HOW MEDICARE "MEANS TESTING" AND TAX-DEFERRED SAVINGS THREATENS RETIREMENT SECURITY

Required Minimum Distributions (RMDs) from tax-deferred retirement savings accounts can trigger hundreds of thousands of dollars in Medicare "means testing" surcharges during retirement in the form of higher premiums on Medicare Part B and Part D. Medicare means testing can threaten the retirement plans of millions of affluent Americans. Smart financial planning can minimize the damage.

By David McClellan

AiVANTE

KEY CONCLUSIONS

Medicare premiums represent a significant and growing retirement expense.
A 50 year-old couple will pay a minimum of $419,914 in Medicare Part B and Part D premiums through age 90. That excludes premiums for supplemental coverage and out-of-pocket expenses.

Medicare Part B costs have risen 8.8% annually from 1970 to 2019, while Part B premiums have risen 7.5% annually from 1966 to 2019.[1] Retiring baby boomers will continue to stress Medicare as the ratio of retirees to workers rises. Medicare trustees expect Part B premiums to rise 5.17% annually through 2027.[2]

With "means testing", the highest earners pay premiums 3.4 times higher for Part B and 4.6 times higher for Part D compared to the lowest earners.
Means testing reduces the federal subsidy for higher earners and is one of the most politically acceptable solutions to maintaining Medicare solvency. From 2007 to 2019, Part B premiums for higher earners increased from 5.0% to 8.6% annually while Part B premiums for lower earners increased 3.1% annually.[3]

Medicare means testing can threaten the retirement plans of millions of affluent Americans.

Required Minimum Distributions can trigger significant Medicare means testing surcharges.
A hypothetical 50-year-old couple with $1 million in tax-deferred savings who contribute to their 401(k) until retirement at age 66 will see their tax-deferred savings increase to $4.65 million by age 70, when they would start taking an RMD of $169,689. Add in Social Security income and they become high earners facing means testing surcharges.

Over a 25-year retirement, the 50-year-old couple can expect to pay $763,193 in Part B and Part D premiums, $343,279 of which comes from means testing surcharges!

Smart planning can reduce the impact of means testing.
Reducing your Modified Adjusted Gross Income in retirement can reduce Medicare means testing surcharges and strengthen retirement security.

Strategies for reducing retirement MAGI include: (1) prioritizing funding of HSA accounts, (2) shifting current 401(k) contributions to the after-tax Roth, (3) Roth conversions, and (4) asset location that places lower returning asset classes in tax deferred accounts. Tax planning isn't just about minimizing taxes in the current year, where many CPAs and investors focus. It's about minimizing taxes and other expenses (e.g. Medicare) over a person's entire lifetime.

MEDICARE COSTS & PREMIUMS

Traditional Medicare services consist of Part A (hospital care), Part B (outpatient), and Part D (drug). Many retirees mistakenly think Medicare is free because they've been paying into the system for their working lives. However, for most retirees, Part A is free while Part B and Part D have monthly premiums, usually deducted from Social Security checks.

"When Medicare was launched in 1966, there were 4.6 Americans in the workforce to support each Medicare enrollee. That ratio fell to 3.2 workers per beneficiary by 2017, and the program's trustees project it will sink to just 2.3 workers per beneficiary by 2030—half as many workers as when the program began."

— Tucker Doherty
Politico

Medicare Part B costs have risen 8.8% annually from 1970 to 2019 (from $8.42 a month to $532.60 a month).[4] The government subsidizes Medicare costs by setting the base premium equal to 25% of projected per capita costs. Despite the subsidies, significant cost increases have been passed on to consumers. Base Medicare Part B premiums have risen 7.5% annually from 1966 to 2019 (from $3.00 a month to $135.50 a month).[5] In comparison, the core annual inflation rate recently has been about 2.3%. High compound inflation rates can have a devastating impact over time.

