BY Chris Bach, CFA, CFP®
V.P., Wealth Advisor

Making Medicare Work for You

Most Americans find themselves in the dark when attempting to estimate their expected healthcare costs in retirement. They are aware that Medicare is generally available to all individuals age 65 or older, regardless of income, but they don't fully understand the extent to which it may cover their medical expenses.

This article aims to shed light on this topic by outlining the components of Medicare, the cost structure for each, and considerations for how retirees can optimize their Medicare coverage.

Medicare can be broken down into four parts, A through D. "Original Medicare" is composed of Part A (hospital insurance) and Part B (medical insurance). Part C, Medicare Advantage, is made up of health plans offered by the private market, which contracts with Medicare. Finally, Part D offers elective prescription drug coverage.

The average recipient of "Original Medicare" (Parts A and B) paid a total of $7,620 out of pocket in 2017.[1] Regardless of your personal circumstances, that is nothing to sneeze at—it illustrates why understanding the costs of healthcare and how they can be managed should be an important piece of any comprehensive financial plan. Each component comes with its own cost structure, summarized in Exhibit 1.

As indicated by the details in Exhibit 1, not everyone pays the same amount for coverage. In fact, beneficiaries »

EXHIBIT 1 MEDICARE COMPONENTS AND COST STRUCTURE

	Part A–Hospital Coverage	Part B–Medical Coverage	Part C–Medicare Advantage	Part D–Prescription Drug Coverage
Monthly Premiums	None*	$134 + IRMAA ($0 to $294.60, based on MAGI)	Private alternatives to Original Medicare Costs vary by plan	Plan dependent; nationwide average = $43 + IRMAA ($0 to $74.80, based on MAGI)
Deductible	$1,340 per benefit period**	$183 per year		Plan dependent; up to $405
Coinsurance	Days 0-60 = $0 Days 61-90 = $335 91 or more days = $670	20% of the "Medicare-approved" amount		Prescription dependent

Source: Social Security Administration. Data as of 2018.
**Assuming you or your spouse paid Medicare taxes for at least 10 years or you are receiving retirement benefits from Social Security or the Railroad Retirement Board.*
***A benefit period begins the day you go into a hospital and ends when you have been out for 60 days in a row. If you end up being readmitted, then a new benefit period starts and a new deductible applies.*

EXHIBIT 2 THE SLIDING SCALE OF MAGI AND IRMAA

	Part B		Part D	
MAGI	**IRMAA**	**Total Monthly Premium**	**IRMAA**	**Total Monthly Premium**
Individuals: <$85,000 Married Couples: <$170,000	$0	$134	$0	Plan Dependent
Individuals: $85,000-$107,000 Married Couples: $170,000-$214,000	+$53.50	$187.50	+$13.00	
Individuals: $107,001-$133,500 Married Couples: $214,001-$267,000	+$113.90	$267.90	+$33.60	
Individuals: $133,501-$160,000 Married Couples: $267,001-$320,000	+$214.30	$348.30	+$54.20	
Individuals: >$160,000 Married Couples: >$320,000	+$294.60	$428.60	+$74.80	

Source: Social Security Administration. Data as of 2018.

with incomes greater than $85,000 ($170,000 for a couple) pay higher Part B and Part D premiums. These higher premiums are assessed in the form of income-related monthly adjustment amounts (IRMAA). IRMAA adjustments are added to Part B and Part D premiums on a scaling basis, based on your modified adjusted gross income (MAGI) from two years prior (Exhibit 2). For example, 2019 adjustments will be based on 2017 MAGI.

With Medicare, if your MAGI falls in a higher bracket, your entire premium is increased, not just a portion of it (as is the case with income tax brackets). Because this can amount to an additional $4,432.80 per year in premiums for the highest earners, there are a few important planning opportunities that may minimize these increased costs.

