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Don't miss our blog
www.street-cents.com

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All about Medicare, the means testing

About five years ago, we began running into on a more regular basis ever fluctuating Medicare premiums. After much frustration and arguments with various entities, we decided to dig in and write the following article.



John A. Kvale,
CFA, CFP®

What follows is a deep dive into the background of the means testing of Medicare, the planning angles and the latest thresholds and surcharge amounts for reference.

Thanks in advance to fellow professional Michael Kitces for the terrific charts which made this article much easier.

Medicare is the government subsidized healthcare that is (see [Modernization](#), Page 2)

Capital market run

What if we have already had a Bear Market?

Many professional investors and occasionally ourselves have spoken at length about the longevity of this capital market run.

What do we mean by that? And why is it important?

On average, capital markets

which closely follow economic cycles, expand for around 3 to 5 years then recede for a brutal 18 months that often feel like 3 to 5 years as the economic cycle weakens - for the record, capital markets frequently exaggerate

(see [Several](#), Page 4)

Volatility or rather the lack there of; breaking records in 2017

Pat yourself on the back. We may have just experienced the most calm and fearless year of a generation as it relates to the capital markets. We do not hope this changes, however

volatility was unprecedentedly low this year. It is likely not to always be this way, as noted in our Bear Market article that highlights late 2015/2016.

(see [VIX](#), Page 6)

Modernization Act adjusts premiums, may be increases

(continued from Page 1)
 available for those 65 years of age and older. Think of it as the retirement health care plan subsidized by the federal government.

A terrific resource of information can be found at the government website www.medicare.gov.

- Forms of all type
- Certain item costs and coverages
- Hospitals
- Available doctors in plans
- Zip code searches

These are just a few of the items located on the website. The site is worth perusing even if you are already on Medicare.

[Back to our analysis.](#)

The subsidized healthcare has two parts: Part A which the federal government pays 100% full and Part B which is about 75% pay. (A is generally hospital care and other medical insurance). Medicare enrollees also pay a portion of Medicare part D, the prescription drug

care portion on a monthly basis. For most, Medicare Part B premiums are withheld from the monthly Social Security receipts.

Most companies with employees that have access to Medicare coverage ask that their employees sign up for some or all of Medicare in order to offset some of the healthcare expenses born by the employer. The basic coverage starting cost feels almost free compared to what health coverage for an individual paid out of his or her own pocket, making age 65 a nice relief in health care costs.

Medicare Modernization Act of 2003

On Dec. 8, 2003 George W. Bush signed into law the Medicare Modernization Act of 2003 and it was narrowly passed by Congress.

Meet IRMAA – Income Related Monthly Adjustment Amount.

Among many other items and changes, the act created a means test (IRMAA) that commenced in 2007.

Maybe it was the great recession of 2007-2009

or maybe it was just loose recordkeeping, either way our first exposures to the actual premium adjustments were 2010-2012.

Fast forward to today and we find the government is VERY fast to adjust IRMAA-tize your premiums and generally has tax returns to prove their adjustments of about two years old.* (More on this shortly.)

The basic Medicare Part B premium starts at \$134 per person. From this base rate, as income rises there may be premium increases. (See chart below.)

As you will see in the chart on Page 3, income levels have been lowered which is essentially casting a wider net, faster, to more people.

With a base that remains the same, faster moving tiers to income levels will certainly cast a wider net to more folks than just even one year before.

