

IRMAA

AVOIDING THE SURCHARGE



KNOWLEDGE SERIES

This material is unbiased and intended to impart general information regarding a premium surcharge called an **Income Related Monthly Adjustment Amount** in an easy-to-understand educational based format.



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IRMAA

In 2003, Congress passed the Medicare Modernization Act creating what is now known as (IRMMA) the Income Related Monthly Adjustment Amount. (IRMAA) could also be referred to as a Medicare Subsidy Reduction. To fully understand the effect of (IRMAA), you need to know how these regulations impact your Medicare Premiums and affect your Social Security Retirement Income.

IMPACT: You must understand your only mandatory cost in retirement. According to Social Security's Program Operation Manual system you must have Creditable Health Insurance (CHI) to be eligible to collect Social Security benefits. (CHI) over the age of 65⁺ is Medicare Part A. Medicare Part A is also known as Hospital Insurance. Medicare Part A is available premium free if you paid into FICA payroll taxes over 40-collective quarters. Enrollment into Medicare Part A is automatic for those beneficiaries 65⁺ who have started receiving Social Security Retirement benefits. Failure to have (CHI) leads to automatic forfeiture of all Social Security benefits. If you want to opt out of Medicare entitlement Part A you must pay back any Social Security and Medicare benefits received. In 2025, if you had to purchase Medicare Part A it would cost up to \$518 per month.

IMPACT: Medicare Premiums are based upon your income. Medicare premiums include the cost for Medicare Part B and Medicare Part D. Medicare Part B is also known as Medical Insurance, and Part D is known as Prescription Drug Coverage. The more income you generate could increase the premiums for Medicare Part B and known as (IRMAA-B). The more income you generate could also increase the premiums for Medicare Part D known as (IRMAA-D). Social Security Retirement benefits automatically pay for Medicare Part B premiums, and any (IRMAA) assessed surcharges. Medicare Part D premiums can be optionally elected to paid out of Social Security Retirement benefits.

IMPACT: You need to understand what triggers a Medicare Premium surcharge verses the taxation of Social Security Retirement benefits. The Income that counts towards (IRMAA) is based upon your Modified Adjusted Gross Income plus tax-exempt interest (MAGI⁺). Income over a specific threshold will trigger a surcharge. While the taxation of Social Security Retirement benefits is based upon Provisional Income. Provisional income is any W-2/1099 income, pension plan payments, withdrawals from IRA's and 401(k) plans, dividends and capital gains, interest payments from regular investments, interest from municipal bonds, and 50% of Social Security Retirement benefits paid each year.

WHAT IS IRMAA?

(IRMAA) is a surcharge for Premium Adjustment. The actual (true) cost for Medicare Part B in 2025 is \$740.00. Therefore, Medicare Part B and Medicare Part D are both subsidized as a Medicare Premium Reduction. This amount is adjusted and reported annually in the Medicare Board of Trustees Report. The difference between the actual (true) cost and the subsidy reduction is what the beneficiary pays. There is no set published formula for calculating (IRMAA) for Medicare Part D. (CMS) calculates the (IRMAA-D) amounts based off the National Base Premium for Medicare Part D drug plans each year, and then notifies the (SSA) for the (IRMAA-D) determinations.

SUBSIDY TABLE			
The Part B Premium Reduction			
FILING STATUS		PART B PREMIUM	
Individual Tax Return	Joint Tax Return	Subsidy Reduction	Beneficiary will Pay
\$106,000 or less	\$212,000 or less	75%	25%
\$106,000 to \$133,000	\$212,000 to \$266,000	65%	35%
\$133,000 to \$167,000	\$266,000 to \$334,000	50%	50%
\$167,000 to \$200,000	\$334,000 to \$400,000	35%	65%
\$200,000 to \$500,000	\$400,000 to \$750,000	20%	80%
\$500,000 and up	\$750,000 and up	15%	85%

The Centers for Medicare and Medicaid Services (CMS) is responsible for determining the income thresholds and surcharges for (IRMAA), and publishing the (IRMAA) thresholds annually. The Social Security Administration (SSA) is responsible for notifying those who exceed an (IRMAA) threshold as well as collecting the surcharges. The (SSA) reports information to the Internal Revenue Service (IRS) for income and (IRMAA) verification. The (IRS) then verifies the documented (MAGI⁺) off the beneficiaries reported Tax Return.