For 2019, the lowest premiums apply to married couples filing jointly whose 2017 MAGI was under $170,000 (there's a two-year look-back). People in this base tier are not impacted by means testing (more on this in a bit). Base premiums for Part B are $135.50 a month ($1,626.00 annually). Part D premiums depend on the private plan you choose, but a representative plan from Austin, TX, costs $21.30 a month ($255.60 annually) at the base tier. Therefore, most couples are looking at annual Medicare Part B and Part D premiums of $3,763.20.

So why are Medicare costs and premiums rising?
A significant factor is the increasing sophistication of medical services, which rely on advanced technology and drugs that often cost billions to bring to market. In addition, services are shifting from hospitals (paid by Part A with no premium) to outpatient care (paid by Part B, which has a premium). The ratio of Part A to Part B expenses has fallen from 59:41 in 2000 to 50:50 in 2014 and is expected to drop to 45:55 in 2026.[6] As services shift to outpatient facilities, retirees pay a greater share.

Finally, demographic pressures are stressing the solvency of Medicare. Medicare benefits for current retirees are paid for by taxes from current workers. The growing wave of retiring baby boomers continues to increase the ratio of retirees to workers and stress the Medicare system.

"When Medicare was launched in 1966, there were 4.6 Americans in the workforce to support each Medicare enrollee. That ratio fell to 3.2 workers per beneficiary by 2017, and the program's trustees project it will sink to just 2.3 workers per beneficiary by 2030—half as many workers as when the program began."[7]

Long-term, it means the solvency of Medicare itself is in question. The only way to improve the solvency of Medicare is to raise taxes, reduce benefits, or incur larger deficits. That's not a political statement. It's math. And it's why the Medicare trustees expect **Medicare Part B premiums on average to rise 5.17% annually from 2020 to 2027.**[8]

PROJECTED MEDICARE EXPENSES IN RETIREMENT

Any expense with a high annual inflation rate will grow significantly over time—and Medicare expenses are no exception. Premiums are expected to increase by 5.17% per year, exponentially increasing costs over time. Using current base Medicare premiums and projected inflation rates, a 65-year-old couple eligible for Medicare this year will pay an estimated $197,144 in premiums if they live to age 90.

Younger savers who are exposed to more years of high inflation will be impacted even more severely by high premium inflation rates. A 50-year old couple can expect to pay a minimum of $419,914 in base Part B and Part D premiums. That's just for premiums—for a healthcare system into which they've been paying taxes their entire working lives! Notably, that doesn't include premiums for supplemental coverage (e.g. Medigap or Medicare Advantage) or out-of- pocket expenses for vision, dental, or long-term care.

Younger savers who are exposed to more years of high inflation will be impacted even more severely by high premium inflation rates.

Figure 1. A Couple's Minimum Lifetime Medicare Part B & Part D Premiums

Current Age	Lifetime BD Premiums
40	$695,151
45	$540,281
50	$419,914
55	$326,363
60	$253,654
65	$ 197,144

Because these numbers exclude means testing surcharges, they represent the minimum premiums affluent retirees will pay and provide a glimpse into why careful financial planning for medical expenses in retirement is critical.

 |

MEDICARE MEANS TESTING

During the first 41 years of Medicare, everyone enrolled in Part B paid the same premiums, regardless of income. But with the Medicare Modernization Act of 2003, high-income individuals started paying higher premiums, beginning in 2007. These higher premiums are known as Income-Related Monthly Adjustment Amount surcharges or "means testing." In 2018, about 3.6 million Part B enrollees paid IRMAA surcharges.[9] Part D premiums are also subject to means testing.

The concept of means testing shouldn't be a big surprise because, as Medicare's finances are stressed, the most politically acceptable solution is to make wealthier people pay more. All the signs suggest means testing will become more severe over time.

Means testing poses a significant risk for wealthier people. The higher their income, the more retirees will pay in Part B and Part D premiums. Premiums for the highest earners are 3.4 times higher for Part B and 4.6 times higher for Part D as compared to the lowest earners (Fig. 2).