Planning possibilities

With as much control as feasible, it makes sense to

(see [SSA Form](#), Page 3)

IRMAA MEDICARE PREMIUM SURCHARGES IN 2018

IRMAA Tier	Individual MAGI	Married Joint MAGI	Part B Premium (monthly)	Part D Premium (monthly)	Total Surcharge (monthly)	% of Total Part B Cost
Baseline	< \$85,000	< \$170,000	\$134.00	Plan Premium	N/A	25%
1	Up to \$107,000	Up to \$214,000	+ \$53.50	+ \$13.00	+ \$66.50	35%
2	Up to \$133,500	Up to \$267,000	+ \$133.90	+ \$33.60	+ \$167.50	50%
3	Up to \$160,000	Up to \$320,000	+ \$214.30	+ \$54.20	+ \$268.50	65%
4	> \$160,000	> \$320,000	+ \$294.60	+ \$74.80	+ \$369.40	80%

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Medicare

SSA Form-44 defines adjustments, may require personal visit

(continued from Page 2)

keep an eye on these levels. It is not too hard to get to the \$503 level EACH for Medicare in 2018. That is more than \$1k monthly for government subsidized health care.

The key thing to understand about our income levels is that generally the government is using as your reference a two-year-old return. If we want to have them move our income to a nearer date or update our income, we will need to let them know that.

Our experience has been very positive in most cases. This is done by completing form SSA Form-44.

Life changing events

Social Security Form SSA Form-44 defines adjustments to your IRMAA as life changing events.

- o Marriage
- o Divorce/annulment
- o Death of your spouse
- o Work stoppage
- o Work reduction
- o Loss of income-producing property
- o Loss of pension income
- o Employer settlement payment

These are the actual options on SSA Form-44 but life's curve ball may not allow you to check the exact appropriate box. Our best experiences have been visiting your local government office directly (timely, but in the end more productive) than mailing this form.

Bring proof

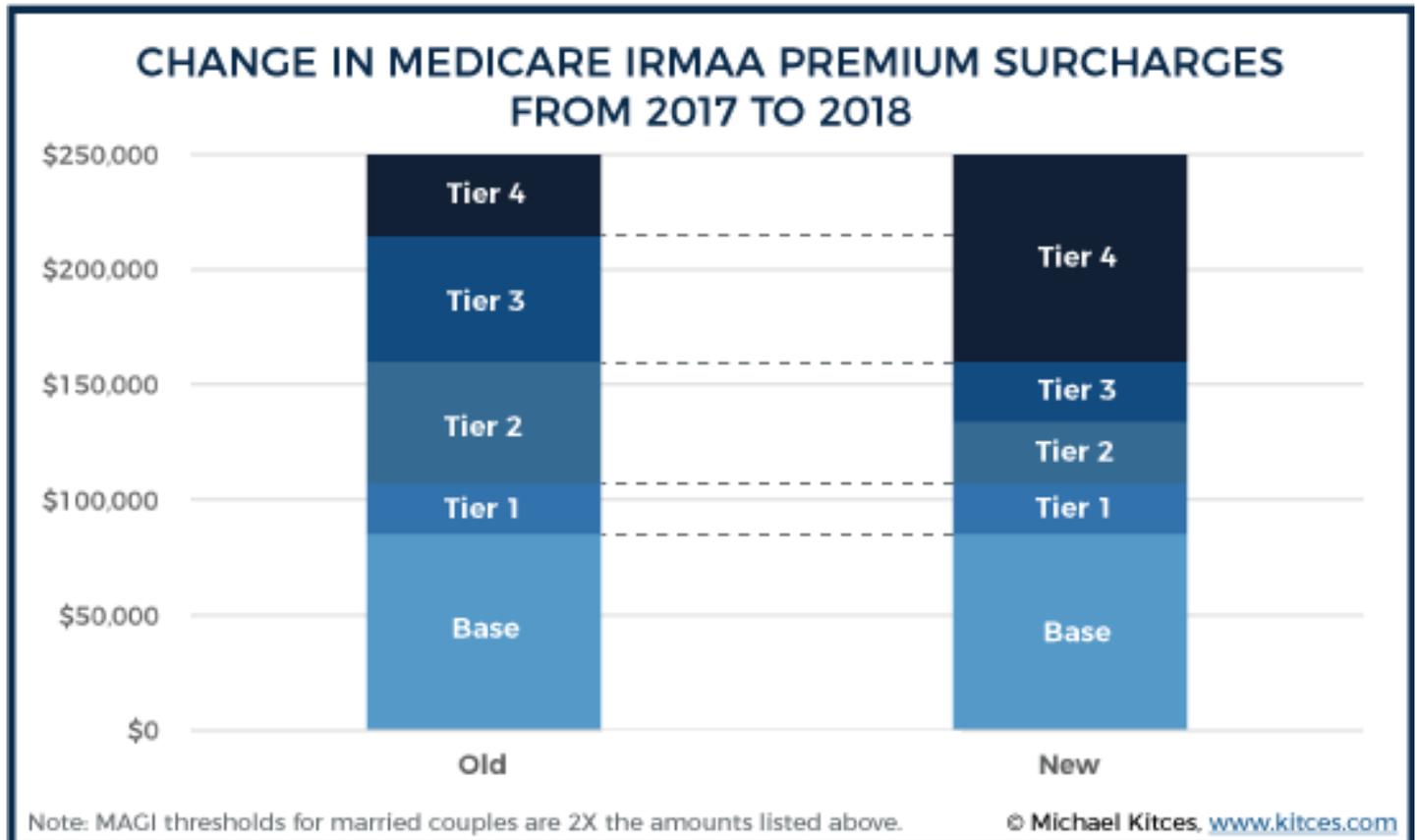
"I understand that signing this form does not constitute a request for SSA to use a more recent tax year information unless it is accompanied by:

- o Evidence that I have had the life-changing event indicated on this form;
- o A copy of my Federal tax return; or
- o Other evidence of the more recent tax year's modified adjusted gross income."

This information is stated just before a signature section on the SSA Form. Heed the warning and bring whatever proof in order to speed processing.

Closing thoughts

We do not have to look far to find statistics on the unfunded longevity problems of Medicare and Social Security. In our opinion these types "means testing" programs will continue to accelerate in the future as a subtle but effective way to solve the underfunding problems, making appropriate planning even more important. *JK*



Several sources show drop from late 2015 to early 2016

(continued from Page 1)

the highs and lows.

A bear market is defined as a 20% drop.

Post great recession of 2007-2009, as of this writing, this would be one of the longest expansions in history without a bear market.

If we had experienced a bear market since 2009, a reset would be in order and this expansion would just be another normal expansion after a recede or recession.

Has a bear market already crossed our paths?

Let's take a look at the facts from late 2015 to early 2016.

Here (top chart at right) is the Smaller Company Russell 2000, from top to bottom, -30%.

A total collective World Capital Market example (middle chart), Vanguard Total Market, -20%.

How about the Dow Jones Transportations (bottom right)? Yep, you guessed it, -31%.

About the only benchmark that was not down at least 20% was one of the most popular (see chart top of Page 5) the S&P 500, only -15% and the one many measure for bear market appearances.

With a 1999 bear of -50% plus, followed by the Great Recession of 2007-2009 of another -50% plus, a smaller correction in late 2015/early 2016 may have been missed.

(see [Reset](#), Page 5)



Reset may come, always keep your guard up



(continued from Page 4)

If it was a Bear Market, then a reset may be in order and we are now only beginning year two of this recent expansion.

Are we arguing over semantics?

Maybe, but it is worth noting that we at least had a Bear Market in late 2015 early 2016 but possibly just walked past it since the prior two were monsters.

One last fact that cannot be challenged from our friends at JPMorgan and

one of our most favorite charts (at left, we reference/follow it a lot.)

MAJOR economic cycles usually occur due to (1) an old reset or recession, then (2) growth, then (3) TOO MUCH growth or overheating, then (4) an inflation fighting Federal Reserve that raises rates to stave off inevitable runaway inflation but overshoots and raises too high.

Boom, back to another reset or recession!

Our favorite chart shows we are certainly not in runaway growth and inflation times.

Has a Bear Market occurred during this expansion?