(IRMAA) impacts anyone age 65+ with (MAGI⁺) above the threshold for their filing status, and enrolled into either Medicare Part B and/or Part D:

- Original Medicare with Part B,
- Original Medicare with no Part B and a stand-alone Part D plan,
- Part C Medicare Advantage plan with prescription drug coverage (MA-PD),
- Part C Medicare Advantage plan with no prescription drug coverage.

Sources of Income that will count towards the (IRMAA) Surcharge

W-2 Wages	Traditional IRAs	Pension Income	Annuity Income
1099 Income	Traditional 401(k)s	Rental Income	Interest & Dividends
RMDs	Traditional 403(b)s	Provisional Income	Capital Gains

Types of Income that will Not count towards the (IRMAA) Surcharge

Roth Distributions Employer/Individual	Permanent Life Insurance Loans	(HSA) Savings Distributions	Qualified LTCi Distributions
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(IRMAA) Thresholds and Premium Increase by Surcharges

2025 (IRMAA-B) Calculations are based off 2023 reported (MAGI ⁺)			
FILING STATUS		PART B Premiums	
Individual Tax Return	Joint Tax Return	Surcharge	Total
\$106,000 or less	\$212,000 or less	\$0.00	\$185.00
\$106,000 to \$133,000	\$212,000 to \$266,000	\$74.00	\$259.00
\$133,000 to \$167,000	\$266,000 to \$334,000	\$185.00	\$370.00
\$167,000 to \$200,000	\$334,000 to \$400,000	\$295.90	\$480.90
\$200,000 to \$500,000	\$400,000 to \$750,000	\$406.90	\$591.90
\$500,000 and up	\$750,000 and up	\$443.90	\$628.90

(IRMAA) Thresholds and Premium Increase by Surcharges

2025 (IRMAA-D) Calculations are based off 2023 reported (MAGI ⁺)			
FILING STATUS		PART D Additional Premium	
Individual Tax Return	Joint Tax Return	Surcharge	Additional
\$106,000 or less	\$212,000 or less	\$0.00	+ \$0.00
\$106,000 to \$133,000	\$212,000 to \$266,000	\$13.70	+ \$13.70
\$133,000 to \$167,000	\$266,000 to \$334,000	\$35.30	+ \$35.30
\$167,000 to \$200,000	\$334,000 to \$400,000	\$57.00	+ \$57.00
\$200,000 to \$500,000	\$400,000 to \$750,000	\$78.60	+ \$78.60
\$500,000 and up	\$750,000 and up	\$85.80	+ \$85.80

If an individual is Married and Files Separately the (IRS) will require that the couple have lived together at some point in the tax year. An individual that is Married can request a new determination for the Individual Tax Return status for an (IRMAA) calculation if they live apart all year.

FILING STATUS	PREMIUMS			
	PART B Premiums		PART D Additional Premium	
	Surcharge	Total	Surcharge	Additional
Married Filing Separately Tax Return				
\$106,000 or less	\$0.00	\$174.70	\$0.00	+ \$0.00
\$106,000 to \$394,000	\$384.30	\$559.00	\$78.60	+ \$78.60
\$394,000 and up	\$419.30	\$594.00	\$85.80	+ \$85.80

Any Medicare beneficiary that has (MAGI⁺) exceeding the standard deduction must file a tax return. If a beneficiary with (MAGI⁺) exceeding the standard deduction does not file a tax return for 3-consecutive years. The (IRS) will assume that a threshold has been met and notify the (SSA). The beneficiary will automatically be placed into the highest (IRMAA) threshold (the surcharge) for both Medicare Part B and/or Part D, if they are enrolled. This will have a profound effect on their Social Security Retirement Income. Once in (IRMAA), if the (MAGI⁺) is lower the next year, there is supposed to be an automatic adjustment. If there is not an automatic adjustment, an appeal must be filed.

