement or will not be received until a new tax year may require more specific planning.

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With each taxable benefit, the decision is often whether to clump the income into one year or stretch it out across several years. Clumping the income may push the recipient into higher income

brackets currently but provide protection from IRMAA surcharges in the future. Meanwhile, stretching the income out could protect a Medicare enrollee from both surcharge and tax bracket levels if the tax thresholds line up just right. Each situation is unique.

Using Roth Conversions, QCDs, and Asset Location

At our firm, we are proponents of systematic Roth conversion plans. Roth conversion targets are carefully chosen throughout the taxpayer's lifetime with the goal of building the highest after-tax net worth. Although prevailing wisdom generally recommends waiting until after retirement to use "lower brackets" to convert, our analysis suggests this wisdom is frequently wrong. After retirement, there are more taxes to consider as Medicare IRMAA thresholds and taxable Social Security breakpoints are added to the existing tax brackets.

Consequently, there is often a great benefit to minimizing taxable income in retirement. In addition, finishing most Roth conversions before enrolling in Medicare or pairing large Roth conversions with years containing life-changing events can help mitigate the cost of the Roth conversions and dampen the effect of future required minimum distributions (RMDs).

Indeed, RMDs can be difficult to plan around. Distribution amounts are fixed and, if they are large enough to push the taxpayer across an IRMAA threshold line, the associated IRMAA will kick in. This is one reason most people will benefit from a Roth conversion strategy. Converting systematically before retirement can help ensure that RMDs will not generate undesirable tax situations.

That being said, Medicare enrollees who are burdened

with large RMDs still have one planning tool to reduce the effect of those taxable distributions. After age 70½, they can use qualified charitable distributions (QCDs), which are retirement distributions paid directly from an IRA to a qualified charity. QCDs can satisfy RMDs while excluding those donations from AGI. In this way, QCDs can reduce MAGI and help bring enrollees below thresholds for Medicare IRMAAs.

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Another factor to consider is brokerage account taxable income. Invested securities regularly generate taxable interest and dividends that add to MAGI, often in substantial amounts. Furthermore, retirees typically need to start withdrawing from their taxable account portfolios, which may realize capital gains.

There are two simple strategies for offsetting the effect of this investment income. The first is utilizing asset location to

place high-yielding securities into tax-sheltered retirement accounts. These include real estate investment trusts (REITs), because of their high dividend rate, and mutual funds, which can independently spin off capital gains. The second tactic is to monitor realized gains and engage in tax-loss harvesting when possible, pairing taxable losses and gains so they eliminate tax consequences.

Sophisticated tax planning can be effective at any age. However, with great complexity comes great opportunity. Seniors face a more complicated tax landscape as they have more taxes to consider. This complexity means that careful tax planning affords a more potent payoff.

Advisor Action Plan

- Explain the risk of incurring higher-than-standard IRMAA premiums to Medicare enrollees and pre-Medicare seniors.
- Suggest planning steps such as systematic Roth conversions and less reliance on tax-exempt securities before age 63, when exposure to IRMAA thresholds often begins.
- Encourage clients with income reductions to file a "Medicare

Income-Related Monthly Adjustment Amount – Life-Changing Event" form as soon as practical if income has dropped because of a covered event.

- If there is some other reason causing a drop in income, raise the possibility of scheduling a meeting with an SSA representative.
- Once clients reach age 70½, explore the possibility of using QCDs for charitable donations if they are already withdrawing from a pre-tax IRA. ■

Megan Russell, APMA® is a prolific financial columnist who has worked in the field most of her life. She has a reputation for being analytical, drawing on her computer science and neuroscience background as she develops financial plans. On her blog, *Marotta on Money*, she strives to provide the necessary resources for anyone to prepare their own investment plan and meet their financial objectives. To this end, she and her wealth management team openly and publicly publish their strategies as articles on their website. You can browse the almost 3,000-article archive or the subscribe to the free newsletter at marottaonmoney.com.

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