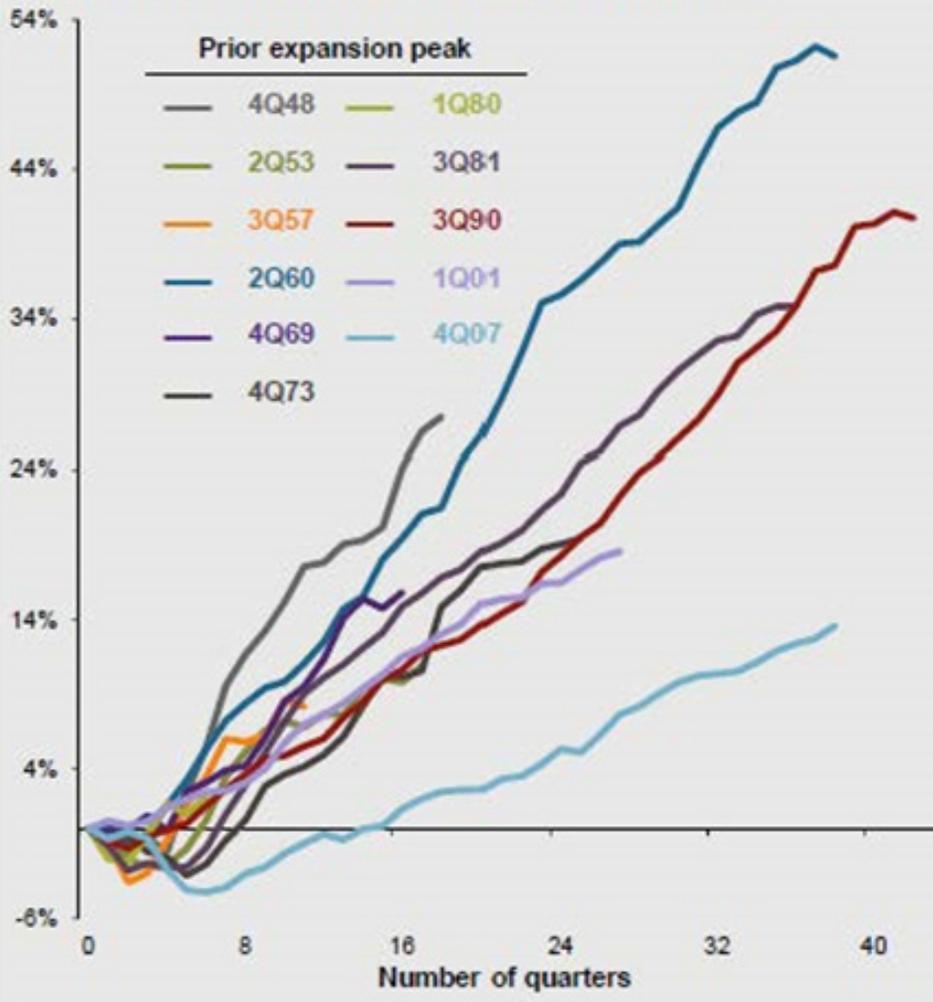
Upon further review, we think so.

Does this at least mean a reset is in order? We think so.

Could we have more expansion without breaking so many records? Yep, if you agree Bear tracks have crossed our paths as we think they have.

Does this mean the coast is clear and all is well? Absolutely not. Investing carries risks and we never let our guards down.

Strength of economic expansions
Cumulative real GDP growth since prior peak, percent



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VIX closes below 10 over 49 times in 2017

(continued from Page 1)

Volatility is measured in many ways. In it's simplest form, it is just how restless we are and how much sleep we may lose over our investments.

Wall Street would not allow us to make it that easy so they invented a gauge that many use to measure risk, fear and volatility.

Meet the VIX

The Wall Street Volatility Index most commonly referred to as the VIX or the index that tracks the capital market expectations of fluctuations or volatility over the next 30 days.

During highly volatile times the VIX screams upward, expressing the fear capital market participants are feeling, most commonly caused by downward moving markets.

Take a look at the 2009 and late 2011 early 2012 time frames (chart above).