Determinations of (IRMAA) are calculated 2-months prior to the upcoming year with notifications sent out as soon as possible. There are two types of notifications. The first is the Initial Notification. This notification is for those beneficiaries reaching an (IRMAA) threshold for the first time, or new Medicare enrollees who were found to have a (MAGI⁺) that exceeded an (IRMAA) threshold. This notification simply informs the Medicare beneficiary that they have in fact reached an (IRMAA) threshold, and what rights they have towards an appeal. This initial notification is subject to review and can be reversed by a Qualifying Circumstance. There are five Qualifying Circumstances:

1. An amended Tax Return,
2. Correction of (IRS) information,
3. A current 2-year-old tax Return is available, but the (SSA) used (IRS) information from 3-years prior,
4. Report of a change in living arrangements when the tax filing status is Married Filing Separately,
5. A Life-changing Event. (need proof of (MAGI⁺) for their filing status)

There are eight Life-changing Events:

1. Death of a spouse (needs proof of certificate),
2. Work stoppage (needs proof of change i.e. business transfer/retirement),
3. Marriage (needs proof of certificate),
4. Loss of income producing property (needs proof of loss),
5. Divorce or annulment (needs proof of certificate),
6. Loss or reduction of pension income (needs proof of plan failure),
7. Work reduction (needs proof of change i.e. past and current paystubs),
8. Employer settlement payment (needs statement from employer).

For the (SSA) to make a New Initial Determination the beneficiary must have a Qualifying Circumstance. The second type of notification is the Annual Notification. This notification is for beneficiaries already enrolled in Medicare and already in an (IRMAA) threshold. There are 6-types of Annual Notifications:

1. The Predetermination Notice (The PreDN is a Notice of a Planned Action)
Is for beneficiaries staying at the same (IRMMA) level, or already in (IRMMA) but have been found to be in a higher threshold, or did not appeal the New Initial Determination. The notice explains when the (SSA) plans to make an (IRMAA) change effective, how the determination was made, and how to make corrections within 10-days of receiving the notice for a New Initial Determination.
2. The Correction Notice (if no action taken within 20-days of a PreDN)
Explains the 60-days Rights for an Appeal, what (MAGI⁺) information was used, and the year that the (IRMAA) change is effective.
3. Overage Notice
Explains if too much was charged previously.
4. The Determination Notice
Is for those beneficiaries who have been notified by a Predetermination Notice and responded within the proper time, and have proof that the (IRS) was incorrect.
5. The Reconsideration Notice
Is for those beneficiaries who requested reconsideration after receipt of an Overage Notice, Correction Notice, or a determination was made.

There are three types of Reconsideration Notices:

The Affirmation Notice

Upholds the agency's determination.

The Reversal Notice

Corrects the agency's determination, the agency was incorrect.

The Dismissal Notice

Is for beneficiaries who did not Appeal with good cause, or when the beneficiary cannot provide proof or evidence that the (IRS's) data that was provided by the beneficiary was wrong.

6. The T2R Notice

This is the final notice that sums up everything that will happen.

Any beneficiary that has received a Notice has 60-days to file an Appeal.

The (SSA) automatically deducts any (IRMAA) assessed surcharges out of a beneficiary's monthly Social Security Retirement benefit as earned. If the amount owed exceeds the beneficiary's monthly Social Security Retirement benefit, they will be billed the difference. If a beneficiary is found to be in an (IRMAA) arrearage there may be Equitable Relief if the arrearage is greater than five times the current Part B standard premium plus the current (IRMMA-B). This Equitable Relief comes in the form of an installment plan for the repayment of the amount owed.

Every Medicare beneficiary has the right to file an Appeal within 60-days of receiving a notification after meeting an (IRMAA) threshold. When filing an Appeal, the beneficiary must file the Medicare (IRMAA) Life Changing Event form (SSA-44). There are four levels of Proceedings for action in the Appeals process.

1. Reconsideration by the Field Office,
2. Hearing before the Department of Health and Human Services Administrative (DHHS) Law Judge in the Office of the Medicare Hearings and Appeals,
3. Review by (DHHS) Medicare Appeals Council,
4. Federal Court Action.

There are 7-results that could come from an Appeal.

1. Fully Favorable Reversal,
2. Partially Favorable Reversal,
3. Dismissal (filed outside of the guidelines with no good cause found),
4. Affirmation (upholds the (SSA's) decision),
5. Withdrawn (beneficiary chooses not to pursue),
6. Abandonment (beneficiary fails to respond),
7. Remand (when the beneficiary disputes by filing another Appeal).

The Hold Harmless Act of 1988

Congress passed the Hold Harmless Act in 1988 as a safety net for retirees. This protects Medicare beneficiaries Social Security Retirement benefit payouts from being decreased when the Social Security Cost of Living Adjustment (COLA) is less than the Medicare Part B increase. The (SSA) compares the previous year's (COLA) and Medicare Premium Inflation rates when calculating the adjustment. However, anyone that has started Medicare but not Social Security Retirement benefits, or has triggered an (IRMAA) threshold is not protected under the Hold Harmless Act.

