



# Pioneer Bank & Trust

## Trust & Investments

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## Variable Medicare Premiums

Beginning in 2007, the amount a retiree must pay for Medicare Part B had a new component put into the mix: adjusted gross income (AGI). Higher income retirees began paying more, and the highest income retirees had to pay more than double for the same coverage. Similar rules began to apply to Medicare Part D in 2011. The table on page 2 spells out the dollars for 2016.

Technically, these extra payments are not taxes. They are premium adjustments. But the way that they work, a single dollar of extra income can result in hundreds, even thousands, of extra dollars in payments. Accordingly, retirees who are near the boundaries for extra premium payments have an extra incentive to do careful tax planning.

However, there is an additional twist. *The premium adjustments are based upon AGI from two years earlier.* So, for 2016 the premium adjustments depend upon 2014 AGI.

### Take control

Retirees have a number of choices to make in taking control of their AGI. Accelerating deductions, however, is not among them, because deductions are on the path from AGI to taxable income, and come into the picture after AGI has been set. Ideas that may work include:

- investing more in growth stocks that do not pay dividends;
- choosing more tax-efficient mutual funds;
- bunching distributions from 401(k) or 403(b) distributions;
- realizing capital losses;
- bunching stock sales;
- selling higher basis assets to minimize gains;
- making intra-family gifts of income producing assets;
- making qualified charitable distributions from an IRA.

### Higher stakes

*Tax planning done for 2016 will affect the 2018 excess Medicare premiums.* In 2018, the higher premiums are scheduled to kick in at even lower levels of income. The threshold for the third bracket will fall to \$133,500. The top bracket will start at \$160,000, 25% below today's threshold.

Lawmakers may have thought that a retiree with \$160,000 of income doesn't "need" that \$4,000 or so of excess premiums. But for someone near that boundary line, a slight shift in income can make a meaningful difference to after-tax capital.

### Monthly Medicare Premiums for 2016

The standard Medicare Part B premium in 2016 is \$121.80. However, because there was no inflation adjustment this year, the majority of Social Security recipients are paying \$104.90 each month. Those with higher incomes must pay the standard amount plus the amounts indicated in the table below. For married couples filing jointly, the income threshold is doubled. In 2016 the maximum additional premiums for Part B and Part D is \$4,090.80 for singles, \$8,181.60 for married couples.

### Extra monthly and annualized Medicare Premiums

Modified AGI	Additional Part B premium	Additional Part D premium	Total	Annual
\$85,000 or less	\$0	\$0	\$0	\$0
\$85,000 to \$107,000	\$48.70	\$12.70	\$61.40	\$736.80
\$107,000 to \$160,000	\$121.80	\$32.80	\$154.60	\$1,855.20
\$160,000 to \$214,000	\$194.90	\$52.80	\$247.70	\$2,972.40
Over \$214,000	\$268	\$72.90	\$340.90	\$4,090.80

Source: <https://www.medicare.gov/your-medicare-costs/costs-at-a-glance/costs-at-a-glance.html>; M.A. Co.

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