Paying More for Medicare?

Here’s Why and What To Do

Sixty-Five Incorporated
Clear, Correct, Complete & Credible Medicare Answers
“Paying More for Medicare? Here’s Why and What To Do”
A Medicare educational booklet written by Medicare expert, Diane J. Omdahl, RN, MS

This educational booklet serves as a guide to understanding Medicare’s Income-related Monthly Adjustment Amount, or IRMAA. In the preparation of this information, 65 Incorporated has made every effort to include the most correct, current, and clearly expressed information possible. Actual decisions about Medicare coverage depend on the individual’s exact circumstances, supporting facts, regional variations, and any future changes. 65 Incorporated encourages those reading this booklet to contact Medicare (1-800-MEDICARE) or Social Security (1-800-772-1213) for guidance related to their specific situations. 65 Incorporated disclaims any responsibility for any misunderstanding on the part of readers.

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Advice given is general. Readers should see professional guidance for specific health, coverage, or financial questions.

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Diane J. Omdahl is co-founder of 65 Incorporated. A pioneer in home health agency management and training, Diane has kept her finger on the pulse of the healthcare industry’s evolution for more than 30 years. She is best known for authoring one of the most resourceful guides to the Medicare process for homecare agencies, the *Beacon Guide to Medicare Service Delivery*. With her extensive experience in healthcare industry leadership roles, Diane is able to provide a wealth of clear and unbiased information to the aging population through 65 Incorporated.

Diane is a registered nurse who previously launched and built Beacon Health Corporation into the leading provider of education, training and tools for home health agencies and their employees. Her extensive experience includes presenting more than 300 audio conferences and 100 seminars, along with producing instructional videos and educational resources for home health aides, registered nurses, and therapists.

She has been published in many healthcare publications including: *The American Journal of Nursing, Caring Magazine and House Calls: The Newsletter*. In addition, she served on the advisory board for Columbia College of Nursing and is a charter member of the MSOE School of Nursing Honor Society.

Diane received Bachelor of Science and Master of Science degrees from Cardinal Stritch University and a nursing diploma from the Columbia Hospital School of Nursing.
About 65 Incorporated

*65 Incorporated* is an innovative online resource to guide you and your family through the Medicare planning process.

Founded in Milwaukee in 2012 by registered nurse and nationally-known Medicare expert Diane J. Omdahl and her daughter Melinda Caughill, *65 Incorporated* is an independent and unbiased source of Medicare guidance. We don’t sell insurance and we don’t work for the government. Our only interest is in helping you get the most out of Medicare. *65 Incorporated* is different from other Medicare help because we’re dedicated to the 4 Cs of Medicare.

- **Clear**—We present complication Medicare information in understandable terms.
- **Correct**—Our experts’ information is always up-to-date and accurate.
- **Complete**—We can guide you all the way through the Medicare process from start to finish.
- **Credible**—Our sole purpose is to provide unbiased advice based on accurate information.

*65 Incorporated* does not sell insurance and we make no money from the insurance companies or Medicare. We are not (and don’t want to be) endorsed by the government.
The Letter:

You signed up for Medicare and just got a letter from Social Security. It says you must pay “higher premiums for Medicare Part B, medical insurance, and prescription drug coverage.” What is this all about? Why do you have to pay more?

It’s time to learn about IRMAA.

The History:

From 1966, when the premium was $3 a month, until 2006 when it was $88.50, every Medicare beneficiary paid the same for Part B, medical insurance. Then the Medicare Modernization Act changed that. Since 2007, higher income beneficiaries have paid an additional amount on top of the standard Part B premium. This is known as the Income-Related Monthly Adjustment Amount, IRMAA for short. The Affordable Care Act of 2010 mandated that these same higher-income beneficiaries also pay a monthly adjustment for Part D, prescription drug coverage.

Why did Medicare implement these adjustments?

