ECOS MEDICARE SOLUTIONS

IRMAA & Penalty Avoidance Guide

The Hidden Medicare Tax, Late Enrollment Mistakes,
Home Sale Traps, and Roth Conversion Strategies

Book 1 of 4 · The Retire With Confidence Series

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Chapter 11: IRMAA — The Hidden Medicare Tax Nobody Warned You About

Of all the surprises lurking in retirement, IRMAA might be the most infuriating. Not because it's complicated—once you understand it, the math is straightforward. It's infuriating because almost nobody tells you about it until it's too late.

IRMAA stands for Income-Related Monthly Adjustment Amount. In plain English, it's a surcharge—an extra amount added to your Medicare Part B and Part D premiums—based on your income. The higher your income, the more you pay. And the income Medicare looks at isn't this year's income. It's your income from two years ago.

That two-year lookback is where the trap lives.

How IRMAA Works

Every year, the Social Security Administration reviews your tax return from two years prior. In 2026, they're looking at your 2024 Modified Adjusted Gross Income (MAGI). Your MAGI is your Adjusted Gross Income (AGI) plus any tax-exempt interest income (like municipal bond interest).

If your MAGI exceeds certain thresholds, you pay more for Part B and Part D. The surcharges are applied per person—so if you're married and both on Medicare, both of you could be hit with higher premiums.

Here's what makes IRMAA especially painful: the thresholds are cliff-based, not gradual. If your income is $109,000, you pay the standard Part B premium of $202.90 per month. If your income is $109,001—one dollar more—you jump to $284.10 per month. That's an extra $888 per year because of a single dollar.

2026 IRMAA Brackets: Part B

$109,000 or less	$218,000 or less	$202.90 (standard)
$109,001 – $137,000	$218,001 – $274,000	$284.10
$137,001 – $171,000	$274,001 – $342,000	$405.80
$171,001 – $205,000	$342,001 – $410,000	$527.50
$205,001 – $500,000	$410,001 – $750,000	$649.20
Above $500,000	Above $750,000	$689.90

2026 IRMAA Brackets: Part D

Part D has its own separate surcharge, layered on top of whatever your Part D plan charges.

$109,000 or less	$218,000 or less	$0.00
$109,001 – $137,000	$218,001 – $274,000	$14.50
$137,001 – $171,000	$274,001 – $342,000	$37.50
$171,001 – $205,000	$342,001 – $410,000	$60.40
$205,001 – $500,000	$410,001 – $750,000	$83.30
Above $500,000	Above $750,000	$91.00

The Total IRMAA Damage: A Married Couple

Let’s see what IRMAA actually costs when you add Part B and Part D together for two people.

$218,000 or less	$0	$0	$0
$218,001 – $274,000	$95.70	$191.40	$2,296.80
$274,001 – $342,000	$240.20	$480.40	$5,764.80
$342,001 – $410,000	$384.70	$769.40	$9,232.80
$410,001 – $750,000	$529.20	$1,058.40	$12,700.80
Above $750,000	$577.60	$1,155.20	$13,862.40

At the highest tier, a married couple pays an extra $13,862.40 per year in IRMAA surcharges alone—on top of their standard premiums. Over a 20-year retirement, that’s more than $254,000 in additional Medicare costs.

And remember: IRMAA surcharges are not deductible. They’re not refundable. They’re simply extra money out of your pocket.

The Two-Year Lookback: Why Timing Is Everything

IRMAA uses a two-year lookback. In 2026, Social Security looks at your 2024 tax return. In 2027, they look at 2025. This creates a dangerous delay between the income event and the premium impact.

Here’s why that matters: a one-time income spike—selling a property, taking a large IRA distribution, doing a Roth conversion, exercising stock options, or receiving a lump-sum pension payout—can push you into a higher IRMAA bracket two years later, even if your regular income is modest.

And the surcharge applies for the entire year. It doesn't matter that the income spike was a one-time event. You pay the higher premium for 12 months.

Common IRMAA Triggers

These are the most common income events that trigger unexpected IRMAA surcharges:

Selling a home with significant capital gains (even with the $250K/$500K exclusion, the gain may push you over a threshold). Taking a large Required Minimum Distribution (RMD) from a traditional IRA or 401(k). Doing a Roth conversion. Exercising stock options or receiving a large bonus in the year before retirement. Receiving a lump-sum pension payout. Selling a business or investment property. Realizing capital gains from stock sales. Receiving a large inheritance that generates taxable income. Municipal bond interest (tax-free for income tax but counts for IRMAA).

⚠ CRITICAL WARNING: MUNICIPAL BOND INTEREST COUNTS

> *Many retirees invest in municipal bonds because the interest is "tax-free." And it is—for federal income tax purposes. But municipal bond interest IS included in your MAGI for IRMAA calculations. I've seen retirees with modest taxable income get hit with IRMAA surcharges because their $80,000 in muni bond interest pushed them over the threshold. "Tax-free" does not mean "IRMAA-free."*

How to Reduce or Avoid IRMAA

IRMAA is not inevitable. With proper planning, you can manage your income to stay below the thresholds—or minimize the time you spend in higher brackets. Here are the key strategies:

Strategy 1: Roth Conversions Before Medicare

Roth IRA distributions are not included in MAGI. If you convert traditional IRA funds to a Roth before age 63 (so the income hits your tax return before the IRMAA lookback period matters), you can reduce future RMDs and future MAGI—potentially keeping yourself below IRMAA thresholds for life. The conversion itself will increase your income in the year you do it, so timing and amounts matter. This strategy works best between ages 59½ and 63.

