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Private Wealth
Management

Managing Your Medicare Premiums

How to stay in front of your Medicare costs – even if they change on you

How much you'll end up paying for your Medicare coverage depends on a variety of factors, including your work history, current income level, age, health status, the specific Medicare plans selected and the year in which you apply. There are also three different components of what you'll end up paying for: premiums, deductibles, and co-insurance – and Medicare may decide at some point to change these things. Fortunately, with a little planning you can dampen down the surprises – and keep your expenses to a minimum.

What you pay for Medicare is determined by your modified adjusted gross income (MAGI) as reported to the IRS. As a practical matter, this means that your premiums will be calculated based on your reported MAGI from two years earlier, so your 2022 Medicare premiums

would usually be based on your 2020 tax return, and so on. The greater the MAGI, the more you would pay.

This can be especially detrimental for people who still have sizable income in retirement. In particular, a large IRA that incurs sizable required minimum distributions (RMDs) may cause you to pay inflated Medicare premiums. It's important to get out in front of these issues and take a thoughtful approach to how you take your RMDs. One tactic: begin tapping your IRAs before age 72 to help bring down your balances, and your subsequent RMDs.

Another group at risk of inflated premiums: Business owners who may not be actively involved in the activity, but for tax reporting purposes have business income flowing through their ►

Managing Your Medicare Premiums *continued*

personal return. In those instances, you may have reported income, but not actually see distributed dollars to pay the higher cost.

It's also important to note that your Medicare premiums may not be static. Each December, Medicare recipients will get a notice if their Medicare premiums have been adjusted due to their income, called an Income Related Monthly Adjustment Amount (IRMAA). For 2022, as an example, recipients whose MAGI was above \$91,000 (or \$182,000 for a couple) from two years prior (2020 in this case) would be subject to IRMAA. Depending on your income levels, your monthly premium can literally double, from \$170.10 per month to \$340.20 per month. But if you are subject to IRMAA one year due to a one-time event like a large capital gain or sale of property, that amount is recalculated each year and could be reduced the following year. You are not necessarily locked into a permanent premium increase.

If you find yourself facing an IRMAA, you are permitted to file an appeal to get your premiums reduced, but you must attest to having had a "life-changing event." The most common example is a decrease in income due to

retirement and no longer having wage income. You only have 60 days from the time you get notification to file your appeal, so you'll need to stay on top of this.

Medicare is a complex landscape, and pre-retirees often enter it with little experience in how it works. For guidance on how you can keep your Medicare costs down, consult with your Baird Financial Advisor team.

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Please reach out if you or anyone you know would benefit from discussing this topic further.

If you filed your taxes as:	And your MAGI was:	Your Part B monthly adjustment is:	Your prescription drug coverage monthly adjustment is:
Single Head of Household Qualifying Widow(er) with Dependent Child Married: Filing Separately (and you did not live with your spouse in tax year)	\$ 91,000.01 - \$114,000.00	\$ 68.00	\$12.40
	\$114,000.01 - \$142,000.00	\$170.10	\$32.10
	\$142,000.01 - \$170,000.00	\$272.20	\$51.70
	\$170,000.01 - \$499,999.99	\$374.20	\$71.30
	More than \$499,999.99	\$408.20	\$77.90
Married: Filing Jointly	\$182,000.01 - \$228,000.00	\$ 68.00	\$12.40
	\$228,000.01 - \$284,000.00	\$170.10	\$32.10
	\$284,000.01 - \$340,000.00	\$272.20	\$51.70
	\$340,000.01 - \$749,999.99	\$374.20	\$71.30
	More than \$750,000	\$408.20	\$77.90
Married: Filing Separately (and you lived with your spouse during part of that tax year)	\$91,000.01 - \$408,999.99	\$374.20	\$71.30
	More than \$409,000.00	\$408.20	\$77.90

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