

DASHBOARD WEALTH ADVISORS

THE REAL COST OF A ROTH CONVERSION HOW YOUR INCOME EFFECTS YOUR PART B MEDICARE PREMIUMS

At Dashboard, we have a borderline unhealthy obsession with Roth IRAs – we think they are “wicked awesome”. We regularly challenge clients to complete Roth conversions when it makes sense in order to get more of their dollars into a tax-free environment. But for those age 63 and up, you may have to pay more than just the tax owed on your Roth Conversion...

Age 65 is the Medicare milestone – the age at which you are first eligible to enroll in Medicare Part A (hospital insurance) and Part B (medical insurance). Most Americans do not pay a monthly premium for their Part A coverage, as this is typically “paid-in” via Medicare taxes during working years. There is a separate monthly premium, however, for Medicare Part B coverage. Part B premiums have a minimum “standard premium” floor plus an Income Related Monthly Adjustment Amount (IRMAA) based on modified adjusted gross income (MAGI) from 2 years ago. The monthly premium amounts as well as the MAGI thresholds are often adjusted annually.

2019 MAGI		2021 Monthly Part B Premium Costs		Cost Increase Monthly / Annually	
SINGLE	MARRIED	SINGLE	MARRIED	SINGLE	MARRIED
\$0 - \$88,000	\$0 - \$176,000	\$148.50	\$297.00	--	--
\$88,001 - \$111,000	\$176,001 - \$222,000	\$207.90	\$415.80	+\$59.40 / +\$712.80	+\$118.80 / +\$1,425.60
\$111,001 - \$138,000	\$222,001 - \$276,000	\$297.00	\$594.00	+\$89.10 / +\$1,069.20	+\$178.20 / +\$2,138.40
\$138,001 - \$165,000	\$276,001 - \$330,000	\$386.10	\$772.20	+\$89.10 / +\$1,069.20	+\$178.20 / +\$2,138.40
\$165,001 - \$500,000	\$330,001 - \$750,000	\$475.20	\$950.40	+\$89.10 / +\$1,069.20	+\$178.20 / +\$2,138.40
\$500,000+	\$750,000+	\$504.90	\$1,009.80	+\$29.70 / +\$356.40	+\$59.40 / +\$712.80

Source: Medicare.gov

The fact that Part B premiums are calculated based on a rolling 2-year “look-back” of your MAGI can be relevant when planning for Roth conversions, as the process of converting is a taxable event that increases your income dollar for dollar. Beginning at age 63, be aware that any significant Roth conversions may bump you up into a higher Medicare Part B “premium bracket”, which will cost you the tax payment on the conversion AND the difference in cost between monthly premiums at the higher rate (but not for 2 years).

ROTH CONVERSIONS AFTER AGE 63 WILL COST THE TAX PAYMENT ON THE CONVERSION PLUS THE DIFFERENCE IN COST BETWEEN MONTHLY MEDICARE PART B PREMIUMS AT THE HIGHER RATE.

As an example, a married couple over age 65 with ordinary income of \$75,000 would pay the standard monthly premium of \$148.50 per person (\$3,564.00 annually) for Medicare Part B in 2021. If this couple chose to complete a significant Roth conversion(s) – let’s say \$250,000 to get them up to about the top of the 24% federal income tax bracket – they would be immediately responsible for a tax payment on the conversion of approximately \$60,000.

For additional detail or help sorting through all this...contact the financial planning ninjas at Dashboard!



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Additionally, in 2 years their Medicare Part B premiums will increase based on the higher income from the conversion. If we assume costs and thresholds for calculating Part B premiums remain constant at 2021 levels, their monthly premium for 2023 would be \$386.10 per person (\$9,266.40 annually) – an increase of \$5,702.40 for the year. Keep in mind, this higher premium rate would only be in effect, in this example, for the year 2023, and would drop back down likely to the standard premium rate in 2024 assuming the same ordinary income of \$75,000. The point is the \$250,000 Roth conversion in 2021 cost this couple, in our example, an additional \$5,702.40 in 2023 that they may not have considered when completing the conversion.

We recommend having a clear understanding of what your MAGI will be each year in retirement – particularly if you are completing Roth conversions – so that we can be mindful of these additional costs. It may be worthwhile to keep yourself in a lower “premium bracket” as these premium costs are not graduated – as soon as you cross the threshold you are now subject to the higher premium rate. This is just one of the many moving parts that can either facilitate or hinder your financial success...let's aim for the former and work to keep you on the path to financial independence!

**Converting a traditional IRA into a Roth IRA has tax implications. Additionally, each converted amount may be subject to its own five-year holding period. Investors should consult a tax advisor before deciding to do a conversion. Raymond James does not provide tax or legal services. Please discuss these matters with the appropriate professional. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any opinions are those of the Dashboard Wealth Advisors, and not necessarily those of Raymond James. The case studies are for illustrative purposes only. Individual cases will vary. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Prior to making any investment decision, you should consult with your financial advisor about your individual situation.*

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