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How to Dodge Higher Medicare Premiums

Ashlea Ebeling, 11.05.09, 5:20 PM ET

Better-off seniors face stiff Medicare Part B premium hikes next year and likely in 2011 too. But there are steps some of them can take to minimize current or future pain.

The story is this: Since Social Security recipients are getting no cost of living increase for 2010, the law prevents basic Medicare Part B premiums for the already retired to rise as they otherwise would. But the same protection doesn't apply to the higher-income-based Part B premiums that have been phased in since 2007. Those will rise 15%, making the gap between ordinary and upper-income premiums wider than ever. (This is separate from the Medicare Part D premiums for drug coverage, which will rise for many seniors, regardless of their incomes.)

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In 2010, most retirees with modified adjusted gross income of \$85,000 or less for a single, or \$170,000 or less for a couple, will pay Part B premiums of \$96.40 a month per person, the same as in 2009. But those with higher incomes will pay anywhere from \$154.70 to \$353.60 per person, up from \$134.90 to \$308.30 per person.

Having an income just a few dollars over \$85,000 will cost a single an extra \$58.30 a month, or \$700 a year in Part B premiums. A couple whose income creeps above \$170,000 will be hit with an extra \$1,400 a year in premiums.

"I don't think people realize they pay more than the next guy," says Bernard Krooks, an elder law attorney in White Plains, N.Y. But Krooks points out there are legitimate ways to lower your premium through tax planning, or in certain cases, by asking the Social Security Administration to reevaluate whether you have to pay an income-related premium, and if so, at what tier.

Normally, each year's premiums are based on the "modified adjusted gross income" shown on tax returns due the previous April 15. (That's your AGI with tax-exempt interest income added back in.) So to determine if you pay an income-related premium in 2010, the government uses information from your 2008 tax return.

If your income has gone down because of a life-changing event, the SSA will consider a request to reduce your premium. The fact that income from your investments is down doesn't count. The SSA-approved reasons include marriage, divorce, death of a spouse, job loss or reduced hours, losing defined pension benefits or loss of income from an income-producing property because of a natural disaster.

You'll need to fill out a Form SSA-44, Medicare Part B Income-Related Premium Life Changing Event, available at www.ssa.gov or at your local Social Security office. For more details on rules for beneficiaries with higher income, see Social Security Administration publication #05-10116.

After you apply, the SSA will estimate your current year's income and adjust the premiums. In 2008, 41,000 people requested the SSA grant them lower premiums. This year, through October, 80,000 requests have been filed. Clearly, the economy is taking a toll, as 80% of this year's requests were from folks who stopped working or worked reduced hours. An SSA spokesman was not able to tell Forbes how many of these requests were approved.

If you still disagree with your Part B premium, you may request an appeal by completing a "Request for Reconsideration," Form SSA-561-U2, which you can get at your local Social Security office or [online](#).

You can also file for reconsideration if you file an amended tax return for the previous year because, say, you're carrying back losses from investing with Ponzi schemer Bernard Madoff.

As for future premium increases, now is a good time to think about managing your 2009 income, to control your 2011 premiums. "Unless you've had a sudden change in income, it's the sort of thing you can only do something about if you're close to the line," says Robert Carlson, a lawyer and CPA in Oxon Hill, Md., who publishes a monthly newsletter, *Retirement Watch*. Krooks notes, however, that some people can bunch income into one year, so they pay the income-related premium that year but not the next.

Others look to crowd deductions into one year, thereby reducing that year's income below a certain premium level. (You can, for example, make big charitable deductions one year, but not the next.)

Don't forget, there are multiple steps to the premiums. In 2010, for a single, premiums rise at \$85,000, \$107,000, \$160,000 and \$214,000. For a couple, each step is at twice the income level.

Another important point to remember: This year, older retirees have considerable ability to minimize their income by not taking required minimum distributions (RMDs) from their individual retirement accounts. Normally, you must take these distributions annually once you are 70.5 years old. But Congress has suspended that requirement for 2009 to give the balances of retirement accounts a chance to recover after the market crash of 2008.

Even if you did take out a 2009 RMD, the IRS will let you put it back in by Nov. 30, or 60 days after you took the money out, whichever is later. (For more details on this, click [here](#).)

If you need more cash to meet expenses, consider selling stocks and realizing losses in taxable accounts. Such loss harvesting is an exercise you should undertake anyway. (For more on harvesting losses, click [here](#).)

Meanwhile some Medicare beneficiaries who aren't higher income will also be paying higher premiums this year. New Medicare enrollees and those who don't have the Part B premium withheld from their Social Security benefits will pay a 2010 standard premium of \$110.50, instead of the \$96.40 that most beneficiaries will pay. (That \$110.50 would have been the basic rate for all seniors if Social Security recipients had gotten a cost of living increase.)

Here's a gotcha: If you're in Medicare this year at 65 and start taking Social Security next year, you'll pay the \$110.50 monthly premium. Likewise, if you're 69 next year and taking Medicare but are delaying applying for Social Security until next year, when you're 70, you'll pay the \$110.50. (For more on when to take Social Security, click [here](#).)

Finally, there's a slim chance of help from Congress. A bill that would freeze premiums--including the income-related premiums--at 2009 levels passed the House unanimously, but stalled in the Senate. "It's time might have passed," laments David Certner, legislative policy director with AARP in Washington, D.C.

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