Figure 2. Medicare Part B and Part D Premiums for 2019 (Based on 2017 Income)

Means Testing Tier	MAGI, Married Filing Jointly		Annual Cost Per Person	
	Low	High	Part B	Part D
Base Tier	$—	$ 170,000	$1,626.00	$255.60
MT Tier 1	$ 170,000	$ 214,000	$2,275.20	$404.40
MT Tier 2	$ 214,000	$ 267,000	$3,250.80	$638.40
MT Tier 3	$ 267,000	$ 320,000	$4,234.80	$872.40
MT Tier 4	$ 320,000	$ 750,000	$5,200.80	$1,106.40
MT Tier 5	$ 750,000		$5,526.00	$1,184.40

There are several nuances involved in calculating premiums each year, but, basically, at higher income levels the government reduces the per capita federal subsidy, causing retirees to bear a greater portion of the cost, as shown in Figure 3.

Each means testing tier experienced a major increase in premiums during the three-year period of 2007-2010, ranging from 13.5% to 29.9% annually. Since 2010, the same inflation rate of 2.3% has applied to each tier. Over the broader 13-year period from 2007 to 2019, the base premium increased by 3.1% annually, while premiums for means testing tiers increased from 5.0% to 8.6% annually.[10]

Figure 3. Part B Subsidy by Means Testing Tier, with Historical and Projected Inflation Rates

Means Testing Tier	% Costs Borne by Retiree	Annual Growth 2007-2010	Annual Growth 2010-2019	Annual Growth 2007-2019	Projected Annual Growth 2020+
Base Premium	**25%**	**5.7%**	**2.3%**	**3.1%**	**5.2%**
MT Tier 1	35%	13.5%	2.3%	5.0%	5.2%
MT Tier 2	50%	21.1%	2.3%	6.7%	5.2%
MT Tier 3	65%	26.2%	2.3%	7.8%	5.2%
MT Tier 4	80%	29.9%	2.3%	8.6%	5.2%
MT Tier 5	85%	NA	NA	NA	5.2%

In addition, means testing income brackets in many years have not been indexed for inflation. The first five income brackets haven't changed since 2009, subjecting more people to means testing. Worse, in some years, income brackets have even been reduced. For instance, in 2018, the lower boundary income for Tier 3 fell from $320,000 to $267,000 and is lower now on a nominal basis than it was in 2007, when it was $300,000. Tier 5 was created in 2019 for couples with MAGI above $750,000.

The Medicare trustees announced in September 2019 that means testing brackets will be indexed for inflation starting in 2020, based on the CPI-U or Consumer Price Index for Urban Consumers. That's good news for affluent retirees. For 2020, means testing income brackets 1-5 will be adjusted for inflation by 1.7%. The sixth bracket won't be indexed for inflation until 2028.

All calculations in this paper assume means testing income brackets will continue to be indexed for inflation at 1.7%. However, significant risk remains that bracket indexing will be eliminated again as Medicare solvency becomes more strained. Eliminating bracket indexing would have the effect of increasing means testing surcharges.

REQUIRED MINIMUM DISTRIBUTIONS & MEDICARE MEANS TESTING

Many retirees assume they won't be high earners in retirement. However, those with large tax-deferred savings accounts may be surprised to learn these accounts have the potential to create significant income in retirement—triggering Medicare means testing and compromising their retirement security.

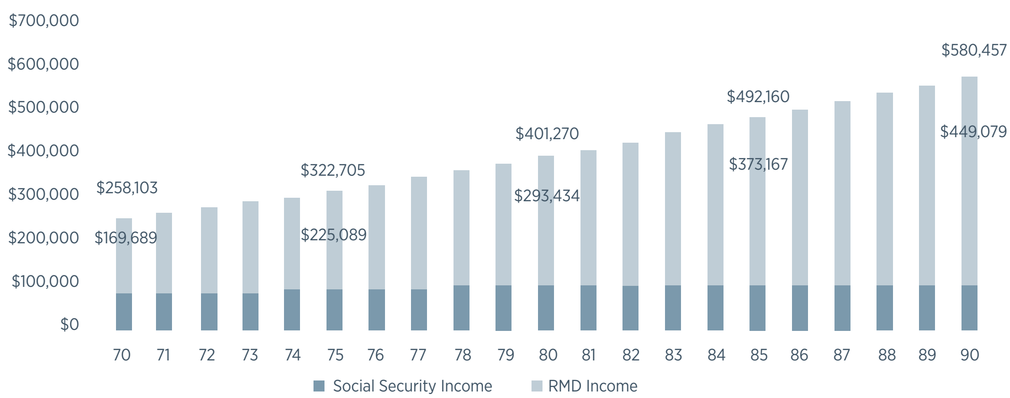
The most commonly used retirement accounts, such as a traditional 401(k), 403(b), IRA, or qualified annuity, are tax-deferred, not tax-free. Uncle Sam let you take a tax deduction when you made contributions, but that doesn't mean he isn't coming for your money eventually.