In the throws of the Great Recession of 2007-2009 the VIX



went above 80 and during the 2011 and 2012 period the VIX regularly visited 40.

A low VIX

Fear works in two ways. Above we showed that heightened fear drives the VIX ever higher, however lower fear allows the VIX to drift lower as

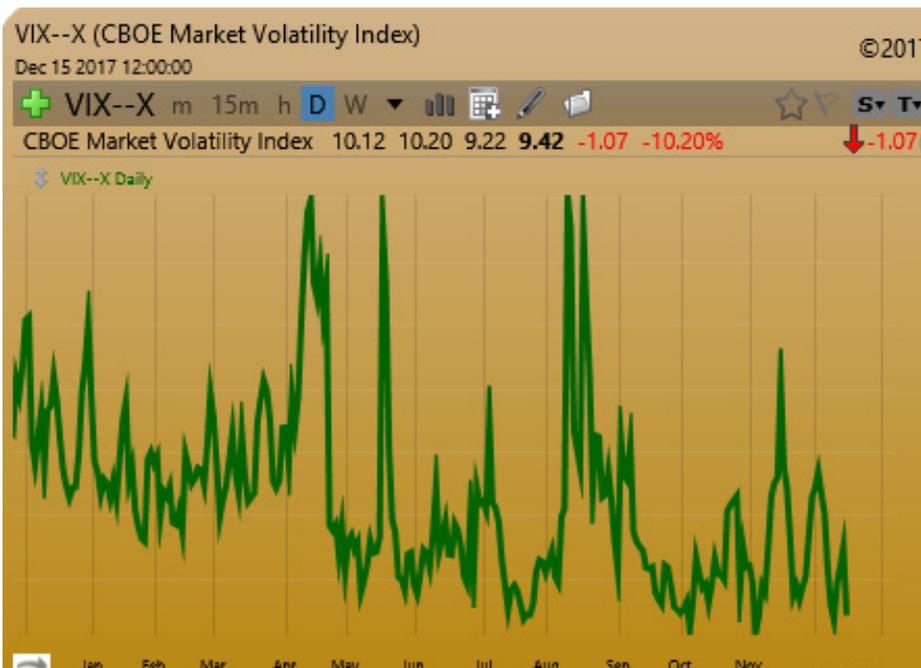
well.

Since 1990, the creation and tracking of this VIX index, through the beginning of 2017, there had been nine times the VIX had closed below 10.

As of the writing of this article, the VIX had closed below nine times over the last 26 years before 2017 and 49 times in 2017.

The closing price of our chart (at left) is another record breaker, 9.42.

Again, we are not pointing towards more turbulent times ahead but we are reminding ourselves as well as everyone reading this article, this was an unusual year with regards to fear. There have been so few capital market related drops that fear has disappeared. We certainly do not want to escort fear back into the picture but when it comes, we will be ready as we remind ourselves of the uniqueness of 2017.



Personal reflections of 2017

By John Kvale

Sometimes the best movie is the one that you go see with low expectations and it turns out to be really good.

Coming into this year after an interesting end of the year politically in 2016, and with some trepidation 2017 would start just as 2016 did (see our Bear Market correction article) this year turned out to be very nice, even better than the low expectation movie.

Mother Nature flexes

With two VERY powerful hurricanes, one which flooded all of Donald "The Brains" neighborhood but left his home virtually unscathed and another hurricane one week later, shaking our friends, clients and family in Florida, the sunshine state, only to then be followed by two incredible fires near our friends in the west part of the country; who would have ever thought the movie would have been surprisingly safe and good?

Honored by D Magazine

We were honored to be nominated as a firm by our local Dallas Magazine as one of Dallas' Top Wealth Managers in the area. A special thanks to Donald for all

the hard work that helped make this possible.

I, John Kvale, was also honored for an eleventh straight time as Dallas Magazine's Top Financial



Richard Bell, Editor
Donald W. Capone, III, CFA
John A. Kvale, CFP®, ChFC

J.K. Financial, Inc.

