Appealing the IRMAA (Income Related Monthly Adjustment Amount)

The IRMAA was instituted in 2007 as a way to reduce the government's Part B subsidy. (The Part D IRMAA was added in 2010 as part of the Affordable Care Act.) Generally, the government pays 75% of Part B costs out of general revenues and Medicare enrollees pay 25% via their Part B premiums. In setting the Part B premium each year, the Centers for Medicare and Medicaid Services (CMS) estimates the total cost of Part B services for the coming year—that is, the 80% covered by Medicare—and divides by the total number of Part B enrollees to get the average cost per beneficiary. Then the base Part B premium is set at 25% of this amount. The base premium of $144.60 in 2020 means that the estimated cost of Part B services for the average beneficiary came in at $578.40 per month ($144.60 ÷ 0.25). So the government's 75% share of the per-capita Part B cost is $433.80 ($578.40 x 0.75). To reduce this subsidy paid by the government, the IRMAA forces individuals with income over $87,000 and couples with income over $174,000 to pay anywhere from 35% to 85% of the $578.40 cost, depending on which income tier they fall into.

Medicare beneficiaries are notified of their Part B premium when they first enroll in Medicare at age 65 or upon leaving employment, and annually thereafter in November. The premium, and whether or not the IRMAA will be added, is based on the latest information available from the IRS, which is generally tax returns from two years prior. So the 2020 IRMAA is based on 2018 tax returns filed in 2019. Looking ahead, this year's income (2020) will determine 2022 premiums.

The income used to determine the IRMAA is modified adjusted gross income (MAGI), which for this purpose is adjusted gross income (AGI) as found on Line 8b of Form 1040, plus tax-exempt interest (Line 2a). Note that AGI includes 85% of the Social Security income (Line 5b) if you have enough other income to cause 85% of Social Security to be taxable. If MAGI is over $87,000 for individuals or $174,000 for married couples, the Part B and Part D premiums will include the IRMAA for whichever income tier you fall into. The income tiers, after being static for several years, are now being adjusted for inflation as measured by the CPI-U from September to August. Currently, the annual CPI-U is running around 0.6%, suggesting there may be little or no adjustment to the IRMAA income tiers next year. Note that this is different from the national health care inflation rate used to determine Medicare premiums, which is expected to grow by 5.4% a year through 2028.

When you retire

I've heard of people who retire, enroll in Medicare, get their premium notice which is based on their working income two years prior, and assume they'll have to pay the IRMAA for the next two years until their lower retirement income shows up on the tax return used to determine the IRMAA. Not only must they now take on health insurance premium costs themselves after the employer subsidy goes away, they assume they'll have to pay the larger-than-usual premium costs on their now-lower retirement income. What a cruel double-whammy this would be.

Fortunately, it's only a single-whammy. They still must be responsible for their own premium costs when switching from employer insurance to Medicare, but they can appeal the IRMAA and have their Part B and Part D premiums be based on their current income. There are eight specific life-changing events that are grounds for IRMAA appeal, which is technically called a request for reconsideration: marriage, divorce, death of a spouse, work stoppage, work reduction, loss of income-producing property, loss of pension income, and employer settlement payment. If a life-changing event is not on this list, it is not grounds for appeal. Note that receipt of extraordinary income due to a property sale or other transaction is not grounds for appeal.

The IRMAA assessment is done annually, so if someone is charged the IRMAA due to an unusual income event, such as a capital gain or Roth conversion, it will be for that year only. This is why it may make sense to bite the bullet and do the Roth conversion and pay the IRMAA for one year in order to reduce RMDs which may trigger the IRMAA in future years. Better yet, do the Roth conversions more than two years before starting Medicare.

The important thing to understand about the IRMAA table is that they are cliff brackets. If your MAGI goes over the threshold by one dollar, your Medicare premium could go up by $60 to $90 per month, depending on which tier you jump into. With Medicare premiums now taking a bigger bite out of people's budgets (the Part B premium was just $3 when Medicare started in 1965), managing the IRMAA is just as important as managing taxes—both now and in the future.

Work stoppage

Work stoppage is the most common reason for appealing the IRMAA.

In step 1, on Form SSA-4A, check the "work stoppage" box and give the date of the life-changing event. This applies to both self and spouse. So, if the wife, say, has been paying the IRMAA based on the husband's income and the husband retires, both will file Form SSA-44 claiming the husband's work stoppage as grounds for appeal.

In step 2, specify the tax year income was reduced by the life-changing event. The instructions on page 6 of the form are rather confusing, but basically, enter the year income was, or is expected to be, reduced. A person retiring in 2020 would put 2020 as the year the reduction in income took place. Since the 2020 AGI is not known yet, enter an estimate of the 2020 AGI, plus any tax-exempt interest you expect to receive.

Step 3 asks if MAGI will be lower the following year—2021 in our example. This is the year you would be fully retired, so check "yes" and enter an estimate of the 2021 income.

Step 4 asks for documentation. This might be an original signed statement from the employer, copies of pay stubs, or documents that show a transfer of your business. The form does note that in the absence of such proof, they will accept a signed statement, under penalty of perjury, that you partially or fully stopped working or accepted a job with reduced compensation. SSA will base the appeal on income estimates, but they will follow up by checking tax returns, either the signed return submitted or the transcript obtained from the IRS.

It should be noted that certain income may be counted toward MAGI, even if a valid life-changing event has occurred. For example, a friend of mine retired in 2018 and successfully appealed the IRMAA for 2018 and 2019 because it was based on her high income from 2016 and 2017 when she was working. When she was charged the IRMAA again in 2020 because her severance package received in 2018 pushed her over the threshold, she appealed again. After initially granting the appeal, SSA came back and said that severance pay had to be included in MAGI for the purpose of figuring the IRMAA. My friend tried to fight it, saying it was SSA's mistake that the 2020 appeal was granted and that it was not fair for them to now charge the IRMAA when they initially said it wasn't due. But no luck. SSA withheld a couple of her Social Security checks to recapture the funds. Next year, however, she should be home free. She is being careful to keep her income under the $87,000 threshold, understanding that if it goes over by one dollar, she'll have to pay several hundred dollars more in Medicare premiums.

Amended return or inaccurate tax information

Other than one of the life-changing events, an IRMAA appeal can also be based on the fact that the tax information SSA got from the IRS was inaccurate or out of date, such as when:

- A beneficiary filed an amended tax return for the year SSA is using to make an IRMAA decision.
- There was an error in the IRS data.
- The IRS provided SSA with older data and the beneficiary wants to use newer information. In this case, a request for reconsideration can be submitted on Form SSA-561-U2.

Completed forms should be mailed or taken to the local Social Security office. You can call SSA at 800-772-1213 for guidance.

Clelan and Company, 210 Grandview Avenue, Suite 101, Camp Hill, PA 17011
(717) 761-4633, www.clelan.com, financialpro@clelan.com