To ensure taxes are eventually paid on these accounts, the government requires retirees to withdraw money starting at age 70.5 in the form of a Required Minimum Distribution. RMDs are taxed at your marginal ordinary income rate.[11]

An RMD is calculated by dividing the balance of the tax-deferred account on December 31st of the prior year by a life expectancy factor, which decreases each year. If the account continues to grow and is divided by a small and shrinking number (life expectancy), the RMD gets bigger every year.

As retirees age, RMD math really can start to work against them. Figure 4 shows the growth in tax-deferred savings and RMDs for a hypothetical 50-year-old couple. The couple has $1 million in tax-deferred savings (no over-50 catch-up or company match), contributes $38,000 annually to their Traditional 401(k)s until retirement at age 66 and earns a 6% annual return. By age 70, their tax-deferred liability has grown to $4.65 million and their initial RMD will be $169,689. That income is added to income from Social Security, pensions, investments, etc., when calculating their MAGI and means testing bracket.

Figure 4. Growth in RMDs and MAGI for Hypothetical 50-Year-Old Couple



If your tax-deferred savings are large relative to withdrawals, the RMD grows. By age 75, the couple's MAGI is $322,705 (means testing tier 1) and it continues to grow, reaching tier 2 by age 80 and tier 3 by age 85. If they received company matches or profit sharing, the RMDs would be much higher.

Under current Medicare rules and projected inflation rates, retirees subject to Medicare means testing can expect to pay significantly more in lifetime Medicare premiums. Figures 5 and 6 below summarize retirement Medicare Part B and Part D premiums and means testing surcharges for various combinations of age and tax-deferred savings balances. Over a 25-year retirement to age 90, our 50-year-old couple can expect to pay $763,193 (Fig. 5) in Part B and Part D premiums, of which $343,279 (Fig. 6) comes from means testing surcharges!

Figure 5. Retirement Medicare Part B and Part D Premiums

Current Tax Deferred Savings	40	45	50	55	60	65
$0	$842,374	$540,281	$419,914	$326,363	$253,654	$197,144
$200,000	$1,100,546	$644,400	$419,914	$326,363	$253,654	$197,144
$400,000	$1,375,317	$812,673	$419,914	$326,363	$253,654	$197,144
$600,000	$1,637,982	$959,577	$548,756	$344,538	$253,654	$197,144
$800,000	$1,834,341	$1,128,291	$664,798	$389,257	$253,654	$197,144
$1,000,000	$1,933,956	$1,307,220	**$763,193**	$445,017	$274,326	$197,144
$1,200,000	$2,007,968	$1,409,378	$854,431	$516,690	$302,536	$197,144
$1,400,000	$2,050,033	$1,492,589	$965,433	$571,113	$331,483	$208,122
$1,600,000	$2,074,742	$1,548,578	$1,072,567	$645,691	$381,538	$227,022
$1,800,000	$2,074,742	$1,572,073	$1,129,132	$698,179	$412,524	$242,471
$2,000,000	$2,074,742	$1,593,314	$1,168,229	$769,008	$461,016	$265,744