Strategy 2: Manage the Timing of Income Events

If you're planning to sell a home, take a large distribution, or realize capital gains, consider the IRMAA impact two years later. Can you split the income across two tax years? Can you time the event so it falls in a year where your other income is lower? Can you offset the gain with deductions, losses, or charitable contributions?

Strategy 3: Qualified Charitable Distributions (QCDs)

If you're 70½ or older, you can donate up to $105,000 per year (2024 limit, indexed for inflation) directly from your traditional IRA to a qualified charity. This satisfies your

RMD without adding the distribution to your taxable income—and without adding it to your MAGI for IRMAA purposes. It's one of the most powerful IRMAA-reduction tools available.

Strategy 4: Appeal a Life-Changing Event

If your income was unusually high two years ago due to a "life-changing event," you can file Form SSA-44 to request that Social Security use a more recent year's income instead. Qualifying life-changing events include: marriage, divorce, death of a spouse, work stoppage (retirement), work reduction, loss of income-producing property (due to disaster or other event beyond your control), and loss of pension income.

This is an underused tool. If your 2024 income was inflated by a one-time event but your 2025 or projected 2026 income is lower, filing SSA-44 could save you thousands in IRMAA surcharges.

Strategy 5: Income Layering

Work with a financial advisor to create a "retirement income layer cake" that draws from different sources in the right proportions each year: some from Roth (not counted in MAGI), some from taxable accounts (where you control the timing of gains), and some from Social Security and pensions (which are partially or fully included in MAGI). The goal is to keep your total MAGI just below the nearest IRMAA threshold every year.

REAL-WORLD EXAMPLE: The $11,000 IRMAA Surprise

> *Richard and Maria, both 68, have a comfortable retirement. Their combined Social Security is $62,000. Richard's pension is $48,000. They take $40,000 from their traditional IRAs each year. Maria also earns $15,000 in municipal bond interest from a portfolio she inherited. Their total MAGI: $62,000 + $48,000 + $40,000 + $15,000 = $165,000. That's well under the $218,000 married threshold.*
>
> *But then Richard's financial advisor suggested a $120,000 Roth conversion to "save on taxes later." Great idea in theory. But that conversion pushed their 2024 MAGI to $285,000—squarely into the second IRMAA bracket. Two years later, in 2026, both Richard and Maria are paying $405.80/month for Part B (instead of $202.90) and $37.50/month in Part D surcharges. Total extra cost for the year: ($185 + $37.50) x 2 people x 12 months = $5,764.80. The Roth conversion may still have been a good long-term move—but nobody warned Richard and Maria about the $5,287 IRMAA bill. Proper planning would have spread the conversion over multiple years to stay below the threshold.*

FREQUENTLY ASKED QUESTIONS

Q: Is IRMAA a permanent surcharge?

> *A: No. IRMAA is recalculated every year based on your tax return from two years prior. If your income drops, your IRMAA surcharge drops—or disappears entirely—the following year. But it does apply for the full year once it's determined.*

Q: Does IRMAA apply to Medicare Advantage plans too?

> *A: Yes. IRMAA affects your Part B premium regardless of whether you're on Original Medicare or Medicare Advantage. And Part D IRMAA applies to any Part D plan, whether standalone or bundled into an Advantage plan.*

Q: Can I deduct IRMAA surcharges on my taxes?

> *A: IRMAA surcharges are considered Medicare premiums, and Medicare premiums may be deductible as medical expenses on Schedule A—but only if your total medical expenses exceed 7.5% of your AGI. For most people, this threshold is difficult to meet.*

Q: My income was high two years ago because I sold a rental property. Can I appeal?

> *A: Loss of income-producing property can qualify as a life-changing event for SSA-44 purposes, but a voluntary sale may not qualify. Consult with a licensed agent or financial advisor to determine if your specific situation qualifies.*

Q: Does my spouse's income affect my IRMAA if we file jointly?

> *A: Yes. IRMAA uses your joint MAGI if you file a joint return. Even if only one spouse has high income, both spouses pay the surcharge if both are on Medicare.*

CHAPTER 11 CHECKLIST

> ☐ *I understand what IRMAA is and how the two-year lookback works*
>
> ☐ *I've reviewed my 2024 tax return to estimate my 2026 IRMAA exposure*
>
> ☐ *I know the current IRMAA thresholds for both Part B and Part D*
>
> ☐ *I've identified any upcoming income events that could trigger IRMAA (home sale, Roth conversion, RMDs)*
>
> ☐ *I've considered Roth conversions before age 63 to reduce future IRMAA*
>
> ☐ *I know about Form SSA-44 and life-changing event appeals*
>
> ☐ *I've evaluated whether Qualified Charitable Distributions can lower my MAGI*
>
> ☐ *I've considered working with a professional to build an IRMAA-aware income strategy*

READY TO TAKE THE NEXT STEP?