The obvious reason—save the Medicare program some money. IRMAA is referred to as a “Medicare subsidy reduction.” Higher income beneficiaries pay a bigger percentage of the costs of Parts B and D, thereby reducing the government’s subsidy and saving money for the Medicare program. The government expects IRMAA to generate Medicare savings of about $36 billion over a 10-year period. Translated, that means higher income beneficiaries will pay $36 billion more for Medicare coverage.
The Basics:

Medicare uses the beneficiary’s modified adjusted gross income (MAGI) to determine the adjustment. This is a different MAGI from the one the IRS uses to determine eligibility for certain deductions, such as tuition or retirement plans, including ROTH IRAs.

The MAGI for IRMAA determinations is the total of tax-exempt interest (line 8B of IRS form 1040 or 1040A) and the adjusted gross income (last line). (See Figure 1.) If the MAGI is above a given threshold (see Figure 2), the beneficiary will pay the designated IRMAA along with the monthly premiums for Parts B and D.

Be aware that one-time income, such as capital gains, the sale of property, withdrawals from an IRA or conversion to a Roth Account, and casino or lottery winnings can have an impact on the MAGI. One-time income will affect IRMAA premiums for only year. However, careful planning may minimize the impact.

Medicare establishes the brackets for IRMAA using statutory percentage-based tables or a sliding scale. The additional monthly adjustments for Parts B and D equal 35, 50, 65, or 80 percent of the total cost of coverage. The more income a beneficiary has, the greater the portion of coverage he or she must pay.

The adjustment kicks in at $85,000 for a single individual and a married individual filing separately, and at $170,000 for a married couple filing jointly.

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**Figure 1:**

The MAGI for IRMAA determinations is the total of tax-exempt interest and the adjusted gross income.

**Figure 2:**

If the MAGI is above a given threshold, the beneficiary will pay the designated IRMAA along with the monthly premiums for Parts B and D.
Sandra Simpson is single. In 2013, she pays a Part B IRMAA of $167.80 per month. That’s $272.70 a month for Part B coverage. She pays $62.20 a month for Part D – the monthly plan premium of $14.10 with an additional $48.10 adjustment.

David and Doris Donaldson file jointly and have a MAGI of $300,000. Each month, they will each pay an additional $104.90 for Part B and $29.90 for Part D.

Helen Houston retired from her executive position in January 2009. She was not subject to IRMAA in 2011. However, in August of 2010, she unretired and took a position as a highly paid consultant. After reviewing her 2010 tax return, Social Security informed her that she would pay more in 2012 and also sent her an invoice for 2011.

The Social Security Administration, on behalf of Medicare, looks at beneficiary tax records two years prior to the premium year (PY-2 in tax lingo) to determine IRMAA applicability.

Every fall, Social Security works with the IRS to identify higher-income beneficiaries for the upcoming premium year, again looking at PY-2 information. Social Security may determine that the beneficiary will pay an adjustment not just for the upcoming year but also for the past year.

John Jones turns 65 years old in June 2013. Around the time of his enrollment, Social Security will review his 2011 tax return to determine his modified adjusted gross income.

for a married individual filing jointly. In 2013, the additional premiums for Part B range from $42.00 to $230.80 per month added on top of the standard premium ($104.90). The additional amounts for Part D range from $11.60 to $66.40 per month.
Social Security sends a letter to higher-income beneficiaries explaining the reasons for the increase in premiums, the information used to compute the adjustment, and the amount. Social Security deducts the adjustments for Parts B and D from the monthly checks for those receiving benefits from Social Security, Railroad Retirement Board, or the Office of Personnel Management. If the adjustment amount is greater than the monthly payment or there are no monthly payments, the beneficiary will get an invoice. (See Figure 3.) Part D IRMAA payments go to the government agency, not the drug plan. Failing to pay the invoice can result in termination of Part B or Part D coverage.

