



Means Testing of Medicare Surtaxes, ACA Marketplace Subsidies, and IRMAA

Introduction

Medicare surtaxes, Income-Related Monthly Adjustment Amounts (IRMAA), and the subsidies available through the Affordable Care Act (ACA) Marketplace are all "means-tested" programs. This means they rely on an individual's income level to determine eligibility, costs, and benefits. Understanding how these elements work is crucial for financial planning, particularly for individuals approaching retirement or managing healthcare costs.

Medicare Surtaxes Overview

Medicare surtaxes, also known as the "Medicare high-income taxes," were introduced as part of the Affordable Care Act (ACA) to help fund Medicare expansion. These taxes affect high-income earners and include two components:

1. The Additional Medicare Tax

- **Rate:** 0.9% on earned income above certain thresholds
- **Income Thresholds:**
 - \$200,000 for single filers
 - \$250,000 for married couples filing jointly
- **Application:** Only the amount above the threshold is subject to the 0.9% surtax

Filing Status	Threshold for Additional Tax	Tax Rate
Single	\$200,000	0.9%
Married Filing Jointly	\$250,000	0.9%
Married Filing Separately	\$125,000	0.9%

2. Net Investment Income Tax (NIIT)

- **Rate:** 3.8% on the lesser of net investment income or modified adjusted gross income (MAGI) over the applicable threshold
- **Income Thresholds:**
 - \$200,000 for single filers
 - \$250,000 for married couples filing jointly
- **Applicable Income:** Interest, dividends, capital gains, rental income, and certain passive business income

Filing Status	Threshold for NIIT	Tax Rate
Single	\$200,000	3.8%
Married Filing Jointly	\$250,000	3.8%
Married Filing Separately	\$125,000	3.8%

Planning Considerations

Individuals near these thresholds can strategize to minimize exposure to these surtaxes, such as timing income, managing capital gains, and utilizing Roth conversions

Income-Related Monthly Adjustment Amounts (IRMAA) Overview

IRMAA is an additional surcharge applied to Medicare Part B (medical insurance) and Part D (prescription drug coverage) premiums for individuals with higher MAGI. The income brackets are set two years prior, meaning 2024 IRMAA is based on 2022 income

- **Impact:** A higher MAGI results in higher monthly premiums for Medicare
- **Income Thresholds:**
 - Starts at \$97,000 for individuals (\$194,000 for joint filers)

MAGI for Single Filers (2022)	MAGI for Joint Filers (2022)	Part B Monthly Premium (2024)	Part D Surcharge (2024)
≤ \$103,000	≤ \$206,000	\$174.70	\$0
\$103,001 - \$129,000	\$206,001 - \$258,000	\$244.60	\$12.90
\$129,001 - \$161,000	\$258,001 - \$322,000	\$349.40	\$33.30
\$161,001 - \$193,000	\$322,001 - \$386,000	\$454.20	\$53.80
\$193,001 - \$500,000	\$386,001 - \$750,000	\$559.00	\$74.20
> \$500,000	> \$750,000	\$594.00	\$81.00

Planning Considerations

Managing MAGI can help avoid higher IRMAA premiums. Tactics include Roth conversions before retirement, tax-loss harvesting, and controlling capital gains distributions

ACA Marketplace Subsidies Overview

The ACA Marketplace subsidies help lower healthcare costs for individuals purchasing health insurance on the exchange. The two primary forms of subsidies are:

1. Premium Tax Credits (PTCs)

- **Eligibility:** Based on income as a percentage of the Federal Poverty Level (FPL)
- **Income Range:** Individuals earning 100% to 400% of the FPL generally qualify for premium subsidies
- **Calculation:** Subsidies are calculated on a sliding scale, with lower-income earners receiving more assistance

Household Size	100% FPL (2024)	400% FPL (2024)
1	\$14,580	\$58,320
2	\$19,720	\$78,880
3	\$30,000	\$120,000

Note: Subsidies are tied to the "benchmark" Silver plan in the enrollee's area

2. Cost-Sharing Reductions (CSRs)

- **Eligibility:** Available to individuals earning between 100% and 250% of the FPL
- **Purpose:** Reduces out-of-pocket expenses, such as deductibles, copayments, and coinsurance
- **Availability:** Only available with a Silver plan on the ACA Marketplace

Planning Considerations

Monitoring MAGI is crucial to maintain eligibility for subsidies. Retirees should be particularly mindful of income sources like IRA withdrawals and Social Security that can push MAGI above thresholds

Means Testing in Practice: Key Comparisons

Feature	Medicare Surtaxes	IRMAA	ACA Marketplace Subsidies
Income Basis	MAGI above \$200k/\$250k thresholds	MAGI above \$97k/\$194k thresholds	MAGI as a percentage of FPL
Type of Tax/Benefit	Additional 0.9% tax on earned income; 3.8% NIIT on investment income	Higher Medicare Part B and Part D premiums	Premium tax credits; cost-sharing reductions
Planning Opportunities	Income deferral, Roth conversions, timing income recognition	Managing MAGI, tax-efficient withdrawals	Managing MAGI to maximize subsidy eligibility

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