Contesting Your IRMAA

If the Social Security Administration determines you are required to pay an IRMAA, an "initial determination" notice will be issued. However, if you had a "life-changing event" that either changed your marital status or caused a decrease in income since you filed your return two years prior, you can file a request for a new initial determination. To do this, you can ask your RMB advisor to help you submit a Medicare IRMAA Life-Changing Event form (Form SSA-44) or to help you schedule a time to meet with a representative at your local Social Security office. You will need to provide documentation of either your corrected income or of the life-changing event that caused your income to decrease. This can include an original or certified marriage certificate, a death certificate, or a divorce decree. If your income has changed, proof of a change in your income could be a copy of your tax return for that year or an estimate, if you have not yet filed your taxes. Below are some of the most common reasons for a change in IRMAA:

- Death of a spouse
- Marriage
- Divorce or annulment
- You or your spouse stopping work or reducing the number of hours you work
- Involuntary loss of income-producing property due to a natural disaster, disease, fraud, or other circumstances
- Loss of pension
- Receipt of settlement payment from a current or former employer due to the employer's closure or bankruptcy

Managing Your MAGI

The easiest way to reduce your Part B and Part D premiums is to lessen the income considered in determining any required adjustment. The concept seems simple, but this is where prudent tax management and financial planning can save you real dollars on ever-increasing healthcare costs.

» *Roth IRA Conversions or Pre-RMD Strategic Withdrawals*
This strategy can be applied both before enrolling in Medicare and while receiving benefits. By either converting pre-tax IRA dollars to an after-tax Roth account or withdrawing from retirement accounts before age 70.5, you can reduce the amount of income the government requires you to take in required minimum distributions (RMDs) the year you turn 70.5. By decreasing your tax-deferred income, you have a greater chance of keeping your MAGI in the lower brackets and, therefore, reducing premiums. If you are already receiving Medicare benefits, another strategy could be to convert or withdraw from your IRA an amount at the upper threshold of one of the brackets. You then have the ability to decrease your withdrawals the following year, reducing MAGI and associated premium adjustments.

» *Qualified Charitable Distributions (QCDs)*
One way to significantly reduce income after age 70.5 is to gift your required IRA distribution directly to a qualifying 501(c)(3) charitable organization. A QCD allows taxpayers to gift $100,000 directly from their IRAs to charity, therefore eliminating the income associated with their RMD and, thus, reducing their MAGI. The distribution must go to a public charity and not to a private foundation or donor-advised fund. Note that this does not have to be an all-or-nothing proposition. By gifting an amount that brings you just below one of the adjustment brackets, you can save significant dollars in future premiums.

» *Timing Receipt of Income*
Timing is everything. If you can control the timing of various income sources, you may be able to use this flexibility to reduce the overall Medicare premiums due. It may be beneficial to accelerate income into a tax return for a year before IRMAA calculations occur, or to defer them to a year when income is expected to be lower. This technique has many applications, including selling a home, electing deferred compensation payments, delaying self-employment income, or opting for a structured settlement, to name a few.

What is the difference between MAGI and AGI?

Adjusted gross income (AGI) is equal to your gross income—including wages, dividends, capital gains, alimony, and retirement account distributions—minus certain deductions. From your AGI, you subtract allowable exemptions, credits, and deductions to determine your taxable income. To calculate your MAGI, you take your AGI and then add back certain deductions, the most common of which is any tax-exempt interest income.

» *Tax Loss Harvesting*
Realized capital gains can often bump retirees into higher tax brackets. Ongoing tax management and effective tax loss harvesting can help mitigate an often unwanted source of income. Tax loss harvesting is the process of intentionally selling a security at a loss in order to "capture" the loss. This loss can then be used to offset other capital gains generated in that same tax year. This strategy can often reduce MAGI and the associated premium adjustments. (For more about tax loss harvesting, see our article "Tax Loss Harvesting: What, How, and Why?" from the Summer 2017 issue of INVESTED.)

Medicare provides meaningful benefits to over 57 million Americans. Exploring proactive planning strategies such as these can help you make the most of Medicare by potentially reducing your overall cost of coverage. From evaluating Original Medicare versus Medicare Advantage Plans to ensuring you are efficiently managing your income, your RMB advisor can help you navigate the increasingly complex landscape of retiree healthcare. ■

1 *Matthew Frankel. "Here's the Average American's Annual Medicare Bill." The Motley Fool, February 5, 2017.*