IRMAA alone can cost you tens of thousands of dollars over the course of your retirement. But it doesn't have to. I help clients build income strategies that keep them below IRMAA thresholds—legally, ethically, and effectively. Let's talk about your numbers. No pressure. Just clarity.

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Chapter 12: Medicare Penalties — Late Enrollment Mistakes That Last a Lifetime

I want you to imagine a financial mistake so severe that it follows you every single month for the rest of your life. Not a one-time fee. Not a fine you pay and forget. A permanent increase to a bill you'll pay every month until the day you die.

That's what Medicare late enrollment penalties are. And they're more common than you'd think.

Every year, I meet smart, responsible people who made one incorrect assumption about Medicare enrollment—and now they're paying for it. Permanently. This chapter exists to make sure you never join that group.

The Part A Late Enrollment Penalty

Most people get Part A for free because they or their spouse paid Medicare payroll taxes for 40+ quarters. But if you don't qualify for premium-free Part A and you don't sign up during your Initial Enrollment Period, you face a penalty.

The Part A penalty is 10% of the premium, and it lasts for twice the number of years you could have had Part A but didn't. For example, if you went two years without Part A, you'd pay a 10% penalty for four years.

Since the 2026 Part A premium for people with fewer than 30 quarters is $565/month, a 10% penalty adds $51.80/month. While this penalty eventually expires, the years of overpayment add up.

The good news: most Americans are eligible for premium-free Part A, so this penalty is relatively uncommon. The real killers are the Part B and Part D penalties.

The Part B Late Enrollment Penalty: The Big One

This is the penalty that devastates retirement budgets. Here's how it works:

For every 12-month period you were eligible for Part B but didn't sign up (and didn't have creditable coverage), your Part B premium increases by 10%. This penalty is permanent. It never goes away. It compounds with every premium increase for the rest of your life.

⚠ THE MATH THAT SHOULD SCARE YOU

> *2026 standard Part B premium: $202.90/month. If you were 2 years late: 20% penalty = $37.00 extra/month = $486.96/year = $8,880 over 20 years. If you were 3 years late: 30% penalty = $55.50 extra/month = $666/year = $13,320 over 20 years. If you were 5 years late: 50% penalty = $92.50 extra/month = $1,110/year = $22,200 over 20 years. And these numbers grow every year as the base premium increases.*

1 year	10%	$18.50	$222	$4,440+
2 years	20%	$37.00	$444	$8,880+
3 years	30%	$55.50	$666	$13,320+
5 years	50%	$92.50	$1,110	$22,200+
7 years	70%	$129.50	$1,554	$31,080+
10 years	100%	$202.90	$2,220	$44,400+

Let me put that last line in perspective: if you delayed Part B by 10 years with no creditable coverage, you'd pay double the standard premium for life. At 2026 rates, that's $405.80/month just for Part B. And the base premium will continue to rise in future years, making the dollar amount of the penalty even larger.

The Most Common Part B Penalty Mistakes

In my 22 years of helping people with Medicare, these are the mistakes I see most often:

Mistake #1: Assuming COBRA Is Creditable Coverage

COBRA is a continuation of your employer's group plan after you leave your job. It's valuable for bridging gaps in coverage. But COBRA is NOT creditable coverage for Medicare purposes. If you turn 65 on COBRA and don't enroll in Part B, you will face a penalty when your COBRA ends.

This is the single most common Part B penalty mistake I encounter. HR departments frequently fail to explain this distinction. If you're on COBRA at 65, enroll in Part B immediately.

Mistake #2: Thinking Retiree Insurance Protects You

Some former employers offer retiree health insurance. In many cases, this coverage becomes secondary to Medicare once you turn 65—meaning Medicare is expected to pay first. If you don't have Part B, your retiree plan may pay nothing, or it may pay at a reduced rate, leaving you with enormous bills.

Always check with your former employer's benefits department: "Is my retiree coverage creditable for Medicare purposes?" Get the answer in writing.

Mistake #3: Working for a Small Employer

If you're 65 and working for an employer with fewer than 20 employees, Medicare becomes your primary insurance. Your employer's group plan becomes secondary. If you don't enroll in Part B, you could face gaps in coverage AND a penalty.

The 20-employee threshold is critical. At 20+ employees, your employer plan is primary and Part B can be delayed without penalty. Below 20, Medicare is primary and Part B enrollment is essential.

Mistake #4: Assuming VA Coverage Counts

Veterans Affairs healthcare is excellent. But VA coverage is NOT creditable coverage for Medicare Part B purposes. If you rely solely on VA care and don't enroll in Part B at 65, you will face a penalty when you eventually sign up. Most veterans benefit from having both VA coverage and Medicare.

Mistake #5: Not Knowing About the Special Enrollment Period

If you're working past 65 with creditable employer coverage (20+ employees), you have an 8-month Special Enrollment Period to sign up for Part B after you or your spouse stops working, or the coverage ends—whichever comes first. Miss this 8-month window, and you'll have to wait for the General Enrollment Period (January 1–March 31) with coverage not starting until July 1—plus a potential penalty.

