Medicare Premiums and IRMAA

Helping your senior clients

By Charles R. Markham, EA, USTCP

A rite of passage when reaching age 65 for most Americans is to sign up for Medicare. In fact, there are penalties if you delay signing up for too long past your sixty-fifth birthday if you are not actively covered by another health plan. Tax preparers probably don't realize it, but the tax returns they prepare for their senior clients may impact how much their clients pay annually for some of their Medicare benefits, possibly increasing their annual premiums by as much as an additional $3,600 a year! This may only apply to perhaps 5-15% of your clients who are collecting Medicare. [1] So, while it will only be for a handful, those it does affect will be grateful if you can help them as an informed tax professional who is looking out for their best interests. As discussed later, Medicare premiums are subject to a surcharge for higher-income taxpayers. Social Security calls this income-based surcharge Income Related Monthly Adjustment Amount (IRMAA). These adjustment amounts are determined based on information reported on the tax return.

As tax professionals, we've all noticed the Medicare insurance charges on the annual 1099-SSA forms that we referred to as we prepared our clients' returns. You might even have noticed that sometimes the amount is different for different clients. As of 2018, the annual charge for Medicare Part B is $134.00 per month.[2] Additionally, there is a charge for prescription drug coverage, known as Medicare Part D. This charge varies depending on the plan selected. Both these monthly charges can be subject to a surcharge (adjustment) for taxpayers with higher income.

Let's start with some basics. The annual income figure that Social Security uses comes directly from the individual's tax return and is called Modified Adjusted Gross Income (MAGI), which is simply regular adjusted gross income from the corresponding line on the tax return plus tax-exempt income. As previously stated, up to 95% of your clients will not be affected by any of this. Table 1 below shows that most retirees will be excluded from any impact on their Medicare premiums.

But what about the other 5%? There is a range of income brackets and surcharges. And, most notably, there are no phase-outs. These income limits are "hard" limits, which means that even if a taxpayer is one penny over a threshold, a monthly additional premium surcharge goes into effect.

This can be especially impactful for those taxpayers who file as married filing separately (MFS). For example, our office had a retired married couple with a fairly large amount of income where filing MFS seemed to make sense for them. This was due to the favorable way the state of Rhode Island taxed Social Security and retirement income on an MFS basis. (There are other states where married couples would want to also file separately primarily for state tax purposes.) We did the analysis and, while it cost the clients a little more in taxes to file separately federally, it saved them a lot of money to file separately at the state level. However, we need to factor in what it might do to their Medicare costs (see Table 2 below).

In our example, one member of this married couple did have MAGI over $85,000, thus a hidden cost of filing separately was that, all things being equal, his Medicare premiums were going to jump by nearly $3,600 a year. This pretty much offset the state tax advantage that we were seeking in Rhode Island. Honestly, this was something we had not considered.[3]

For couples not filing separately, the adjustments are more gradual. Note that they are still based on an extra dollar of income pushing a client into a higher MAGI bracket (see Table 3 on page 19).

The numbers in Table 3 are monthly adjustments. So, for example, an individual filing a tax return with a

TABLE 1

Modified Adjusted Gross Income (MAGI)	Part B monthly premium amount	Prescription drug coverage monthly premium amount
Individuals with a MAGI of $85,000 or less	2018 standard premium = $134 per month	Your plan premium
Married couples with a MAGI of $170,000 or less	2018 standard premium = $134 per month	Your plan premium

TABLE 2

Modified Adjusted Gross Income (MAGI)	Part B monthly premium amount	Prescription drug coverage monthly premium amount
Individuals filing MFS with a MAGI of $85,000 or less	2018 standard premium = $134 per month	Your plan premium
Individuals filing MFS with a MAGI over $85,000	2018 standard premium + $294.60 per month	Your plan premium + $74.80 per month

MAGI of $90,000 (or a married couple with a return showing $180,000) is going to pay an additional monthly premium of $53.90 in their Medicare Part B insurance and $13 in their prescription drug coverage (Part D) if they have it. In the case of a married couple with both of them on Medicare, they each pay the additional $53.90 per month.

