# MEDICARE SURCHARGES HAVE COSTLY EFFECTS

Means testing is a hot topic when it comes to government benefits. But it's not just an academic debate, as high-income Medicare beneficiaries already pay higher premiums. And in reality, requiring wealthier people to pay more can get a bit messy when income spikes for, say, just one year. The following answers to common questions from readers can help sort out some of the wrinkles Medicare surcharges present, including when they can be waived.

Who has to pay extra? In government-ese, the surcharge is called an income-related monthly adjustment amount, or IRMAA. It's triggered when modified adjusted gross income—that is, adjusted gross income plus tax-exempt interest income—exceeds \$170,000 on a married-filing-jointly tax return or \$85,000 on an individual's return.

The surcharges rise in four steps (see box). The highest-income beneficiaries pay \$428.60 for Part B (for outpatient services) and \$76.20 on top of their premium for Part D drug-coverage. For couples filing jointly, each spouse gets socked with these higher amounts.

How long has IRMAA been around? The Part B surcharge was created by the Medicare Modernization Act of 2003, which is better known for creating Part D prescription-drug coverage, and went into effect in 2007. The Affordable Care Act imposed the highest income surcharge on Part D, which kicked in in 2011.

"The Part B surcharge works differently than the Part D surcharge," says Juliette Cubanski, associate director of the program on Medicare policy at the Kaiser Family Foundation. The Part B surcharge is an add-on to the standard premium set by the government (for 2017, the standard amount is \$134), and the total amount is paid to the government. For Part D, the premium you pay varies by the plan you select; the average monthly premium for 20170 is \$34. You pay the Part D premium to your insurer, but you pay the extra amount for IRMAA to the government.

Are the income thresholds adjusted for inflation?

The Part B trigger points were originally adjusted annually for inflation. But the ACA temporarily froze the thresholds for nine years. "with no indexing, more people get caught by it," says Cubanski. Under current law, inflation adjustments are scheduled to come back in 2020.

What year's income is used? The surcharge is based on income from your tax return two years ago—the most recent IRS data the government has when premiums are set in late fall. To determine 2017 premiums, for instance, income reported on your 2015 return filed in early 2016 was used. If your income exceeded the thresholds in 2016, you'll probably owe the surcharges in 2018, and so on.

What if my income has gone down? That's the reason for the word *probably* in the previous answer. If you got hit with the surcharge this year, but your income has fallen since 2015, you may qualify for a waiver. If you experienced a qualifying "life-changing event," you can easily get the surcharge waived—but you have to ask. Those events include retirement, divorce or death of a spouse. "It's a finite list of things that will qualify," notes David Lipschutz, senior policy attorney for the Center for Medicare Advocacy. Read the full list in Social Security's publication *Medicare Premiums: Rules for Higher-Income Beneficiaries* at www.ssa.gov.

How do I get the waiver? "Ask for a new determination," says Leslie Fried, senior director of the Center for Benefits Access at the National Council on Aging and file Form SSA-44 with the Social Security Administration. You'll need to provide documentation of the qualifying event and an estimate of your lower income for the year, which the government will use to recalculate your premiums. If you are applying because you retired, for instance, include a letter from your former employer certifying the date of your retirement. You can also provide an estimate of lower income for the following year; by the third year, your lower income should show up on the tax return used to determine premiums.

Does a one-time windfall count as a life-changing event?

No. If you receive a windfall that will spike your income for the year—such as selling an investment for a large profit—immediately consider ways to lower your adjusted gross income, such as harvesting capital losses or, if you're still working, boosting retirement account contributions. Consider pushing Roth conversions, which are taxable events, to a lower income year.

If you can rein in your adjusted gross income below the threshold before December 31, you'll stave off the surcharge based on that year's income. While the impact amounts to an "indirect tax" of about 1% to 2% relative to income, "if you're close to the threshold, it pays to do additional tax planning to stay on the right side of the line—minimizing or deferring income where possible," says Michael Kitces, director of wealth management for Pinnacle Advisory group, in Columbia, MD.

How long do the surcharges last? There's a silver lining to the surcharges—they are applied on an annual basis. "You might have it one year and not the next," says Fried. Unlike late enrollment penalties that can last a lifetime, the surcharge can be temporary. As soon as your income falls below the thresholds, the surcharge will drop off.

Say you owed the surcharge in 2017 as a result of temporarily high income in 2015. But your income fell back below the thresholds in 2016. Good news: The surcharge will go away in 2018.

Any other effects from getting hit by the surcharges?

In years when beneficiaries receive little to no Social Security cost-of-living adjustment, such as for 2017, owing the surcharge also means losing protection from the "hold harmless" provision. That protects Medicare beneficiaries from Medicare premium increases that exceed their Social Security COLA.

In 2017, premiums rose no more than the 0.3% COLA for the 70% of beneficiaries protected by hold harmless, amounting to an average increase of about $5 a month and a total monthly premium of about $109.

But beneficiaries paying Medicare surcharges in 2017 lost hold-harmless protection. They had to pay the 2017 standard premium amount of $134 plus the surcharge. If they drop out of Medicare surcharge territory in the future, they will regain protecti8on by the hold-harmless provision because Medicare premiums are determined annually. But their standard premium won't return to the lower standard premium they had before being hit with the surcharge. RACHEL L. SHEEDY

Income-Related Premiums for Parts B and D in 2017

| | Modified AGI* | Part B Premium | Part D Surcharge** |
|---|---|---|---|
| Single<br>Married | $85,001-$107,000<br>$170,001-$14,000 | $187.50 | $13.30 |
| Single<br>Married | $107,001-$160,000<br>$214,001-$320,000 | 267.90 | 34.20 |
| Single<br>Married | $160,001-$214,000<br>$320,001-$428,000 | 348.30 | 55.20 |
| Single<br>Married | More than $214,000<br>More than $428,000 | 428.60 | 76.20 |

*Adjusted gross income, plus tax-exempt interest **Per person, per month