Figure 6. Retirement Medicare Part B and Part D Means Testing Surcharges

Current Tax Deferred Savings	40	45	50	55	60	65
$0	$147,223	$0	$0	$0	$0	$0
$200,000	$405,395	$104,119	$0	$0	$0	$0
$400,000	$680,166	$272,392	$0	$0	$0	$0
$600,000	$942,831	$419,296	$128,842	$18,175	$0	$0
$800,000	$1,139,190	$588,010	$244,884	$62,894	$0	$0
$1,000,000	$1,238,805	$766,939	**$343,279**	$118,654	$20,672	$0
$1,200,000	$1,312,817	$869,097	$434,517	$190,327	$48,882	$0
$1,400,000	$1,354,882	$952,308	$545,519	$244,750	$77,829	$10,978
$1,600,000	$1,379,591	$1,008,297	$652,653	$319,328	$127,884	$29,878
$1,800,000	$1,379,591	$1,031,792	$709,218	$371,816	$158,870	$45,327
$2,000,000	$1,379,591	$1,053,033	$748,315	$442,645	$207,362	$68,600

Because few retirees are even aware of means testing surcharges, it represent a significant risk to many people's retirement plans, especially for those who are maxing out their tax deferred savings.

A cynic might note that through means testing, Uncle Sam will be punishing the best retirement savers, those who have been doing exactly what we asked them to do decades ago when the U.S. began shifting away from defined benefit pension plans and towards defined contribution plans like 401(k)s.

PLANNING OPPORTUNITIES TO MITIGATE MEANS TESTING

Smart planning that reduces MAGI in retirement can reduce Medicare means testing surcharges and strengthen retirement security. Several retirement and tax planning strategies can mitigate the damage of Medicare means testing. While some insurance products also could make an impact, they are not considered in this paper.

For a simple estimate of the potential savings from retirement planning, refer back to Figure 6 and contrast the means testing surcharges at lower future levels of tax deferred savings. For instance, if our 50-year-old couple can reduce their tax-deferred savings from $1 million to $800,000 by age 55, their means testing surcharges will fall from $343,279 to $62,894, a savings of $280,385!

Smart planning that reduces MAGI in retirement can reduce Medicare means testing surcharges and strengthen retirement security.

Prioritize Funding of HSA Accounts

A Health Savings Account is like a turbo-charged IRA. Contributions are tax-deductible, assets grow tax-deferred, and withdrawals used for medical expenses are tax-free like a Roth. Unlike a Roth, an HSA has no income limitation. Therefore, anyone with a high-deductible medical plan who isn't yet enrolled in Medicare can contribute (the family contribution limit for 2019 is $7,000, while individuals age 55 and over may be able to contribute an additional $1,000). Because of this, HSA accounts should be the top funding priority after capturing the 401(k) match.

Unfortunately, many savers are using HSA accounts to pay for current medical expenses. Many mistakenly think an HSA works like a Flexible Spending Account, which has a "use it or lose it" feature where funds not used by December 31st are lost. But since HSA accounts can continue to grow over many years, most savers should pay out of pocket for current medical expenses and let the HSA account grow to fund future medical expenses in retirement.

Shifting 401(k) Contributions to Roth

Another planning strategy is simply to shift contributions from a tax-deferred Traditional 401(k) to an after-tax Roth 401(k), if available. A Roth option is becoming more widely available in employer-sponsored plans, with 70% of employers today offering a Roth 401(k) option compared to 46% in 2012.

Several papers have been written about optimizing contributions to pre-tax (Traditional) or after-tax (Roth) accounts. The general consensus is to contribute to an after-tax Roth account only if the estimated marginal tax rate in retirement will be higher than the current marginal tax rate. While it's not wrong to seek to pay a tax liability whenever the tax rate is lower, that strategy ignores Medicare means testing, which acts as an additional tax.

In the example of the 50-year-old couple, at age 75 they face an RMD of $225,089 which, when combined with Social Security, gives them a "simple MAGI" of $322,705. That would place them in the 32% marginal tax bracket today. They would be hit by $12,262 in means testing surcharges that year, which is 3.8% of their MAGI. At age 80, they'll be hit by $26,753 in means testing surcharges, which is 6.7% of MAGI.

If the means testing penalty is viewed as a tax, it pushes their marginal tax rate to 35.8% at age 75 and 38.7% at age 80. The tax deduction for contributing to the tax-deferred 401(k) suddenly doesn't look as good.