The Part D Late Enrollment Penalty

Part D has its own penalty, separate from Part B. If you go 63 or more consecutive days without creditable prescription drug coverage after you're first eligible, you'll pay a penalty.

The calculation: 1% of the "national base beneficiary premium" ($36.78 in 2026) multiplied by the number of full uncovered months. This penalty is added to your Part D premium permanently.

12 months	$4.41	$52.92	$1,058
24 months	$8.83	$105.96	$2,119
36 months	$13.24	$158.88	$3,178
60 months (5 years)	$22.07	$264.84	$5,297

The Part D penalty is smaller in dollar terms than the Part B penalty, but it still adds up over a long retirement. And like Part B, it's permanent.

How to Avoid All Medicare Penalties

The rules are straightforward once you know them:

Enroll in Part A at 65 (it’s free for most people and there’s no reason to delay). Enroll in Part B at 65 unless you have creditable employer coverage from a company with 20+ employees—and you’re actively working there (not retired). When you stop working or lose employer coverage, enroll in Part B within 8 months. Enroll in Part D when you first become eligible, unless you have other creditable prescription drug coverage. Never assume COBRA, VA, marketplace, or retiree coverage counts as creditable without verifying. Mark every deadline on your calendar. When in doubt, call a licensed agent.

REAL-WORLD EXAMPLE: The $31,000 Assumption

> *Diane, age 72, spent seven years assuming her husband’s small-employer health plan (15 employees) was keeping her safe. She thought she didn’t need Part B as long as she had “insurance.” When her husband retired at 73, Diane tried to enroll in Medicare Part B. That’s when she learned the penalty: 70% of the standard premium—permanently. At $202.90 standard in 2026, Diane pays $314.50 per month for Part B. Over the next 20 years, she’ll pay approximately $31,080 more than someone who enrolled on time. One phone call to a licensed agent at age 65 would have prevented this entirely.*

FREQUENTLY ASKED QUESTIONS

Q: Can Medicare penalties ever be forgiven?

> *A: In very rare cases, if the penalty was caused by an error by a government agency or employer, you may be able to appeal. But in the vast majority of cases, penalties are permanent. Prevention is the only reliable strategy.*

Q: I have TRICARE. Do I still need Part B?

> *A: TRICARE for Life requires you to have both Part A and Part B. If you drop or don’t enroll in Part B, TRICARE for Life will not cover you. Always maintain both parts.*

Q: Does Medicare Advantage eliminate penalties?

> *A: No. You must have Part A and Part B to join a Medicare Advantage plan. If you have Part B penalties, those carry over to your Medicare Advantage premium structure.*

Q: I turned 65 three months ago and didn’t sign up. Am I in trouble?

> *A: Not necessarily. Your Initial Enrollment Period extends 3 months after your*

> *birthday month. Check your dates carefully—you may still be within your IEP. If not, explore whether you have any creditable coverage that would qualify you for a Special Enrollment Period.*

CHAPTER 12 CHECKLIST

> ☐ *I understand the Part B late enrollment penalty (10% per year, permanent)*
>
> ☐ *I understand the Part D late enrollment penalty (1% per month, permanent)*
>
> ☐ *I know that COBRA is NOT creditable coverage for Medicare*
>
> ☐ *I know that VA coverage is NOT creditable coverage for Part B*
>
> ☐ *I've verified my current coverage's creditable status in writing*
>
> ☐ *I know I have an 8-month SEP when employer coverage ends*
>
> ☐ *I've set calendar reminders for all enrollment deadlines*

READY TO TAKE THE NEXT STEP?

Penalties are permanent, but they're also preventable. If you're not sure whether you're enrolled correctly—or whether your current coverage qualifies as "creditable"—don't guess. One phone call can save you a lifetime of extra costs.

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Chapter 13: The Home Sale Trap — How Selling Your House After Age 63 Can Spike Your Medicare Costs

This is the chapter I wish every real estate agent, financial advisor, and tax preparer would read. Because the advice most retirees get about selling their home ignores one of the most expensive consequences: IRMAA.

Selling your home in retirement can be a smart financial move. You downsize. You free up equity. You simplify your life. But if you don't plan the timing carefully, the capital gain from that sale can spike your Medicare premiums for one or two years—costing you thousands of dollars in IRMAA surcharges that nobody warned you about.

Let's break down exactly how this works and, more importantly, how to avoid it.

The Capital Gains Exclusion: The Part Everyone Knows

When you sell your primary residence, the IRS allows you to exclude a portion of the capital gain from your taxable income. For a single filer, the exclusion is $250,000. For a married couple filing jointly, it's $500,000. To qualify, you must have owned the home and lived in it as your primary residence for at least two of the last five years.

Most people think that's the end of the story. You sell your house, take the exclusion, and move on. But here's what nobody mentions: any gain above the exclusion is taxable—and it's included in your MAGI for IRMAA purposes.

The Part Nobody Tells You: IRMAA Impact

Remember, IRMAA uses a two-year lookback. If you sell your home in 2024, the capital gain shows up on your 2024 tax return, which Medicare uses to determine your 2026 IRMAA surcharges.

