

## **PLANNING FOR THE MEDICARE PART B PREMIUM**

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### **ABSTRACT**

Since Medicare Part B premiums are usually withheld from a person's monthly Social Security payments, beneficiaries of Medicare coverage may not be aware of the amount of their mandatory premiums that can range from \$170.10 to \$578.30 per month and how planning might be executed. Planning is complicated by the fact that the amount of the premium is based on the individual's income from two years prior. Furthermore, life-long penalties and appeals are possibilities. This research summarizes the applicable statutes and regulations and how planning may be effective.

### **PROLOGUE**

Have you had an experience like this?

Jill Client just called, exasperated: My monthly Social Security check went down again. Last year (2021) it went down by \$148.50 each month; for 2022, my monthly check was reduced by \$340.20. How could this be? When we spoke last year, you explained that every person covered by Medicare Part B is subject to the Medicare Part B premium and the standard premium for 2022 is \$170.10. But this is double that amount!

Professional planner (you): The premium is simply deducted from the Social Security benefit, so your benefit didn't decline, they just withheld the Medicare Part B premium. I explained that last year.

Jill Client: Yes, I understood. However, the reduction is twice what we discussed.

Professional planner: Remember the \$25,000 income you had when you liquidated your \$401(k) in 2020? Your 2022 Part B Premium is based on your 2020 income. The \$25,000 caused your modified adjusted gross income to move from the lowest level to the third level, which increased your premium for 2022 from \$170.10 to \$340.20. Congratulations, 2020 was a good year. Not only did the liquidation drive you into a higher income tax bracket, but it also increased your Part B premium by \$170.10 per month, or \$2,041 for the year. In your case, that is about an 8.2% phantom tax on the additional \$25,000 of income.

Jill Client: Thanks for the information. How can I avoid this in the future?

Professional planner: If you do not have large taxable retirement withdrawals in the future, we can estimate your income and make sure you do not suffer from large income related adjustments to your Medicare Part B premiums. Perhaps we can engage in other planning, like taking the

withdrawals in alternate years, potentially avoiding substantial required minimum distributions in a few years when you reach the age of 72. I know \$2,041 is not trivial for you now, and I understand that.

What should an accountant who is advising clients know? Should the accountant at least know what the client should ask their financial planner? Is this an important practice opportunity?

### **BASIC PART B PREMIUM**

As a starting point, one needs to understand the determination of the premium. As noted in the following excerpt from the Center for Medicare and Medicaid Services November 6, 2020 announcement [1], the Part B premiums range from \$170.10 to \$578.30 per month. According to the announcement, only seven percent of beneficiaries pay more than the basic \$170.10 premium. For that seven percent, the premium is structured as a two-part assessment: the basic assessment of \$170.10, plus what is called the income-related monthly adjustment amount (IRMAA).

### **MEDICARE PART B INCOME-RELATED MONTHLY ADJUSTMENT AMOUNTS**

Since 2007, a beneficiary’s Part B monthly premium is based on his or her income [1]. These income-related monthly adjustment amounts affect roughly 7 percent of people with Medicare Part B. The 2022 Part B total premiums, including the IRMAA, are shown in the following table:

<b>Beneficiaries who file individual tax returns with modified adjusted gross income:</b>	<b>Beneficiaries who file joint tax returns with modified adjusted gross income:</b>	<b>Income- related monthly adjustment amount</b>	<b>Total monthly premium amount</b>
Less than or equal to \$91,000	Less than or equal to \$182,000	\$0.00	\$170.10
Greater than \$91,000 and less than or equal to \$114,000	Greater than \$182,000 and less than or equal to \$228,000	68.00	238.10
Greater than \$114,000 and less than or equal to \$142,000	Greater than \$228,000 and less than or equal to \$284,000	170.10	340.20

Greater than \$142,000 and less than or equal to \$170,000	Greater than \$284,000 and less than or equal to \$340,000	272.20	442.30
Greater than \$170,000 and less than \$500,000	Greater than \$340,000 and less than \$750,000	374.20	544.30
Greater than or equal to \$500,000	Greater than or equal to \$750,000	408.20	578.30

### **INCOME-RELATED MONTHLY ADJUSTMENT AMOUNT (IRMAA)**

Income-Related Monthly Adjustment Amount(s) (IRMAA) are tied to the calculation of a Medicare beneficiary's modified adjusted gross income (MAGI) based on their current Federal filing status. When a Medicare beneficiary's MAGI is greater than the initial floor amount (adjusted annually), the premium will increase according to the published IRMAA schedule. The Medicare Part B premium amount is adjusted on an annual basis.

In order to determine the IRMMA, the Social Security Administration (SSA) will obtain the Medicare beneficiary's MAGI from the IRS for two years prior to the premium year. If the IRS is unable to provide that information because a return has been extended or for another reason such as non-filing, the IRS will provide the tax information for the third year preceding the premium year. The SSA will correct and adjust the IRMMA once the MAGI for two years prior to the premium year becomes available.

If the Medicare beneficiary files an amended tax return which changes the MAGI calculation which would result in an adjustment to the monthly Medicare premium, the SSA will need to be provided a copy of the amended tax return as filed. A copy of the IRS's acknowledgement or notice that the amended return has been accepted is also needed.

### **MODIFIED ADJUSTED GROSS INCOME (MAGI)**

Modified Adjusted Gross Income (MAGI) specific to Medicare is defined in Section 1839(i)(4) of the Social Security Act by taking total adjusted gross income from your most recent federal tax return (2020 Form 1040-SR - line 11) provided to the SSA and adding back other income which is tax-exempt under the Internal Revenue Code.