**Figure 3:**
If the beneficiary does not receive a monthly benefit check, he or she will get an invoice.

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U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES
CENTERS FOR MEDICARE & MEDICAID SERVICES (CMS)

NOTICE OF MEDICARE PREMIUM PAYMENT DUE

BILLING NOTICE DATE: <Type Address Here.>

Use Visa/MasterCard/American Express/Discover or make check/money order payable to "CMS Medicare Insurance." Send payment with the bottom portion of this notice in the enclosed envelope to:
Medicare Premium Collection Center
P.O. Box 790355
St. Louis, MO 63179-0358

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Part A: TERMINATION DATE: 
Part B: TERMINATION DATE: 
TOTAL AMOUNT DUE: $ 
PAYMENT DUE BY: 
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**The Response:**
If the MAGI exceeds a threshold, there is nothing that can be done. The beneficiary must pay the stipulated monthly adjustment or face a cancellation of Medicare.

However, circumstances can change. The notification letter from Social Security describes two reasons for a drop in the MAGI and what the beneficiary can do.

The first one: The MAGI decreased because the beneficiary filed an amended tax return or the IRS made an error. In this case, the beneficiary can ask Social Security for a new decision based on that information. The beneficiary must provide the necessary documentation, which can include proof of an IRS correction, an amended tax return, or documentation of an obvious IRS transcription error in tax-exempt interest income.

The second one: There was a life-changing event that significantly reduces the MAGI. Events recognized by Social Security include marriage, divorce or annulment, death of a spouse, work stoppage, work reduction, loss of income-producing property, and loss or reduction of pension income.

Henry Henderson was a highly paid executive in 2010. However, he lost his job in 2011 and his income dropped considerably in 2012.
The decrease in income must be significant enough to drop the MAGI at least one bracket. If not, the monthly adjustment amounts will not change.

Susan Solomon took a voluntary decrease in hours. Her MAGI as a single filer decreased from $155,000 to $125,000. This life-changing event did not change the IRMAA bracket so she will continue to pay the monthly amount.

If the drop in income has an impact on the MAGI, as in Henry’s case, the best option is to submit Form SSA-44, Medicare Income-Related Monthly Adjustment Amount—Life-Changing Event, to Social Security. (Download at www.ssa.gov/online/ssa-44.pdf.) (See Figure 4.) This form documents the event that reduced the MAGI and asks for a new determination based on current income.

A financial advisor asked, “How can we fix this so my clients don’t have to pay IRMAA?”

There really is no way to avoid payment if a client’s MAGI crosses an IRMAA threshold. Then, he asked, “Since Parts B and D are optional, what about if they just don’t sign up for them? Then there would be no premiums to pay and no IRMAA added on top.”

Most health care consultants will respond that it would be very unwise not to enroll in Part B. The individual would incur many out-of-pocket costs for services that would not then be covered by Part B. What is more important, Part B enrollment is necessary to purchase a Medicare Advantage plan, a more cost-effective option for many Medicare beneficiaries, or a Medigap policy, Medicare supplement insurance.

On the other hand, some (particularly those not on medication or taking one or two generic drugs) may question the need for a prescription drug plan. Why pay $29 or $48 extra a month for medications that are available for considerably less from big-box drug stores or mail-order pharmacies?

There are some dangers involved. Prescription drug prices are increasing at an average annual rate of 6 to 7 percent. Also, if a prescription drug plan becomes a necessity further down the road, there would be a Late Enrollment Penalty. Right now that would add about 31 cents for every month the beneficiary did not have creditable drug coverage. This advisor should help his clients with a guesstimate.

Because Walter Wallace was subject to IRMAA, he did not buy a Part D plan. When he finally enrolled 42 months later, the penalty caught up with him. He now pays an additional $13.05 every month for a drug plan. Every year from now on, Walter will pay more for a drug plan, based on the standard drug plan premium for that year.

How much would they save by delaying Part D enrollment versus how much extra in penalties would they pay once enrolled in Part D? If one expects his or her income to drop significantly in a year or two, the Late Enrollment Penalty (instead of IRMAA) may be a less expensive option. However, there are many unknowns and health status is not guaranteed. The advisor should tell his clients to evaluate costs and health risks that are likely over the long haul.
In both cases, the beneficiary has 10 days to contact Social Security before it applies the monthly adjustment. Approximately 20 days after this initial notice, the beneficiary will receive another notice, reaffirming the IRMAA and decision and including the beneficiary’s appeal rights.

