

# Paying More for Medicare?

*Here's Why and What To Do*



*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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Produced and published in the United States by:

65 Incorporated  
1009 W. Glen Oaks Lane  
Suite 105  
Mequon, WI 53092

Revision 1.0, January 2013



# Table of Contents

About the Author.....	<i>iv</i>
About 65 Incorporated .....	<i>v</i>
The Letter .....	1
The History .....	1
The Basics .....	2
The Response.....	4
The Future .....	6
Take-Away Facts.....	7
Glossary of Terms .....	7
References .....	7



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About the Author & Presenter

## Diane J. Omdahl, RN, MS

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 complicated 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.



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## 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.



Social Security Administration  
Medicare Premiums  
Important Information

SOCIAL SECURITY  
712 PARK AVENUE  
WEST BEND WI 53090

00036 MEDM74 N1 0440  
ROBERT A OLSON  
13466 N PETER PIPER COURT  
ANYCITY, WI 53555-3546

Date: May 22, 2012  
Claim Number: 555-45-5555T

A Medicare law requires that some people, based on their income, pay higher premiums for their Medicare Part B (Medical Insurance) and their prescription drug coverage. We call the additional amount an income-related monthly adjustment amount. We received information about your income from the Internal Revenue Service (IRS) that shows you must pay higher premiums.

If you do not contact us within 10 days after you receive this letter, we will send you another letter which will tell you how you will pay the income-related monthly adjustment amount.

If you currently do not have Medicare Part B or prescription drug coverage and enroll in 2011, those premiums will also be increased based on your income.

**Your Income-Related Monthly Adjustment Amount**

Based on the information we have, you will pay \$253.70 for the Medicare Part B income-related monthly adjustment amount. This change will be effective June 2011.

**How We Decided Your Income-Related Monthly Adjustment Amount**

To decide if your income is high enough that you must pay an income-related monthly adjustment amount, the Internal Revenue Service (IRS) gave us information about your modified adjusted gross income (MAGI) from your income tax return for 2009. MAGI is the sum of your adjusted gross income plus certain amounts of income that are not taxable. Adjusted gross income is from line 37 of the IRS Form-1040 and tax exempt interest income is from line 8b of IRS Form-1040. 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 income-related monthly adjustment amount for only one year.

C See Next Page

*“...higher income beneficiaries will pay \$36 billion more for Medicare coverage.”*

## 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.

Figure 1:

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

<b>Income</b>	<b>7</b>	Wages, salaries, tips, etc. Attach Form(s) W-2 . . . . .	<b>7</b>	
	<b>8a</b>	Taxable interest. Attach Schedule B if required . . . . .	<b>8a</b>	
	<b>b</b>	Tax-exempt interest. Do not include on line 8a . . . . .	<b>8b</b>	
	<b>36</b>	Add lines 23 through 35 . . . . .	<b>36</b>	
	<b>37</b>	Subtract line 36 from line 22. This is your <b>adjusted gross income</b>	<b>37</b>	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 1040B Form **1040** (2011)

## 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

Rose and Ross Richmond retired two years ago. In early 2011, they each converted \$100,000 from their IRAs to Roth accounts. That put them over the threshold for IRMAA. They paid an additional \$1,394 in premiums for Parts B and D.



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

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.

Single filer	MAGI	Part B IRMAA	Total Part B Premium	Part D IRMAA
	More than \$85,000 but less than or equal to \$107,000	\$40.00	\$139.90	\$11.60
	More than \$107,000 but less than or equal to \$160,000	\$99.90	\$199.80	\$29.90
	More than \$160,000 but less than or equal to \$214,000	\$159.80	\$259.70	\$48.10
	More than \$214,000	\$279.80	\$319.70	\$66.40
Married individual filing jointly	MAGI	Part B IRMAA	Total Part B Premium	Part D IRMAA
	More than \$170,000 but less than or equal to \$214,000	\$40.00	\$139.50	\$11.60
	More than \$214,000 but less than or equal to \$320,000	\$99.90	\$199.80	\$29.90
	More than \$320,000 but less than or equal to \$428,000	\$159.80	\$259.70	\$48.10
	More than \$428,000	\$279.80	\$319.70	\$66.40
Married individual filing separately	MAGI	Part B IRMAA	Total Part B Premium	Part D IRMAA
	More than \$85,000 but less than or equal to \$129,000	\$159.80	\$259.70	\$48.10
	More than \$129,000	\$279.80	\$319.70	\$66.40

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.



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.