So, what's a tax professional to do?

The first thing you could do is watch these threshold points when preparing taxes. Later in the article, there are practical tips on how to implement this in your practice. Remember AGI can typically be lowered by a small amount of dollars in a given year and is worth the effort if the resulting impact is significant. If a taxpayer is still working, they might be able to contribute to a SEP-IRA or an IRA. Other possibilities include going back and doing a better job with their self-employment deductions, considering if possibly there is a worthless security or a bad debt that could be written off, etc. There are certainly other possibilities.

The timing of the IRMAA determination

Next, it's important to understand how the timing of the tax filing works in relation to Social Security's determination of the IRMAA. Social Security is typically looking at data that is two years old. For example, let's say it's coming up on January 2019, and Social Security will be sending a letter in December 2018 or January 2019 explaining that a recipient's monthly Medicare Part B premium will change for the 2019 calendar year. Obviously, in December 2018 or January 2019, Social Security will not have access to the 2018 tax figures, so it will use the 2017 tax return information that was filed the year prior.

Social Security always bases its information on lagging two-year-old information. In our office, we did an analysis of our 2017 clients and found two clients whose income was within $1,000 above the MAGI threshold. We carefully considered if it was possible to file an amended return for 2017 to reduce their income to within the next lower MAGI limit. We elected not to, but filing an amended return would have saved them from an increased Medicare premium for 2019.

Also, if for some reason your client is late filing 2017 taxes, and Social Security uses 2016 data to make an unfavorable IRMAA determination against your client for the 2019 Medicare year, your client can always go back and file a 2017 return, belatedly, and request that Social Security use the 2017 information—once again, assuming that the 2017 rate makes a positive outcome for the client.[4]

TABLE 3

Filing Status	MAGI Range	Part B IRMAA	Part D IRMAA
Single, Head of Household, or Qualifying Widow(er)	$0–$85,000	No additional	No additional
	$85,001–$107,000	$53.50	$13.00
	$107,001–$133,500	$133.90	$33.60
	$133,501–$160,000	$214.30	$54.20
MFS (and lived apart)	$0–$85,000	No additional	No additional
	$85,001 and above	$294.60	$74.80
Married Filing Joint	$0–$170,000	No additional	No additional
	$170,001–$214,000	$53.50	$13.00
	$214,001–$267,000	$133.90	$33.60
	$267,001–$320,000	$214.30	$54.20
	$320,001 and above	$294.60	$74.80

So far, we've considered the direct-tax aspects of the IRMAA calculation. The first step is simply watching the AGI thresholds as you prepare returns for clients who are 65 and older. You might consider this a daunting task, but, at the end of this article, I describe a manageable way to introduce this procedure into your practice. There's also a way to introduce a new variable when filing for a married couple over 65 separately—the impact on their Medicare premiums.

Alternatively, filing an amended return, if applicable, is another way of managing IRMAA when it comes into play. A taxpayer can "amend" themselves into a lower MAGI bracket and SSA will accept an amended return as prima facie proof of the lower MAGI.[5] Of course, this approach needs to make legitimate sense, but no doubt it will for some.

The life-changing event exception

Now we come to a more pragmatic rule that Social Security has. It's an equitable and fair rule, yet, at times it can be an inflexible rule. First off, Social Security does not have a general equitable relief exception to these rules. If you start discussing these IRMAA rules with your clients, you'll undoubtedly run into situations where the income is abnormally high in one year only to drop back a year later. This can happen if a client wins the lottery or sells stock. So, you shouldn't get anyone's hopes up.

Example: Your clients sold their vacation home and had a one-time temporary gain in income in 2017. Furthermore, the proceeds from the sale were used to pay significant medical expenses for one of the spouses. Don't waste time arguing for a reduction in IRMAA or that the increase in MAGI is temporary. This is not one of the accepted reasons, and your clients will not be granted relief.