Even if the gain is partially or fully excluded for income tax purposes, any portion that IS taxable gets added to your MAGI. And for many long-time homeowners—especially in high-appreciation markets like California, Nevada, Florida, Arizona, and the Northeast—the gain often exceeds the exclusion.

The Math: A Real Home Sale Scenario

Let's walk through a realistic example.

REAL-WORLD EXAMPLE: The Henderson Home Sale

> *Jim and Karen, both 67, bought their home in Henderson, Nevada, in 1998 for $185,000. Over 26 years, they made $65,000 in capital improvements (new roof, kitchen remodel, bathroom upgrades). Their adjusted cost basis is $250,000.*
>
> *In 2024, they sell the home for $620,000. Their capital gain is $620,000 – $250,000 = $370,000. They apply the $500,000 married exclusion, so the entire gain is excluded for income tax purposes. Their taxable gain from the home sale: $0.*
>
> *But now let's change one detail. Suppose they sell for $820,000 instead. Their capital gain is $820,000 – $250,000 = $570,000. After the $500,000 exclusion, they have a taxable gain of $70,000.*
>
> *Jim and Karen's regular income (Social Security + pension + IRA withdrawals) is $150,000. Add the $70,000 taxable gain: their 2024 MAGI is $220,000. That pushes them over the $218,000 married IRMAA threshold. In 2026, both Jim and Karen pay $284.10/month for Part B (instead of $202.90) and $14.50/month in Part D surcharges. Extra cost: ($74 + $14.50) x 2 people x 12 months = $2,296.80 in IRMAA surcharges for that year.*

The Timing Strategy: When to Sell

The IRMAA impact of a home sale depends entirely on when you sell relative to your Medicare enrollment. Here's the timing framework:

Sell before age 63	Gain hits tax return before IRMAA lookback period affects Medicare premiums at 65	Ideal if possible — sell early
Sell at age 63	Gain shows on tax return, affects IRMAA at age 65 (first year of Medicare)	Risky — first year on Medicare starts with a surcharge
Sell at age 64–65	Gain affects IRMAA at age 66–67	Plan carefully — you'll be on Medicare when the surcharge hits
Sell at age 66+	Gain affects IRMAA at age 68+	IRMAA hit is unavoidable without other strategies
Sell and file SSA-44	May reduce or eliminate IRMAA if qualifying life-changing event applies	Worth exploring — see below

Strategy 1: Sell Before Age 63

If your home sale gain will exceed the exclusion, the cleanest strategy is to sell before age 63. That way, the gain appears on your tax return two or more years before you turn 65—before you're on Medicare and before IRMAA applies.

Of course, this isn't always practical. Real estate decisions depend on housing markets, family needs, and life circumstances. But if you have flexibility, timing the sale before 63 eliminates the IRMAA problem entirely.

Strategy 2: Increase Your Cost Basis

Your cost basis reduces the taxable gain. Capital improvements to your home—not repairs, but improvements—increase your basis. Keep meticulous records of every improvement: new roof, HVAC system, kitchen remodel, bathroom renovation, room addition, landscaping that adds value, new driveway, new windows, and more.

Every dollar you add to your cost basis is a dollar less in capital gain. If your home has appreciated significantly, the difference between a $205,000 basis and a $300,000 basis could determine whether you trigger IRMAA or not.

Strategy 3: Installment Sale

Instead of receiving the full sale price at closing, you can structure an installment sale where the buyer pays you over multiple years. This spreads the capital gain across tax years, potentially keeping your MAGI below the IRMAA threshold in any single year.

This strategy requires careful legal and tax planning, and it's not appropriate for every situation. But for the right seller and buyer, it can save thousands in both taxes and IRMAA surcharges.

Strategy 4: Offset With Losses or Charitable Giving

Capital losses from other investments can offset capital gains from a home sale. If you have losing investments in a taxable brokerage account, harvesting those losses in the same year as the home sale can reduce your net gain.

Similarly, making large charitable contributions—especially donating appreciated stock directly to charity—can reduce your AGI, which in turn reduces your MAGI.

Strategy 5: File Form SSA-44

If the home sale qualifies as a “loss of income-producing property” (for example, if you sold a home that was also generating rental income), you may be able to file Form SSA-44 and request that Social Security use your current year’s income instead of the lookback year. This is a nuanced argument, and not every home sale qualifies—but it’s worth exploring with a licensed professional.

The Home Sale IRMAA Trap: A Complete Illustration

2024	Jim & Karen sell home; $70,000 taxable gain	MAGI rises from $150,000 to $220,000	No immediate effect (2024 tax year)
2025	Normal income year	MAGI: $150,000	2025 IRMAA based on 2023 taxes (below threshold)
2026	IRMAA lookback hits 2024 return	SSA sees $220,000 MAGI	Both pay extra $95.70/mo each = $2,296.80/year
2027	IRMAA lookback hits 2025 return	SSA sees $150,000 MAGI	Back to standard premiums

One home sale. One year of elevated income. One year of IRMAA surcharges. $2,296.80 in extra Medicare costs. And that’s for a relatively modest $70,000 in taxable gain. For larger gains—especially in high-cost real estate markets—the IRMAA hit can be $5,000, $8,000, or even $12,000.

FREQUENTLY ASKED QUESTIONS

Q: Does the $250K/$500K exclusion fully protect me from IRMAA?

