

## Planning for the Annual Medicare Premium – Medicare’s MAGI Lookback Provision

Many individuals, when they reach age 65, become eligible to enroll in Medicare. An individual may delay enrollment if they are covered by their own or their spouse’s qualified health plan. Generally, this applies to health plans covering at least 20 employees. Tax and financial advisors may need to assist these individuals within two years of enrolling in Medicare.

Under Medicare’s IRMAA, which bases an individual’s current year Medicare premiums on their modified adjusted gross income (MAGI) from two (2) years prior to the premium payment year. The Medicare income-related monthly adjustment amount (IRMAA) is a **surcharge** on Medicare Part B (medical insurance) and Medicare Part D (prescription drug plan premiums).

For example, Medicare premiums for 2025 will be based on 2023 MAGI. MAGI for Medicare IRMAA determination is calculated as adjusted gross income (AGI) plus *tax-exempt interest*. If MAGI exceeds \$212,000 for married couples filing jointly or exceeds \$106,000 for individual taxpayers, Medicare Part B and D premiums will include a surcharge ranging from \$74.00 to \$443.90 per month on top of the standard Part B premium of \$185. Medicare repeats this review process each year.

Beneficiaries are allowed to request a new initial determination based on a more recent tax year by filing Form SSA-44. To be eligible for a new determination, certain qualifying life-changing events must occur. These would include retirement, reduced work hours, the death of a spouse, marriage, divorce, or the loss of income-producing property due to circumstances beyond the enrollee’s control. Unfortunately, other events that increase income, such as Roth conversions, the sale of a business, or a taxable inheritance (i.e., a 10-year payout distribution from an inherited IRA), do not qualify and may result in higher taxes and greater Medicare premiums until MAGI is reduced to lower levels.

To mitigate the IRMMA impact, it may be appropriate to pair a non-qualifying event with a qualifying event in the same year. The following example demonstrates this tax planning strategy.

### EXAMPLE

Michael retires in November of 2025 and plans to enroll in Medicare effective January 1, 2026. Using the two-year lookback provision, the social security administration will initially look at Michael’s 2024 MAGI when determining his 2026 premiums. If Michael and his trusted advisor are aware of this plan, Michael may have planned to convert extra funds into a Roth IRA in 2024 and 2025. Then he can take advantage of Form SSA-44 to request a premium adjustment based on his

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expected income in 2026, using **retirement** as his life-changing event to support the request to use 2026’s estimated MAGI for 2026 and 2027 premium years.

As you can see by this tax planning strategy, Michael is able to lower his Medicare premiums for both years and create the opportunity for Roth conversions in those years (2024 and 2025). Michael has paired the Roth IRA conversion (a non-qualifying event) with his retirement event (a qualifying event). Michael effectively gets a “free pass” on some or all of IRMAA’s impact depending upon his anticipated 2026 MAGI. This allows him to shift money into a tax-free vehicle while controlling the amount of his Medicare premiums.

As always, such tax planning strategies should be reviewed with a trusted advisor to ensure they fit within the broader financial goals and objectives for the client.

Topic	Details
Medicare Enrollment Age	65
Delay Enrollment	Covered by employer health plan
Creditable Coverage	Plans covering 20 or more employees
IRMAA Basis	MAGI from two years prior
MAGI Calculation	AGI plus tax-exempt interest
MAGI Thresholds	\$212,000 for married couples, \$106,000 for individuals
IRMAA Surcharge	\$74.00 to \$443.90 per month
Standard Part B Premium	\$185
Qualifying Life-Changing Events	Retirement, reduced work hours, death of a spouse, marriage, divorce, loss of income-producing property
Non-Qualifying Events	Roth conversions, sale of second home, sale of business, taxable inheritance
Form SSA-44	Request new initial determination based on more recent tax year
Example: Michael	Retire in Nov 2025, enroll in Medicare in Jan 2026
Michael’s Tax Planning Strategy	Convert extra funds into Roth IRA in 2024 and 2025, request premium adjustment using Form SSA-44
Trusted Advisor Review	Review strategies with a trusted advisor