Social Security has a limited number of acceptable reasons that justify a subsequent decrease in MAGI. For example, if we are looking at 2019 Medicare rates, Social Security is making use of 2017 tax information, and the client had a life-changing event (LCE) in 2017, this would allow the client to then substitute 2018 or even 2019 income information (which would have to be estimated) for the 2017 MAGI Social Security is using. Just because your clients incur an LCE, they aren't entitled to a reduction in their premiums if their MAGI doesn't change and remains high. If eventually (in the next year or two) MAGI declines, they can claim a reduced premium based on the revised MAGI. If your client forecasts a MAGI that proves to be too low, Social Security will come back and retroactively assess the missed premiums.

The life-changing events[6] that Social Security will accept (for either spouse) are:

- Marriage, divorce or death of a spouse
- Work stoppage or reduction in hours
- Loss of income-producing property because of a disaster or event beyond the client's control
- Reduction or loss of pension income
- Receipt of settlement from employer's closure, bankruptcy or reorganization

When viewing this list, the most typical events that might affect a senior citizen are the death of a spouse, other change in marital circumstances, and work stoppage or reductions in hours, otherwise known as retirement. Note that gains from sales of property are explicitly not included unless they are accompanied by one of the other events. Also note that the events above don't directly have to relate to the change in income, but the client's income must have gone down in the subsequent year.

Example: A 68-year-old widower with MAGI of $100,000 marries his high school sweetheart and together their MAGI in 2017 is $190,000 because they withdrew money to go on their honeymoon. In 2018, their joint MAGI is $145,000. The marriage is a life-changing event. The marriage itself really didn't trigger any financial abnormality; however, marriage qualifies as a life-changing event, which allows Social Security to base their 2019 Medicare premium on the 2018 MAGI of $145,000 as opposed to their 2017 MAGI of $190,000. The couple, therefore, qualifies for reduced premiums.

Taxpayers report any life-changing events to the Social Security Administration using Form SSA-44, *Medicare Income Related Monthly Adjustment Amount—Life-Changing Event*. We included two of the eight pages at the end of this article to show you the five-step process (see pages 22–23).

Appealing Social Security decisions vs. requesting new initial determinations

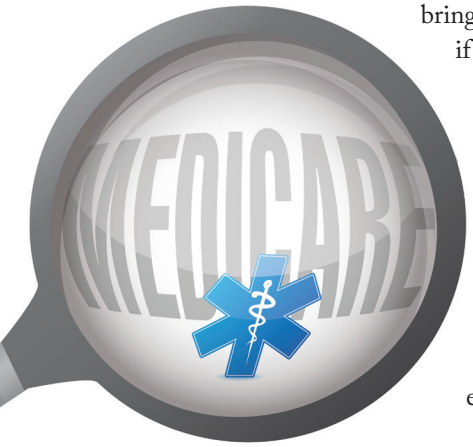
The formal appeals process is beyond the scope of this article. In fact, Social Security explains that taxpayers need not appeal their IRMAA determinations, as there are strict deadlines for appeals. Rather, they recommend requesting a new initial determination

as opposed to an appeal.[7] To request a new initial determination, use Form SSA-44. This form includes the various proofs for which Social Security is looking. Note that it will be looking for proof of the LCE as well as proof of income (or an estimate) in a subsequent year. A client could simply initiate the process by calling 800-772-1213. A client can both request a new initial determination *and* file an appeal.[8]

Implementing a MAGI-watch inside your practice

It's not easy adding another review step to the process of preparing tax returns during tax season. However, implementing a process that would identify any client, aged 65 or older, whose AGI is between $85,000 and $160,000 (double these numbers if filing jointly) is worth it. It would only involve carefully scrutinizing returns where the AGI is slightly above the MAGI thresholds. Remember, these clients will be getting a notice in a year or two (see page 24 for a sample of what one page from this letter might look like).