> *A: Only if your total gain is below the exclusion amount. Any gain above the exclusion is taxable and counts toward IRMAA. Even within the exclusion, other income sources can still push you over an IRMAA threshold.*

Q: I’m selling a rental property, not my primary home. Does the exclusion apply?

> *A: No. The $250K/$500K capital gains exclusion only applies to your primary residence. Gains from rental or investment properties are fully taxable and fully counted in your MAGI. Consider a 1031 exchange to defer the gain if you plan to*

> *reinvest in another rental property.*

Q: My real estate agent never mentioned IRMAA. Is this common?

> *A: Extremely common. Most real estate agents don't know about IRMAA. Most tax preparers don't proactively plan for it. This is a gap in the advice most retirees receive, which is why working with a retirement specialist who understands the full picture is so important.*

Q: Can I avoid the home sale trap by putting the proceeds in a Roth IRA?

> *A: Not directly. The capital gain is triggered by the sale itself, not by what you do with the proceeds. However, if you use some of the proceeds to fund Roth conversions in future years (at a pace that avoids IRMAA), you can build tax-free income for the future.*

CHAPTER 13 CHECKLIST

> ☐ *I understand how a home sale can trigger IRMAA surcharges via the two-year lookback*
>
> ☐ *I know the capital gains exclusion amounts ($250K single / $500K married)*
>
> ☐ *I've calculated my home's approximate cost basis, including improvements*
>
> ☐ *I've estimated my potential taxable gain if I sell*
>
> ☐ *I've considered the optimal timing for a home sale relative to my Medicare enrollment*
>
> ☐ *I've explored strategies like installment sales, loss harvesting, and charitable giving*
>
> ☐ *I've spoken with a retirement specialist before listing my home*

READY TO TAKE THE NEXT STEP?

Selling your home is one of the biggest financial events of your retirement. The IRMAA implications alone can cost you thousands. Before you list that house, let's make sure the timing is right. I've helped dozens of clients time their home sales to minimize Medicare surcharges.

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Chapter 14: Roth Conversions, IRA

Withdrawals, and IRMAA — Planning Your Income to Avoid the Surcharge

If Chapter 11 showed you what IRMAA is and Chapter 13 showed you how a home sale can trigger it, this chapter is about the income sources you control every day—and how managing them strategically can keep thousands of dollars in your pocket instead of handing them to Medicare.

Your traditional IRA, 401(k), 403(b), and TSP are retirement income powerhouses. But every dollar you withdraw from these accounts shows up on your tax return—and every dollar on your tax return feeds into your MAGI, which feeds into IRMAA.

The question isn't whether to use these accounts. The question is how much to take, when to take it, and whether converting some of it to a Roth can change the game entirely.

Understanding the MAGI Equation

Your Modified Adjusted Gross Income (MAGI) for IRMAA includes:

Adjusted Gross Income (your total income minus specific deductions like educator expenses, student loan interest, and IRA contributions) PLUS tax-exempt interest income (including municipal bond interest).

Here's what counts in your AGI:

Social Security benefits	Yes (up to 85%)	Taxable portion counts toward AGI
Traditional IRA/401(k)/403(b) withdrawals	Yes (100%)	Fully taxable as ordinary income
Roth IRA distributions	NO	Not included in AGI or MAGI
Roth 401(k) distributions	NO	Not included in AGI or MAGI
Pension income	Yes (100%)	Fully taxable
Wages / self-employment income	Yes (100%)	Fully taxable
Capital gains (stocks, property)	Yes (100%)	Short-term and long-term gains both count
Rental income (net)	Yes	After deductions
Municipal bond interest	Yes (for IRMAA only)	Tax-free for income tax but counts for MAGI
Dividends	Yes	Both qualified and ordinary

Annuity income (non-qualified)	Partially	Only the earnings portion is taxable
Life insurance cash value withdrawals	It depends	Loans are tax-free; withdrawals above basis are taxable
Roth conversions	Yes (in conversion year)	The converted amount is taxable income
Required Minimum Distributions	Yes (100%)	Fully taxable from traditional accounts
Health Savings Account withdrawals	No (if qualified)	Tax-free for medical expenses

The golden takeaway from this table: Roth IRA distributions do not count in your MAGI. That single fact makes Roth conversions one of the most powerful IRMAA avoidance strategies available.

The Roth Conversion Strategy for IRMAA Reduction

A Roth conversion is when you move money from a traditional IRA, 401(k), or other pre-tax retirement account into a Roth IRA. You pay income tax on the converted amount in the year you convert. But after that, the money grows tax-free, and qualified distributions from the Roth are not included in your MAGI.

Here's the strategic framework:

Phase 1: The Conversion Window (Ages 59½ to 63)

The ideal time for Roth conversions is between ages 59½ (when you can access retirement funds without the 10% early withdrawal penalty) and age 63. Why age 63? Because IRMAA uses a two-year lookback. A conversion done at age 63 affects your IRMAA at age 65—your first year on Medicare. If you complete your conversions by age 62, the income from those conversions may not affect your IRMAA at all (depending on when in the year you turn 65 and when the lookback lands).

