T. Rowe Price

Planning for Health Care

The impact of Medicare expenses on retirement income

What many retirees don't know about Medicare may significantly influence their ability to preserve investment capital. In order to help you prepare your clients for these costs, we have provided an overview of the most important rules surrounding Medicare premiums, as well as practical guidance on how these rules impact common retirement investment vehicles.

Important Medicare Rules

1 Medicare is mandatory

In order to collect Social Security, retirees must acquire Medicare when eligible. Failure to do so means forfeiting all current, future, and past Social Security benefits.

2 Payments are based on income

Medicare is means-tested, meaning the more income an individual or couple generates in retirement, the more their health care payments under Medicare will be.

3 Most expenses are automatically drawn from Social Security benefits

Medicare Part B premiums, along with any surcharges, are deducted directly from Social Security. It is currently optional for Part D premiums to be deducted directly from Social Security benefits, but it is recommended, as missed payments can result in penalties.

4 Income is broadly defined by Medicare

Medicare considers adjusted gross income plus tax-exempt interest, or everything on lines 2a and 11 of the IRS Form 1040, when determining Part B and Part D premiums. Carefully structuring retirement income sources with a sensitivity toward which investment vehicles are factored into Medicare premiums, and which are not, can make all the difference in the lives of clients. Here are examples of each:

Considered as income:

- Social Security benefits
- Employee compensation, wages
- Traditional retirement plan and IRA distributions
- Pension income
- Rental income
- Capital gains
- Dividends
- Qualified annuities

Not counted as income:

- Health savings accounts (HSAs)
- Home equity (in certain circumstances)
- Roth accounts
- Certain life insurance policies
- Certain annuities

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Medicare Income-Related Monthly Adjustment Amount (IRMAA) Brackets (2024)

Individual Modified Adjusted Gross Income	Couples Modified Adjusted Gross Income	Part B	Part D
<$103K	<$206K	$174.70	Premium (varies)
above $103K up to $129K	above $206K up to $258K	$244.60 (40%)	Premium + $12.90
above $129K up to $161K	above $258K up to $322K	$349.40 (100%)	Premium + $33.30
above $161K up to $193K	above $322K up to $386K	$454.20 (160%)	Premium + $53.80
above $193K up to $500K	above $386K up to $750K	$559.00 (220%)	Premium + $74.20
>$500K	>$750K	$594.00 (240%)	Premium + $81.00

Annual earnings of just $0.01 over an IRMAA bracket could mean a 40% higher Part B premium.

Client and Prospect Conversations

There are several investment options available to retirement investors. Thoughtful guidance with respect to their effects on health care costs can help maximize available income. Here are a few points to consider:

Roth Employer Retirement Plans and Roth IRAs

- Medicare does not recognize withdrawals as income
- Accumulated growth is tax-free
- Qualified distributions are tax-free
- Provides a topic of interest to engage with a company's key stakeholders
- Opportunity to educate employees
- Opportunity to promote a conversion strategy as investors may be prohibited from participating in a personal Roth IRA, depending on income
- Income contribution limits for personal Roth IRAs should be kept in mind. For 2024, the total contributions are limited to $7,000 per year (or $8,000 per year for ages 50 and older)

Annuities

- Medicare recognizes withdrawals from qualified annuities as income
- Accumulated growth is tax-deferred
- Investors can add specific and optional "riders," allowing for guarantees like income, a death benefit, and long-term care
- Certain contracts guarantee principal protection against market declines or income payments regardless of investment performance
- Allow for multigenerational transfers of income
- For older retirees, a Roth conversion to an annuity may provide ample tax-free income to supplement any possible losses to Social Security benefits due to health care costs
- Annuities may provide an additional source of income to supplement Social Security benefits

Health Savings Accounts (HSAs)

- Triple tax benefit: company match is tax-deductible, employer contribution is tax-deferred, and distributions are tax-free if used for health care costs of the account owner, spouse, or dependent
- Available to employees enrolled in a High Deductible Health Plan (HDHP)
- The contribution limits for 2024 are $4,150 individual and $8,300 family
- Ability to invest like a 401(k) plan

Next Steps

In order to help generate enough retirement income for clients, while also considering Medicare premium brackets, consider:

- Incorporating the four rules into retirement planning discussions with clients and prospects.
- Developing a supplemental plan to generate income in retirement in addition to Social Security benefits.
- Introducing additional layers of diversification by considering or incorporating a variety of investment vehicles.

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T. Rowe Price is committed to supporting you and your clients by partnering with you to provide insights and resources that help achieve investment success—both now and over the long term.

Visit troweprice.com/healthcare to learn more.

Source: Medicare.gov, IRS.gov

Annuities are insurance products and are designed for long-term retirement income. Earnings are taxed as ordinary income when withdrawn. There may be a 10% federal tax penalty on withdrawals before age 59½. The death benefit and the cash value of the annuity contract will be reduced if you take withdrawals.

Annuities may offer optional riders that provide additional benefits and are available at an additional cost. Additionally, they may have certain guarantees that are applicable to the annuity. These guarantees are subject to the claims paying ability of the issuing insurance company.

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