We took this one step further in our practice, which simplified the process. Realizing that the income of senior citizens typically doesn't vary significantly from year to year, of our 100 clients who are 65 or older, we have identified 15 who are in the MAGI zone. We included clients whose income was up to $10,000 below the first threshold to allow for inflation and changes. Other clients were within the MAGI zone but were somewhat near a threshold, using our subjective judgment. Our software allows us to flag them so that a note pops up when we open the return each year. (If your software can't flag these returns, perhaps you can simply mark their folders.) When we prepare returns for any of these 15 clients, we simply make a quick mental note if they are close to a MAGI threshold and bring it to their attention if they can still act to reduce their AGI for the preceding tax year. Or, they may possibly want to manage down their AGI for the current tax year. Focusing on these 15 clients is easy. Remember, most of the time, they won't even be close to a threshold, and it becomes a non-issue. It doesn't require a lot of effort, and knowing we are doing the best for our clients feels great!



If you want to do more general research on the topic of Medicare Income Related Monthly Adjustment Amounts, you'll find an entire online reference manual on the many facets of the topic at https://secure.ssa.gov/apps10/poms.nsf/lnx/0601100000. ■

End Notes

1. Social Security publication, "Medicare Premiums: Rules for Higher-Income Beneficiaries," Pub No. 05-10536, available at www.ssa.gov., page 1, "This affects less than five percent of the people with Medicare, so most people don't pay a higher premium."
2. Ibid, page. 5.
3. As an exception to this rule, note that if your married clients live apart the entire year and file as MFS, they are treated as single for these purposes. But it is also pretty clear that this will require some sort of redetermination to get straightened out by Social Security, which will initially misclassify it. Social Security Program Operations Manual System (POMS), HI 01120.060 Married, Filing Separately – Lived Apart All Year https://secure.ssa.gov/apps10/poms.nsf/lnx/0601120060.
4. Social Security Program Operations Manual System (POMS), HI 01120.055 Beneficiary Provides 2-year-old Tax Data When SSA Used 3-year-old Tax Data to Determine the IRMAA, https://secure.ssa.gov/apps10/poms.nsf/lnx/0601120055
5. Social Security Program Operations Manual System (POMS), HI 01120.045 Use of Amended Income Tax Returns, https://secure.ssa.gov/apps10/poms.nsf/lnx/0601120045
6. Social Security publication, "Medicare Premiums: Rules for Higher-Income Beneficiaries," Pub No. 05-10536, available at www.ssa.gov, page 4.
7. https://secure.ssa.gov/apps10/poms.nsf/lnx/0601140001 and https://secure.ssa.gov/apps10/poms.nsf/lnx/0601120001
8. Appeals can be filed online www.socialsecurity.gov/disability/appeal or in writing by completing a Request for Reconsideration (Form SSA-561-U2).

About the Author

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STEP 1: Type of Life-Changing Event

Check **ONE** life-changing event and fill in the date that the event occurred (mm/dd/yyyy). If you had more than one life-changing event, please call Social Security at 1-800-772-1213 (TTY 1-800-325-0778).

- ☐ Marriage
- ☐ Divorce/Annulment
- ☐ Death of Your Spouse
- ☐ Work Stoppage
- ☐ Work Reduction
- ☐ Loss of Income-Producing Property
- ☐ Loss of Pension Income
- ☐ Employer Settlement Payment

Date of life-changing event: _____
mm/dd/yyyy

STEP 2: Reduction in Income

Fill in the tax year in which your income was reduced by the life-changing event (see instructions on page 6), the amount of your adjusted gross income (AGI, as used on line 37 of IRS form 1040) and tax-exempt interest income (as used on line 8b of IRS form 1040), and your tax filing status.