FINANCIAL PLANNERS AND WEALTH MANAGERS

As members of J.K. Financial, Inc. founded in 1995, a Dallas-based, fee-only total wealth management firm, John Kvale and Donald Capone are happy to receive this D Magazine award and congratulate its fellow recipients. With 42 years of collective industry experience and currently acting as fiduciaries for clients, the firm's "Roll-Up-the-Sleeves" approach helps clients not only with wealth management and financial planning, but also the unique events and stressful curveballs that occur throughout life.

Single women make up the largest individual group of J.K. Financial's clients, followed closely by families owning small businesses, C-level executives, and millennials. The firm's high-touch, multi-generational approach has created a terrific age variance in clients spanning across all age groups, from the very young to the multi-decade retiree.

Through in-house, originally crafted articles on the firm's blog, street-cents.com, J.K. Financial enjoys deciphering the capital markets and financial planning landscape, frequently using humor and personal experiences to energize an often-mundane, yet important, subject matter.

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Planners, an honor I feel is received in part from giving back so much to the community and our fellow professionals.

Ten years coming - Dallas Arboretum meets the 22nd annual Holiday party

A special thanks to one of our first clients, J.T. for pointing us in the direction of the lead person at the Dallas Arboretum. After the new garage was built, our venue became available, finally after 10+ years of desired location.

Special thanks to all of you who made the trip to the Arboretum. The event even set the ground

work for our App of the quarter. As the day turned later it became cold but we were super happy with the venue, heard great responses from everyone and intend on making it a regular occurrence location as we continue our annual party for the next decades to come.

Have we gotten out of shape?

On one side of my mind thoughts ramble around our Bear Market article. In that article, we discuss the fact that we likely have already seen a Bear Market (albeit brief) and a reset may be in order, giving us longevity of our current

economic cycle.

A whisper from the shoulder in the other ear lends to thoughts that 2017 may go down as one of the calmest capital market years of a generation, judging by our VIX/Volatility Article. We are not wishing for turbulent times but it is human nature to become accustom to the present. Time will tell which thought wins.

Not to worry, we will remain vigilant! Thanks for a great year, especially given expectations for the movie at the start of 2017.

JK

App of the quarter: food

On the weekend of the holiday party at the Arboretum, just by chance the 13-year-old tennis player in our family ended up in a different city several hundred miles away from any parents and friends.

After a long match of two plus hours, the text hit the phone, "Dad, I am hungry and need food before my next match and no one is here!"

Saves the tennis player day

In this case the address was known as I had just driven from the location back to Dallas for the party. An order was placed with an extra tip and in less than 10 minutes a driver was at the courts only to get mauled by many other

Apps for food delivery:

Seamless,
Grubhub,
Foodler,
some specific fast
foods, others

players in the same situation.

Panera Bread and Favor also offer similar types of applications but in this case, neither were available in the smaller panhandle Texas town.

Yep, there is an app for that and fortunately the day was saved in super expeditious fashion.

If you find yourself in a bind, give it a try. *JK*



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The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investments may be appropriate for you, consult your financial advisor prior to investing.

Parting thoughts for you...

With repeating questions and frustration created by the ever changing Medicare laws, we hope you enjoy our detailed article on the recent means testing levels, planning ideas to help alleviate IRMAA adjustments and directions to the documents needed.

Similar to this parting thoughts comments, the personal reflections article felt appropriate given our surprise movie year.

Expect tax clarity as the dust

settles on the changes and possible planning techniques to come but in the essence of time for appropriate discovery, we held off on tax talk this year. That will change shortly.

Thanks for the time, friendship and business. We look forward to where the journey will take us next year and will happily be by your side!

The J.K. Financial, Inc Team

New knowledge sites

Medicare.com

SSA.com

Dallasarboretum.org

Dates:

Jan. 15 - Martin Luther King, Jr. day, markets closed

Feb. 19 - Presidents' day, markets closed

March 30 - Good Friday, markets closed