SOLVING THE MEDICARE PUZZLE: WHAT PIECES AM I MISSING?

Of all the elements that contribute to a successful retirement, finding proper health care coverage and the best way to pay for it is critical. We've covered multiple elements of the Medicare enrollment process in some prior articles here, here, and especially here and with the Oct. 15, 2020, Medicare enrollment date rapidly approaching, we encourage you to review that content. At the same time, we wanted to make sure we covered a few additional concepts for you to keep in mind as you begin to navigate the enrollment process.

How to Pay for Medicare

While Medicare Part A may or may not cost you anything, Part B most likely will, and any Medicare Advantage plan (also known as Part C) is most likely going to cost you a monthly premium. The question then becomes, how should I approach covering these expenses in retirement? The answer is going to depend on your specific situation. Keep in mind that withdrawals from your various retirement or brokerage accounts will carry with them different tax ramifications. For that reason, it's important to balance withdrawals from higher taxed accounts with the need to meet the fixed amount of premiums you'll need to pay each month.

To avoid this tax dilemma altogether, consider using a Health Savings Account (HSA), which you may have contributed to while you were working. HSA funds can be withdrawn for any purpose after age 65, but if they're used to pay for eligible health care expenses or Medicare premiums, you won't pay any tax or penalty. Keep in mind that, if you've already started taking Social Security payments, those funds can also be used to pay your premiums.

How Medicare Premiums Are Calculated

The amounts you pay for your Medicare Part B and Part D prescription drug premiums are directly influenced by your modified adjusted gross income (MAGI), which is basically your total amount of income in one year including any tax-exempt interest you may receive. From there, depending on which tax bracket you fall into, your premiums will go up accordingly. Those amounts increase to the point that, if you're making over $750,000 a year as a married couple, you're pushed into the highest premium rate each month, which can be over three times larger than the lowest monthly rate.

While there may be certain "life-changing events" that can adjust your premium during the year, it's important to factor in how much income you're recognizing during a given year to avoid paying the higher premium amounts. Whether it's the sale of an asset or a tax mitigation strategy like a Roth IRA conversion, consider the potential income and tax ramifications of these actions. You could end

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up with a larger tax bill as a result and potentially a significantly larger Medicare premium liability moving forward.

Avoiding Complications

To help avoid many of these complications, consider working with a knowledgeable wealth advisor who can help you create cash flow and tax projections. An advisor can also help ensure you're not caught with a large tax or Medicare bill. With a comprehensive wealth management plan, you can be sure you're not overpaying for one of the more important health expenses you'll have in retirement.

Sources:

"Medicare Premiums: Rules for High-income Beneficiaries," ssa.gov.

"Part B Costs," medicare.gov.