Tax Year	Adjusted Gross Income	Tax-Exempt Interest
2 0 __ __	$ __ __ __ __ __ __ . __ __	$ __ __ __ __ __ __ . __ __

Tax Filing Status for this Tax Year (choose **ONE**):

- ☐ Single
- ☐ Head of Household
- ☐ Qualifying Widow(er) with Dependent Child
- ☐ Married, Filing Jointly
- ☐ Married, Filing Separately

STEP 3: Modified Adjusted Gross Income

Will your modified adjusted gross income be lower next year than the year in Step 2?

- ☐ No - Skip to STEP 4
- ☐ Yes - Complete the blocks below for next year

Tax Year	Estimated Adjusted Gross Income	Estimated Tax-Exempt Interest
2 0 __ __	$ __ __ __ __ __ __. __ __	$ __ __ __ __ __ __. __ __

Expected Tax Filing Status for this Tax Year (choose **ONE**):

- ☐ Single
- ☐ Head of Household
- ☐ Qualifying Widow(er) with Dependent Child
- ☐ Married, Filing Jointly
- ☐ Married, Filing Separately

STEP 4: Documentation

Provide evidence of your modified adjusted gross income (MAGI) and your life-changing event. You can either:

1. Attach the required evidence and we will mail your original documents or certified copies back to you;

OR

2. Show your original documents or certified copies of evidence of your life-changing event and modified adjusted gross income to an SSA employee.

Note: You must sign in Step 5 and attach all required evidence. Make sure that you provide your current address and a phone number so that we can contact you if we have any questions about your request.

STEP 5: Signature

PLEASE READ THE FOLLOWING INFORMATION CAREFULLY BEFORE SIGNING THIS FORM.

I understand that the Social Security Administration (SSA) will check my statements with records from the Internal Revenue Service to make sure the determination is correct.

I declare under penalty of perjury that I have examined the information on this form and it is true and correct to the best of my knowledge.

I understand that signing this form does not constitute a request for SSA to use more recent tax year information unless it is accompanied by:

- **Evidence that I have had the life-changing event indicated on this form;**
- **A copy of my Federal tax return; or**
- **Other evidence of the more recent tax year's modified adjusted gross income.**

Signature	**Phone Number**	
Mailing Address	**Apartment Number**	
City	**State**	**ZIP Code**

Sample page from Social Security notice

Each year, to decide if you must pay IRMAAs, we use your Federal income tax information for the most recent tax year that is available. However, we do not use any information that is more than three years old. We ask the Internal Revenue Service (IRS) for your tax filing status, your adjusted gross income, and your tax-exempt interest income. We then add your adjusted gross income together with your tax-exempt interest income to get an amount that we call modified adjusted gross income (MAGI). We compare your MAGI with the income thresholds set by Medicare law.

MAGI may include one-time-only income such as capital gains, the sale of property, withdrawals from an Individual Retirement Account (IRA) or conversion from a traditional IRA to a Roth IRA. One-time income will affect your Medicare premium for only one year.

How We Figured Your IRMAAs

The IRS told us that for tax year 2016, you filed your taxes as married, filing jointly. You had an adjusted gross income of $173,183.00 plus $0.00 in tax-exempt interest income. We added these amounts together to get your MAGI of $173,183.00.

We used the following table to decide IRMAAs for the Medicare Part B and Part D premiums:

If you filed as:	With MAGI of:	Part B IRMAA is:	Part D IRMAA is:
Single, Head of Household or Qualifying Widow(er)	$85,001–$107,000	$53.50	$13.00
	$107,001–$133,500	$133.90	$33.60
	$133,501–$160,000	$214.30	$54.20
	More than 160,000	$294.60	$74.80
Married, filing jointly	$170,001–$214,000	$53.50	$13.00
	$214,001–$267,000	$133.90	$33.60
	$267,001–$320,000	$214.30	$54.20
	More than $320,001	$294.60	$74.80
Married, filing separately (if you lived apart throughout 2016, see below about some special situations)	More than $85,000	$294.60	$74.80

These IRMAAs are effective for 2018 only. Next year, when we receive updated information from the IRS, we will make a new decision about any IRMAAs owed.