The goal: convert enough traditional IRA money to a Roth to significantly reduce your future RMDs, lower your future MAGI, and keep you below IRMAA thresholds for life—all while paying tax at today's rates, which may be lower than future rates.

Phase 2: The Careful Zone (Ages 63 to 70)

After age 63, conversions still work—but you need to be more precise. Every conversion increases your MAGI in the conversion year, which will increase your IRMAA two years later. The strategy shifts to "precision conversions": convert just enough to fill the space between your current MAGI and the next IRMAA threshold, but not so much that you jump into a higher bracket.

Phase 3: The RMD Years (Age 73+)

Once Required Minimum Distributions begin (age 73 for most people in 2026), your traditional IRA forces money into your MAGI whether you want it there or not. If you've done significant Roth conversions in earlier years, your remaining traditional IRA balance is smaller, your RMDs are smaller, and your MAGI stays lower. That's the payoff of early planning.

Roth Conversion IRMAA Impact Calculator

Let's see how different conversion amounts affect IRMAA for a married couple with $150,000 in base income.

$0 (no conversion)	$150,000	Standard ($202.90/mo)	$0
$50,000	$205,000	Standard ($202.90/mo)	$0
$62,000	$218,000	Standard ($202.90/mo)	$0 (right at threshold)
$62,001	$218,001	Tier 2 ($284.10/mo)	$2,296.80
$100,000	$250,000	Tier 2 ($284.10/mo)	$2,296.80
$116,000	$274,000	Tier 2 ($284.10/mo)	$2,296.80 (right at threshold)
$116,001	$274,001	Tier 3 ($405.80/mo)	$5,764.80
$205,000	$350,000	Tier 4 ($527.50/mo)	$9,232.80

Look at the difference between converting $62,000 and $62,001 for this couple. One extra dollar triggers $2,296.80 in annual IRMAA surcharges. That's not a gradual increase—it's a cliff. This is why precision matters.

The optimal strategy for this couple: convert up to $62,000 per year (bringing their MAGI to exactly $218,000), filling the space just below the IRMAA threshold. Over five years, they could convert $310,000 to a Roth without triggering any IRMAA—and dramatically reduce their future RMDs.

Traditional IRA Withdrawals: The Annual Calibration

Even if you're not doing Roth conversions, the amount you withdraw from traditional accounts each year should be carefully calibrated against IRMAA thresholds. Here's a simple annual planning process:

Step 1: Estimate your "fixed" MAGI components for the year (Social Security, pension, wages, rental income, etc.). Step 2: Identify the nearest IRMAA threshold above your fixed income. Step 3: The gap between your fixed income and the threshold is your "safe withdrawal zone" from traditional accounts. Step 4: If you need more income than the safe zone allows, draw the excess from Roth accounts, cash savings, or other non-MAGI sources.

The Power of Multiple Income Buckets

The most IRMAA-efficient retirees don't rely on a single income source. They maintain multiple "buckets" of money, each with different tax treatment:

Pre-Tax	Traditional IRA, 401(k), 403(b), TSP	Yes (100%)	Yes	High
Tax-Free	Roth IRA, Roth 401(k)	No	No	None
After-Tax	Brokerage accounts, savings	Gains/dividends only	Yes (gains)	Moderate
Tax-Advantaged	HSA, cash value life insurance	No (if rules followed)	Usually no	Low/None
Social Security	SS benefits	Up to 85%	Yes (taxable portion)	Moderate

By drawing from different buckets in the right proportions each year, you can control your MAGI with remarkable precision. This is the essence of retirement income planning—and it's why working with a professional who understands both taxes and Medicare is worth its weight in gold.

RMDs and IRMAA: The Forced Income Problem

Starting at age 73, the IRS requires you to take minimum distributions from your traditional retirement accounts (IRA, 401(k), 403(b), TSP). These Required Minimum Distributions are based on your account balance and life expectancy. The larger your traditional account balance, the larger your RMD—and the higher your MAGI.

Here's the problem: by the time RMDs begin, you have no choice about the income. It's forced. If your traditional IRA has grown to $1,000,000 by age 73, your first RMD is approximately $37,736 (using the Uniform Lifetime Table). At $2,000,000, it's about $75,472. At $3,000,000, it's roughly $113,208.

If those RMDs push you over an IRMAA threshold, you're paying surcharges on money you were forced to take. This is the "RMD-IRMAA trap," and the only way to avoid it is to reduce your traditional account balances before RMDs begin—through Roth conversions, strategic withdrawals, or qualified charitable distributions.

$300,000	$11,321	$91,321	Standard
$500,000	$18,868	$98,868	Standard
$700,000	$26,415	$106,415	Tier 2 ($284.10/mo)

$1,000,000	$37,736	$117,736	Tier 2 ($284.10/mo)
$1,500,000	$56,604	$136,604	Tier 3 ($405.80/mo)
$2,000,000	$75,472	$155,472	Tier 3 ($405.80/mo)
$3,000,000	$113,208	$193,208	Tier 4 ($527.50/mo)

A single person with $80,000 in other income and a $700,000 traditional IRA would pay $284.10/month for Part B instead of $202.90/month—an extra $888 per year—solely because of their RMD. Over 20 years, that's nearly $18,000 in extra Medicare costs from one account they couldn't avoid tapping.