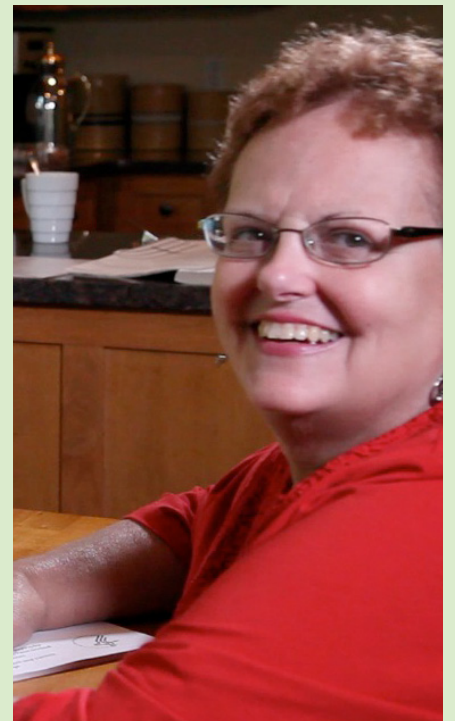
The Social Security Administration, on behalf of Medicare, looks at beneficiary tax records two years prior to the premium year (PY-2 in tax lingo) to determine IRMAA applicability.

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.



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.





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.*

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

**NOTICE OF MEDICARE PREMIUM PAYMENT DUE**

BILLING NOTICE DATE: \_\_\_\_\_

YOUR CLAIM NUMBER: \_\_\_\_\_

<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 63179-0355**

	Hospital Insurance Part A	Medical Insurance Part B	IRMAA Part D	=	Total Amount
Current amount due for Part A and/or Part B	\$	\$	\$	\$	\$
Past due amount for Part A and/or Part B	\$	\$	\$	\$	\$
Current amount due for IRMAA Part D	\$	\$	\$	\$	\$
Past due amount for IRMAA Part D	\$	\$	\$	\$	\$

Part A: TERMINATION DATE: \_\_\_\_\_

Part B: TERMINATION DATE: \_\_\_\_\_

TOTAL AMOUNT DUE: \$ \_\_\_\_\_

PAYMENT DUE BY: \_\_\_\_\_

## 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, workstoppage, 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](http://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.”

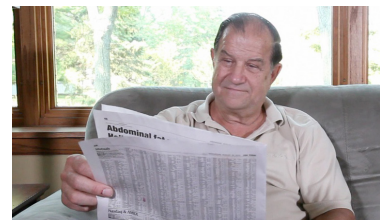
Most health care consultants will respond that it would be very unwise not to enroll in Part B. The individual would incur many out-of-pocket costs for services that would not then be covered by Part B. What is more important, Part B enrollment is necessary to purchase a Medicare Advantage plan, a more 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](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](http://www.socialsecurity.gov/pubs/10536.html#a0=6)

[www.hhs.gov/omha/Part%20B%20Premium%20Appeals/partb\\_appeals.html](http://www.hhs.gov/omha/Part%20B%20Premium%20Appeals/partb_appeals.html)

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'

Figure 4:

*This form documents the event that reduced the MAGI and asks for a new determination based on current income.*

**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
20 ____	\$ _____.	\$ _____.

*“Medicare emphasizes that only a small number of beneficiaries will pay higher premiums. ... But that’s going to change.”*

**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:

Department of Health and Human Services, "Office of Medicare Hearings and Appeals (OMHA), Medicare Part B Premium Appeals." ([www.hhs.gov/omha](http://www.hhs.gov/omha))

Social Security Administration, "Medicare Premiums: Rules For Higher-Income Beneficiaries," SSA Publication No. 05-10161, March 2012.

"Medicare Part B Premiums: What You Can Do If You Think Your Medicare Part B Income-Related Premium Is Incorrect," SSA Publication No. 05-10125, January 2011.

Medicare.gov, "Medicare Costs at a Glance." ([www.medicare.gov/your-medicare-costs/costs-at-a-glance/costs-at-a-glance.html](http://www.medicare.gov/your-medicare-costs/costs-at-a-glance/costs-at-a-glance.html))



1009 W. Glen Oaks Lane  
Suite 105  
Mequon, WI 53092

*[www.65incorporated.com](http://www.65incorporated.com)*

# 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!**

CLICK HERE TO  
**WATCH THE PREVIEW!**

“*A Guide to Choosing a Medicare Advantage Plan: Using the Plan Finder*”  
Available at [www.65Incorporated.com](http://www.65Incorporated.com)