A modified approach to evaluating where to place retirement contributions would compare the current marginal tax rate to a combined tax "rate" in retirement that adds in projected means testing penalties as a percentage of income. However, that can be a complicated evaluation and warrants more study.

If a Roth 401(k) option is not available, savers might consider contributing only enough to the tax-deferred Traditional 401(k) to capture 100% of the company match—but not beyond. Any company match or profit-sharing contribution is always considered tax-deferred money, which grows the tax-deferred liability. While that's not ideal, it's also free money. If savers follow this approach of contributing only up to the match, it's critical to continue saving as much as possible in a taxable account to maintain a high saving rate! One easy way to do this is to schedule a monthly ACH transfer from your bank account to a taxable investment account.

Investing in taxable accounts becomes more attractive when a portfolio is managed to minimize turnover (frequent trading generates taxes) and optimize asset location (placing specific asset classes into specific tax buckets to minimize taxes). For instance, low turnover and effective asset location can enable a taxable portfolio to have minimal "tax drag" and be 90% as tax-efficient as a tax-deferred account like a 401(k). That 10% loss in tax efficiency may be more than made up by avoiding means testing surcharges.

The idea that savers might improve retirement security by reducing their 401(k) contributions flies in the face of conventional wisdom and almost everything they've ever been told. Young high earners in particular are likely to benefit from avoiding tax-deferred saving because it minimizes RMDs and avoids Medicare means testing.

Yet another subjective consideration is that tax rates today are historically low and, in the author's opinion, are likely to rise in the future. Recall the basic math of the number of retirees per worker and how that will stress Medicare and Social Security. Add to that challenges, such as decaying infrastructure and climate change, and it's hard to imagine taxes won't be higher in the future. If savers believe tax rates are likely to be higher in the future, it's another argument for sheltering as much as possible in tax-free accounts today.

The idea that savers might improve retirement security by reducing their 401(k) contributions flies in the face of conventional wisdom and almost everything they've ever been told. Young high earners in particular are likely to benefit from avoiding tax-deferred saving because it minimizes RMDs and avoids Medicare means testing.

Roth Conversions

A third strategy to reduce the impact of Medicare means testing is through Roth conversions, which reduce future tax liability by moving assets from a tax-deferred bucket to a tax-free bucket. Similar to RMDs, savers pay taxes on the money moved at the individual's marginal ordinary income tax rate. As a result, Roth conversions make the most sense in years when income and the marginal tax rate is low and taxes can be paid out-of-pocket rather than from the converted funds that will become tax-free.

For most people, the best window for Roth conversions is the period between retirement and when RMDs begin at age 70.5 (or age 72 if the SECURE Act passes). That said, Medicare premiums are based on income from two years prior. So practically speaking, it makes the most sense to end Roth conversions by age 68, two years before RMDs begin. Savers who retire in their early or mid 60s may have three to eight years during which they can do Roth conversions every year. This has the effect of smoothing out the taxes paid each year and enabling retirees to fit more income into lower marginal tax brackets.

Asset Location

Another strategy is effective asset location, which seeks to minimize taxes by placing specific asset classes in specific tax buckets. For example, individuals would place bonds in tax-deferred accounts because the interest income they generate is sheltered from taxes and place asset classes with higher expected returns, like growth and international stocks, into tax-free accounts. Asset location can boost after-tax returns.

Asset location offers a second benefit in the context of Medicare means testing. It effectively lowers the long-term expected return in the tax-deferred accounts, while raising the long-term expected return in tax-free accounts. This paper assumes a 6% investment return. Consider a scenario in which half the portfolio is tax-deferred (e.g., bond heavy) with an expected return of 5% and half is tax-free (e.g., stock heavy) with an expected return of 7%. Through asset location, the portfolio earns the same 6% aggregate return, but has effectively reduced growth of the tax liability.

 |

CONCLUSION

Medicare means testing is a largely unknown risk with potential to wreck the retirement plans of many Americans. Current Medicare means testing policy is especially punitive to Americans who have been good savers using tax-deferred accounts.

Careful retirement and tax planning that looks beyond the current tax year can create significant value by reducing MAGI and means testing surcharges in retirement.