For the purpose of identifying who is required to pay high-income Medicare premiums, MAGI is defined as the sum of:

- the beneficiary's AGI, plus
- certain income exempt from tax under the IRC including:
  - tax-exempt interest income received or accrued (e.g., interest from state and local bonds (IRC Sec.103));
  - interest from U.S. savings bonds used to pay higher education tuition and fees (IRC Sec.135);
  - earned income of U.S. citizens living abroad that was excluded from gross income (IRC Sec.911);
  - income from sources within Guam, American Samoa, the Northern Mariana Islands, or Puerto Rico, not otherwise included in AGI (IRC Sec. 931 & 933).

See: The Use of Modified Adjusted Gross Income (MAGI) in Federal Health Programs [2].

See: Programs Operations Manual System (POMS) [3].

## **APPEALS**

If a Medicare beneficiary receives a determination or decision regarding benefits that they do not agree with, the SSA has an appeal process to follow and make a request for reconsideration. In order to start the appeals process, a request for reconsideration can be initiated by submitting a written request with the SSA or by completing Form SSA-561-U2 (Request for Reconsideration) or Form SSA-789 (Request for Reconsideration – Disability Cessation).

The levels of appeal listed in the “Understanding Supplemental Security Income Appeals Process – 2022 Edition” [9] are as follows:

1. Reconsideration
2. Hearing
3. Appeals Council Review, and
4. Federal Court

### **Form SSA-44**

Should a Medicare beneficiary experience one of the Life Change Events discussed below, in order to request a determination for a reduction to the monthly IRMAA, Form SSA-44 should be completed and filed to start this process. As an alternative, the form instructions provide that an interview can be scheduled with the local SSA office in lieu of completing and submitting Form SSA-44 [5]. However, even if the interview is selected, carefully reading and understanding the Form SSA-4 instructions would increase the likelihood of a successful outcome from the interview process.

### **Life Changing Events**

Section 2507 of the SSA handbook [4] lists eight Life Changing Events resulting in a reduction in MAGI that will either decrease or possibly eliminate the IRMAA for a specific premium year. Should a Medicare beneficiary experience one or more life-changing events resulting in a material MAGI decrease based on the income brackets shown on the IRMAA, a Form SSA-44 should be submitted to request a determination by the SSA to use a more recent tax year than the prior two or three years currently being utilized.

The SSA list of eight qualifying life-changing events includes the following:

1. Marriage
2. Divorce or annulment
3. Death of Your Spouse
4. Work stoppage
5. Work Reduction
6. Loss of Income Producing Property
7. Loss or reduction of pension income
8. Receipt of employer settlement payment

### **PENALTIES**

Unfortunately, the SSA can impose a 10% penalty for each 12-month period that one could have had Part B coverage due to late enrollment once first eligible [6]. The penalty adds 10% to the current Part B premium for each year where the Medicare recipient failed to enroll in Medicare Part B. There are also additional late enrollment penalties that could apply for Part A [7] and/or Part D [8] coverage.

### **PLANNING**

Planning can be difficult because of the delay in calculation between MAGI and the current Part B premium amount. As discussed above, premiums are based on modified AGI from two years prior to the current premium year. Accordingly, premium increases are often completely unexpected. In addition, how can one anticipate what the inflation adjustments will be?

That being the case, the basic planning thoughts of deferring income and accelerating deductions come into play. If the individual is close to the next income level on the IRMAA, they might be able to forecast the premiums and plan accordingly.

Sale of investments or other assets (personal residence) may require careful consideration to avoid this unexpected Part B premium increase. Structuring sales using the installment method or selling over several different tax years may be effective.

Planning with retirement accounts is another possibility. For those who are still working, they may be able to make additional contributions. If cash-or-deferred arrangements have been maximized, other contributions to IRAs, including spousal IRAs, can be explored.

Taxable retirement withdrawals should also be managed. Once the individual reaches age-72 and is required to make required minimum distributions (RMDs), planning can be complex. It is important that RMDs from employer-sponsored plans are not required as long as the person is still working. This requirement is applied only at December 31, so there is an incentive to continue working and to plan a final work date accordingly. For example, terminating employment on January 1 will “count” as another year for RMD deferral purposes. If there are other retirement accounts, they might be rolled into employer-sponsored accounts to allow this flexibility.

## REFERENCES

- [1] <https://www.cms.gov/newsroom/fact-sheets/2022-medicare-parts-b-premiums-and-deductibles2022-medicare-part-d-income-related-monthly-adjustment>.
- [2] <https://fas.org/sgp/crs/misc/R43861.pdf>
- [3] Programs Operations Manual System (POMS), HI 01101.010, Modified Adjusted Gross Income (MAGI) at <https://secure.ssa.gov/poms.nsf/lnx/0601101010>.
- [4] [https://www.ssa.gov/OP\\_Home/handbook/handbook.25/handbook-2507.html](https://www.ssa.gov/OP_Home/handbook/handbook.25/handbook-2507.html)
- [5] Form SSA-44. <https://www.ssa.gov/forms/ssa-44-ext.pdf>
- [6] Part B Penalties: <https://www.medicare.gov/your-medicare-costs/part-b-costs/part-b-late-enrollment-penalty>
- [7] Part A Penalties: <https://www.medicare.gov/your-medicare-costs/part-a-costs/part-a-late-enrollment-penalty>
- [8] Part D Penalties: <https://www.medicare.gov/drug-coverage-part-d/costs-for-medicare-drug-coverage/part-d-late-enrollment-penalty>
- [9] Write up of the Appeals process -- <https://www.ssa.gov/ssi/text-appeals-ussi.htm>