The Optimal Strategy: Putting It All Together

Here's the integrated approach I recommend to my clients:

Before age 63: Do aggressive (but tax-smart) Roth conversions, filling up the space below IRMAA thresholds each year. The goal is to move as much as possible from traditional accounts to Roth while paying tax at today's rates.

Ages 63–72: Continue precision Roth conversions calibrated to stay just below IRMAA thresholds. Supplement income from Roth and taxable accounts as needed. Begin drawing down traditional accounts strategically.

Age 73+: RMDs kick in. If you've done your conversions, the remaining traditional balance is manageable and RMDs stay below IRMAA thresholds. Use Qualified Charitable Distributions (QCDs) for any charitable giving to further reduce MAGI.

Throughout retirement: Review your income plan annually. IRMAA thresholds, tax brackets, and personal circumstances change. What worked last year may not work next year.

REAL-WORLD EXAMPLE: The Five-Year Conversion Plan

> *Tom and Sarah, both 60, have $1,200,000 in traditional IRAs, $80,000 in combined Social Security (projected at 67), and $30,000 in pension income. Their projected MAGI at 67 without conversions: $80,000 + $30,000 + ~$45,000 RMD (at 73) = $155,000. But their IRA will grow. By age 73, it could be $1,800,000, producing an RMD of approximately $67,924—pushing their MAGI to $177,924 and dangerously close to the $218,000 married threshold.*
>
> *Tom and Sarah's plan: between ages 60 and 64, they convert $60,000 per year ($300,000 total) to a Roth. They pay approximately $15,000–$18,000 per year in federal taxes on the conversions (at the 22–24% marginal rate). Total conversion tax cost: approximately $75,000–$90,000 over five years.*
>
> *Result: By age 73, their traditional IRA balance is roughly $1,100,000 instead of $1,800,000. Their first RMD is approximately $41,509 instead of $67,924. Their MAGI stays below the $218,000 married threshold. IRMAA avoided: $2,296.80/year (minimum). Over 20 years, that's $42,096 in IRMAA savings—plus the compounding tax-free growth in their Roth IRA, which could be worth hundreds of thousands*

more.

Total estimated benefit of the conversion plan: $42,096 in IRMAA savings + $30,000–$50,000 in reduced income taxes on RMDs + tax-free Roth growth. Total cost: $75,000–$90,000 in conversion taxes. Net benefit: potentially $100,000+ over their retirement.

FREQUENTLY ASKED QUESTIONS

Q: Should I do all my Roth conversions at once?

> *A: Almost never. A large, one-time conversion creates a massive income spike that pushes you into higher tax brackets and higher IRMAA tiers. The strategy is to spread conversions over multiple years, staying within your tax bracket and below IRMAA thresholds each year.*

Q: I'm already 70. Is it too late for Roth conversions?

> *A: It's never too late, but the strategy changes. At 70+, you have fewer years before RMDs begin (at 73), so the "runway" for conversions is shorter. You can still do precision conversions each year to reduce your traditional balance. Every dollar converted is a dollar less in future RMDs.*

Q: Do Roth conversions affect my Social Security taxes too?

> *A: Yes. The converted amount increases your income, which can increase the taxable portion of your Social Security benefits (up to 85% of benefits can be taxable). This is another reason to do conversions before you start collecting Social Security if possible.*

Q: My financial advisor never mentioned IRMAA. Should I be concerned?

> *A: Many financial advisors focus on investment performance and tax brackets but overlook Medicare implications. IRMAA is a relatively new consideration for many planners. If your advisor isn't factoring Medicare costs into your withdrawal strategy, you should bring it up—or work with someone who understands both sides.*

Q: Can I 'undo' a Roth conversion if it pushes me into IRMAA?

> *A: No. Since 2018, Roth conversions are irrevocable. Once you convert, you cannot reverse it (this is called "recharacterization," and it was eliminated by the Tax Cuts and Jobs Act). This makes planning before converting even more critical.*

CHAPTER 14 CHECKLIST

☐ *I understand how traditional IRA withdrawals and Roth conversions affect my MAGI*

☐ *I know which income sources count toward MAGI and which don't (Roth = safe)*

☐ *I've calculated the gap between my current MAGI and the nearest IRMAA threshold*

☐ *I've evaluated whether Roth conversions before age 63 make sense for my situation*

☐ *I understand how RMDs at age 73 could push me into IRMAA territory*

☐ *I've considered building multiple income "buckets" (pre-tax, tax-free, after-tax)*

☐ *I've reviewed the QCD strategy for charitable giving after age 70½*

☐ *I've discussed IRMAA with my financial advisor or retirement specialist*

READY TO TAKE THE NEXT STEP?

Roth conversions can be the most powerful tax tool in your retirement toolkit—or the most expensive mistake. The difference comes down to planning. Let me run the numbers with you, for free, so you can see exactly what a conversion would mean for your taxes, your Medicare premiums, and your long-term wealth.

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PART III

SPECIAL MEDICARE TOPICS

Veterans, federal employees, workers past 65, and everyone who's

been targeted by a Medicare scam. These chapters are for you.