This paper does not fully contemplate a comparison of the benefits of tax-deferred savings against the potential for Medicare means testing savings. The author encourages others to dive deeper into this topic in the hope that a better framework for optimizing retirement contributions can emerge.

About the Author

David McClellan is VP and head of wealth management solutions at Aivante, which uses machine learning technology to predict medical expenses and strengthen retirement planning.

If you work for a wealth management firm and would like to learn about how Aivante can enable your financial advisors to plan for retirement medical expenses, please contact me at **dmcclellan@aivante.com**.

In addition to his role with Aivante, David McClellan, is a financial advisor with Forum Financial Management, LP. As stated above, the opinions expressed in this article belong solely to the author. This information is intended to serve as a basis for further discussions with professional advisors and should not be relied upon for making investment decisions. Forum Financial Management, LP is a Registered Investment Advisor and had no affiliation with Aivante.

If you'd like David's help as a financial advisor who can help you develop a smarter retirement plan, please contact me at **dmcclellan@forumfin.com**.

Learn more about David at https://www.linkedin.com/in/davidmcclellan/

Disclosures

The projections calculated in this paper primarily vary three variables—current age, current tax-deferred savings, and current tax-deferred 401(k) savings.

Traditional 401(k) contributions assume the 2019 under-50 maximum of $19,000 per spouse ($38,000 total), with no company match or over-50 catch-up contribution. The contribution limit is increased 2% annually. Contributions are assumed to occur on average at the midpoint of each year. A 6% investment return is assumed on the portfolio.

All projections assume a married couple who file a joint return, retire at age 66, and live to age 90. The 2020 joint life tables predict a 6% chance both retirees will be alive at age 90 and a 44% chance one of them will be alive at age 90.

Social Security benefits of $35,000 for each spouse in today's dollars are assumed to start at age 66. A COLA of 2% is applied to Social Security benefits and 15% of the benefit is assumed to be tax-free.

A simplified MAGI is assumed that includes taxable Social Security benefits plus RMD income. All other income sources are excluded, such as taxable investment income, part-time employment income, pension income, passive investment/rental income, etc. No tax deductions are assumed and, for simplicity, it's assumed the lack of other income sources and deductions, which move in opposite directions, cancel each other out. Means testing calculations assume MAGI from two years prior.

IRMAA income brackets are assumed to increase at 1.7% annually, the COLA factor that will be applied to brackets for 2020. The fifth bracket assumes a 1.7% COLA starting in 2028. It's worth noting that historical averages from 2007-2019 have varied between +0.6% and -1.8%, depending on the bracket.

Part B and Part D premiums are inflated using the Medicare trustees projected inflation rate from 2020-2027 of 5.17%, slightly below the projected rate of 5.3% expected by the Medicare trustees from 2021-2027 (2019 to 2020 changes in the inflation rate are included).

Medicare Part D premiums assume a low-cost plan sold in Austin, TX.

Footnotes

1. Author's calculations from data presented in "Medicare: Part B Premiums", Congressional Research Service, April 4, 2019, https://crsreports.congress.gov, ref: R40082.
2. Ibid, page 30.
3. Ibid, author's calculations.
4. Ibid, author's calculations.
5. Author's calculations from data presented in "Medicare: Part B Premiums", Congressional Research Service, April 4, 2019, p29, https://crsreports.congress.gov, ref: R40082.
6. Ibid, p31.
7. https://www.politico.com/agenda/story/2018/09/12/medicare-baby-boomers-trust-fund-000694.
8. Ibid, calculated from data presented in Appendix C, page 30. https://www.politico.com/agenda/story/2018/09/12/medicare-baby-boomers-trust-fund-000694.
9. CMS, March 2019.
10. All inflation rates in this paragraph and Figure 3 are author's calculations.
11. As of this paper's publication, we assume the current law that RMDs begin at age 70.5. The SECURE Act, a bill currently before Congress as of this paper's publication that aims to improve the nation's retirement savings, could increase the age at which RMDs must be taken to age 72. If passed as written, this act would slightly reduce projected means testing surcharges.