AVOIDING THE SURCHARGE

There are only 4-ways for Congress to generate more funds for Medicare:

1. Raise Taxes,
2. Lower all benefits by cutting reimbursement rates,
3. Increase Medicare Premiums higher than projected,
4. Lower the (IRMAA) brackets and increase the surcharges.

The largest impact of (IRMAA) is the erosion of Social Security Retirement benefits, and is like reduction on steroids. Should a beneficiary's Social Security Retirement benefits become exhausted due to (IRMAA), the (SSA) will begin to bill the Medicare beneficiary for any excess owed. There are two options for avoiding a potential future surcharge. A beneficiary can either OPT-IN or OPT-OUT.

OPT-OUT

The only mandatory cost in retirement to collect Social Security benefits is (CHI). If you are age 65⁺ (CHI) is Medicare Part A. While Medicare Part A is automatic if you paid into FICA payroll taxes over 40-collective quarters, Medicare Part B is not. Medicare beneficiaries that delay taking Social Security Retirement benefits until their full retirement age of 67 must act if they want Medicare Part B at age 65. The (SSA) will require the beneficiary to setup a payment arrangement with the (SSA) for the Medicare Part B premium payments. However, beneficiaries may choose to opt-out and not take Part B. This is common if the beneficiary is still working and covered under Group Employer Health Insurance (GEHI). (GEHI) qualifies as (CHI). A working beneficiary can enroll into Medicare Part B anytime during their employment, or during the 8-month enrollment period that begins the month after employment or (GEHI) ends. If you do not sign up for Part B when you first become eligible, or after you come off (GEHI). You will be subject to the late enrollment penalty, and this penalty will continue until you no longer have Medicare. Your monthly Premium for

Medicare Part B will go up 10% for each full 12-month period that you could have had Part B, but did not sign up for it.

Medicare Part D, also has late enrollment penalties. Medicare beneficiaries that choose not to have Part D drug coverage when they first become eligible, or go 63-days without (CHI) may be subject to a penalty. The penalty is calculated by multiplying the number of months without coverage by 1% of the national average cost of a Part D drug plan, and this penalty will last for as long as you are on Medicare. The exception to this is if the beneficiary qualifies for Extra Help or can prove (CHI) at the time of enrolling in Part D. (CHI) for Part D is prescription coverage from a current or former Employer or Union's Group plan that is on average as good as the current Medicare Standard Prescription Drug Plan. VA Drug coverage from the Veteran's Administration qualifies as (CHI).

OPT-IN

Since the likelihood of needing medical care becomes greater as we age. Opting-out of Medicare Part B and/or Part D after (GEHI) or any (CHI) may not be the wisest decision. Opting-in is about Strategy.

Opting-in to planning is always a good consideration. According to the Medicare Board of Trustees Report: Medicare Premiums are adjusted for inflation. Since these premiums are projected to increase and Social Security Retirement benefits are projected to be cut (Pub. No. 05-10229 Will Social Security Be There for Me?) makes understanding your options essential.

AVOIDING THE SURCHARGE is about being Pro-active (seeking practical solutions) verses Reactive (responding at the point of need). Research reveals that healthcare spending in the USA is growing faster than the Gross Domestic Product, and that Federal Income Taxes are projected one way.

The FIRST STEP is to have an (IRMAA) stress test done on your Medicare and Social Security Retirement benefits. These projections are a financial forecast of a likely outcome. The most vulnerable to an (IRMAA) depletion is the surviving spouse, and is referred to as the Widowed Penalty. This is due to tax bracket changes - all assets are now owed individually, and the Required Distributions (RMDs) on previously non-taxed accounts.

Should you be susceptible to entering an (IRMAA) threshold now or later. The SECOND STEP is to identify your Visible Assets and your Invisible Assets. Visible Assets are assets that count towards the (IRMAA) surcharge.

The THIRD STEP is to work with a Qualified Profession. This will make all the difference for the optimal effectual outcome for either Distribution Planning and/or Tax Bracket Management for Conversion Strategies.



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This material is an easy-to-understand
Educational Based Resource to be used as
a reference, and not as a substitute for
Qualified Professional Advice.

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