

The Street

MEDICARE IRMAA: WHAT HIGH-INCOME RETIREES NEED TO KNOW

Learn about the Medicare IRMAA surcharge, how it's calculated, and how high-income retirees can plan to minimize its impact. Discover strategies to lower your MAGI and avoid unexpected costs.

By: Nick Bour - April 15, 2025

Having a higher income, especially in retirement, is the ultimate goal. It ensures financial stability, allowing you to maintain your standard of living while giving you the freedom to spend your golden years however you wish. But when it comes to Medicare, a higher income could force you to pay more out of pocket. This charge is known as the income-related monthly adjustment amount (IRMAA) and if you're not aware of it, it could catch you by surprise.

IRMAA is an extra charge that is applied to Medicare premiums for Parts B and D for retirees with higher incomes. To determine whether you'll owe an IRMAA surcharge, Medicare sets a specific modified adjusted gross income (MAGI) threshold that is calculated by adding your adjusted gross income (AGI) to certain income sources that aren't normally included in your AGI. This includes tax-exempt interest income, non-taxable Social Security benefits, foreign earned income and housing exclusions as well as income from U.S. savings bonds used for education. From there, the Social Security Administration is responsible for figuring out who owes this extra charge and notifying beneficiaries.

To determine whether you'll be subject to an IRMAA surcharge, the Social Security Administration uses your income from your income tax returns filed two years prior. For example, the IRMAA surcharge will be added to 2025 premiums for single filers whose income exceeded \$106,000 in 2023. For married couples filing jointly, the IRMAA surcharge will be added if the income reported on their 2023 tax return exceeds \$212,000.

While the income brackets change annually, averaging an inflation rate of less than 1.5%, it's important to note that from 2009 to 2019, the IRMAA brackets did not inflate or increase. As a result, due to factors like cost-of-living adjustments, incomes naturally increased over time pushing more Medicare beneficiaries into higher IRMAA tiers. However, in 2020 the Bipartisan Budget Act of 2018 introduced annual inflation adjustments to IRMAA brackets.

Retirees do have the option to appeal the IRMAA surcharge if a life changing event occurs such as marriage, divorce, the death of a spouse, retirement or work reduction or the loss of a pension. In order to appeal the surcharge, you must complete form SSA-44, provide documentation to support the appeal such as a retirement letter or pension reduction statement, and submit the form to the Social Security Administration. If you think your IRMAA was calculated incorrectly, you can request a reconsideration or provide a more recent tax return if your income is now lower than it was two years ago.

There are various planning and reduction strategies that can help offset this surcharge. Full or partial Roth conversions, life insurance policies with a cash value, health savings accounts, specific annuities, 401H plans, reverse mortgages or home equity lines of credit are all strategies that can help keep your MAGI below IRMAA thresholds. It's worth noting that capital gains and selling investments from

a taxable account will count toward your MAGI, which could impact IRMAA calculations. Taking required minimum distributions (RMDs) will also count toward IRMAA and could push you into a higher IRMAA bracket. However, with proper planning—such as creating a tax-sheltered income from a life insurance policy—can help keep your MAGI below the IRMAA threshold.

Unfortunately, I believe IRMAA surcharges will get worse before they get better. Since 2007, IRMAA surcharges (not the income brackets) have been inflating by 7.5% on average each year. Medicare Part B and Part D base rate premiums have also been inflating an average of 6-9% each year over the past 20 plus years. According to the Medicare Board of Trustees, Medicare premiums need to inflate by at least 6% annually for Medicare to stay solvent for the next eight to ten years. In fact, the Medicare Board of Trustees are projecting IRMAA surcharges could inflate more than 7.5% annually moving forward.

When it comes to planning for IRMAA, I highly recommend starting in your early-to-mid-50s. Taking this proactive approach in your retirement planning can help you avoid unexpected charges in retirement. Consider working with an IRMAA certified planner who can run an IRMAA stress test that will show the total Medicare costs you'll owe in retirement and forecasts which bracket you'll fall into from your current taxable assets.

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