If a beneficiary disagrees with the amount of the MAGI reported by the IRS, Social Security says its up to him or her to resolve that with the IRS. If there’s no amended return or life-changing event but there’s still disagreement with the decision, the beneficiary has the right to appeal. Check out these links for guidance on appealing an IRMAA decision:

http://ssa-custhelp.ssa.gov/app/answers/detail/a_id/1598/~/appealing-the-amount-of-my-medicare-part-b-or-medicare-prescription-drug

www.socialsecurity.gov/pubs/10536.html#a0=6

www.hhs.gov/omha/Part%20B%20Premium%20Appeals/partb_appeals.html

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**The Future:**

Medicare emphasizes that only a small number of beneficiaries will pay higher premiums. That was true in 2011. About 5 percent paid the Part B adjustment and 3 percent paid the Part D adjustment. But that’s going to change.

The Affordable Care Act froze the income thresholds on page 3 through the year 2019. With the inflation adjustment gone, more beneficiaries will fall into IRMAA’s net. Medicare rights’ advocates have reported that the numbers paying more for Part B will increase to 14 percent by 2019 with 9 percent paying more for Part D. New beneficiaries tend to have higher incomes and IRMAA will hit them harder. One in five new Medicare beneficiaries in 2019 will likely pay the Part B adjustment and 11 percent will pay extra for Part D. Current ideas for reforming Medicare include higher-income beneficiaries paying an even larger share of the cost of Medicare.
Takeaway facts:

- IRMAA is here to stay.
- More Medicare beneficiaries will fall into IRMAA’s net.
- If the MAGI crosses the threshold, the beneficiary must pay the appropriate monthly adjustment amount for Part B, medical insurance, and/or Part D, prescription drug coverage.
- Verify that your income tax statements report accurate data about tax-exempt interest and income.
- Talk with a financial advisor before taking any actions that can have an impact on your MAGI.
- Pay attention to any notice you receive from Social Security.
- Notify Social Security about any life-changing event.
- Before making any significant financial decisions, consult with a financial advisor to discuss any impact on your MAGI.
- Don’t risk your health care coverage just to avoid paying any monthly adjustment.

Glossary of Terms:

- **Beneficiary**
  An individual who is enrolled in Medicare and eligible to receive benefits.

- **Creditable drug coverage**
  Prescription drug coverage that is, on average, expected to pay at least as much as standard Medicare prescription drug coverage.

- **Income-Related Monthly Adjustment Amount (IRMAA)**
  An additional amount higher-income beneficiaries pay each month for Part B, medical insurance, and Part D, prescription drug coverage when the MAGI is at least $85,000 for a single filer or $170,000 for a couple.

- **Life-changing event**
  An event recognized by Social Security as having an impact on an IRMAA determination. These events include marriage, divorce, or annulment, death of a spouse, work reduction or stoppage, loss of income-producing property, and lost or reduction of pension income.

- **Modified adjusted gross income (MAGI)**
  For IRMAA purposes, this is the total of tax-exempt interest (line 8B of IRS form 1040 or 1040A) and the adjusted gross income (last line on page 1 of the IRS form).

References:


Signing up for a Medicare Advantage plan?

Did you know?

Choosing the wrong plan could cost you hundreds – even thousands – of extra dollars out of your own pocket!

Not all plans are created equal, and choosing the wrong Medicare Advantage plan can be very costly. Thankfully, Medicare has a fantastic tool called the Plan Finder to help you compare plans. But, there’s some bad news, too.

While plenty of resources teach you how to use the Medicare Plan Finder, none of these helps you understand the results and pick the best Medicare Advantage plan....

UNTIL NOW.

With “A Guide to Choosing a Medicare Advantage Plan: Using the Plan Finder,” a new educational video program from 65 Incorporated, you’ll learn not only how to use the Plan Finder, you’ll learn to interpret the results and find the best Medicare Advantage plan for you. Priced at just $19.95, this program will save you time, headaches, and even thousands of dollars out of your pocket.

Choose the best Medicare Advantage plan for YOU!

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“A Guide to Choosing a Medicare Advantage Plan: Using the Plan Finder”
Available at www.65Incorporated.com