

How your current income can affect your future Medicare premiums



Key takeaways

- Medicare premiums are generally based on your income from two years earlier, so the tax decisions you make today may affect your future health care costs.
- Roth conversions and capital gains can create income spikes that may increase future Medicare premiums, but spreading income across tax years can help manage the impact.
- If your income drops because of certain life events, you may be able to ask Social Security to reconsider your Medicare-related surcharge.

As Medicare Open Enrollment approaches on Oct. 15, many people focus on comparing coverage options for the year ahead. But for higher-income households, there is another consideration that may deserve attention: the income you report on your tax return can affect what you'll pay for Medicare in two years' time.

How the Medicare two-year lookback works

Social Security uses your modified adjusted gross income (MAGI) from your federal tax return to determine whether you pay an Income-Related Monthly Adjustment Amount (IRMAA) on top of your standard Medicare Part B and Part D premiums. For Medicare purposes, MAGI is generally your adjusted gross income (AGI) plus tax-exempt interest income.

In most cases, Social Security uses your income from two years prior to determine your Medicare premiums. For example, your 2026 income will generally be used to determine your Medicare premiums in 2028.

Watch for income spikes

There are many ways that MAGI can increase outside of your regular paycheck.

A few examples include:

- Selling an investment or property that has appreciated in value
- Receiving a compensation increase or large bonus
- Withdrawing a large sum from a retirement account
- Moving money from a traditional IRA to a Roth IRA

These events can temporarily push you into a higher IRMAA tier, with the resulting surcharge potentially appearing two years later. Managing the timing of income increases across tax years may help manage the impact of IRMAA, particularly if you are close to an income threshold.

2026 Medicare premiums and IRMAA by income

The Centers for Medicare & Medicaid Services (CMS) set IRMAA thresholds annually based on your MAGI and filing status, and the latest numbers are below. Since these thresholds may change annually, and can also vary based on individual circumstances, use this table as general guidance and verify current thresholds with CMS or your advisor.

Single MAGI (2024)	Married filing jointly MAGI (2024)	IRMAA Tier (2026)	Part B monthly premium (2026)	Part D monthly IRMAA surcharge* (2026)
\$109,000 or less	\$218,000 or less	N/A, standard premium	\$202.90	\$0
\$109,001 to \$137,000	\$218,001 to \$274,000	Tier 1	\$284.10	\$14.50
\$137,001 to \$171,000	\$274,001 to \$342,000	Tier 2	\$405.80	\$37.50
\$171,001 to \$205,000	\$342,001 to \$410,000	Tier 3	\$527.50	\$60.40
\$205,001 to \$499,999	\$410,001 to \$749,999	Tier 4	\$649.20	\$83.30
\$500,000 or more	\$750,000 or more	Tier 5	\$689.90	\$91.00

*This is an income-related monthly adjustment added to your Part D plan premium. Your total Part D premium will vary depending on the plan you choose.

Roth conversions can be part of the solution

A Roth conversion can increase your taxable income for that year, potentially raising your MAGI and future Medicare premiums. But over time, moving money from traditional retirement accounts to Roth accounts may reduce taxable income in retirement.

Qualified Roth IRA distributions generally aren't included in adjusted gross income and therefore don't typically factor into the MAGI used to calculate IRMAA. This can make Roth assets a useful source of retirement income when managing future Medicare premiums. Strategically completing Roth conversions before required minimum distributions begin may also help reduce the amount of future retirement income subject to IRMAA.

The key is to weigh the short-term income increase against potential long-term benefits. Consider Roth conversions as part of a multiyear tax and Medicare plan rather than focusing only on the tax bill in the year of the conversion.

Don't overlook capital-gain timing

The same principle applies to investment gains.

Suppose you are thinking of selling an appreciated investment or asset such as a second home or shares of a stock. The profit you earn could make sense for your broader financial plan, but the additional income may also affect your future Medicare costs.

If you're close to an IRMAA threshold, the timing of a taxable sale may be one factor to consider as part of your broader tax and investment planning. This doesn't mean avoiding profitable sales to manage Medicare premiums. Instead, consider Medicare costs alongside taxes, cash flow, investment goals and your broader retirement plan.

What if your income drops after a major life event?

The two-year lookback doesn't always tell the full story.

If your income decreases following certain life-changing events—such as marriage, divorce, the death of your spouse, stopping work or reducing your work hours—you may be able to ask Social Security to use more recent income information when determining your IRMAA.

For example, if you stop working and your income drops significantly, you may be able to request a new determination rather than waiting for the standard two-year lookback to catch up. You'll generally need documentation showing the qualifying event and resulting income reduction.



Start planning before the Medicare bill arrives

Medicare Open Enrollment is a useful annual reminder to review your coverage, but higher-income households may benefit from looking further ahead.

If you're approaching Medicare eligibility or expecting a significant change in income, look beyond the current tax year and consider how your projected income may affect future Medicare and tax costs. The goal isn't simply to minimize Medicare premiums, but to **understand how today's decisions may shape your costs in the years ahead**. An advisor can help you evaluate the interaction between Medicare, taxes, retirement income and your broader financial plan.

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