January 31, 2020

Dear Valued Clients and Friends:

If you are self-employed, you have much to think about as you enter your senior years, and that includes retirement savings and Medicare. Here a few thoughts that will help.

## Keep Making Retirement Account Contributions, and Make Extra "Catch-up" Contributions Too

Self-employed individuals who are age 50 and older as of the applicable year-end can make additional elective deferral *catch-up contributions* to certain types of tax-advantaged retirement accounts.

For the 2019 tax year, you can take advantage of this opportunity if you will be 50 or older as of December 31, 2019.

- You can make elective deferral catch-up contributions to your self-employed 401(k) plan or to a Savings Incentive Match Plan for Employees (SIMPLE) IRA.
- You can also make catch-up contributions to a traditional or Roth IRA.

The maximum catch-up contributions for 2019 are as follows:

| 401(k) Plan | SIMPLE IRA | Traditional or Roth IRA |
|---|---|---|
| $6,000 | $3,000 | $1,000 |

Catch-up contributions are above and beyond

1. the "regular" 2019 elective deferral contribution limit of $19,000 that otherwise applies to a 401(k) plan.
2. the "regular" 2019 elective deferral contribution limit of $13,000 that otherwise applies to a SIMPLE IRA.
3. the "regular" 2019 contribution limit of $6,000 that otherwise applies to a traditional or Roth IRA.

### How Much Can Those Catch-up Contributions Be Worth?

Good question. You might dismiss catch-up contributions as relatively inconsequential unless we can prove otherwise. Fair enough. Here's your proof:

**401(k) catch-up contributions.** Say you turned 50 during 2019 and contributed on January 1, 2019, an extra $6,000 for this year to your self-employed 401(k) account and then did the same for the following 15 years, up to age 65. Here's how much extra you could accumulate in your 401(k) account by the end of the year you reach age 65, assuming the indicated annual rates of return below:

| 4% Return | 6% Return | 8% Return |
|---|---|---|
| $136,185 | $163,277 | $196,501 |

**Is There an Upper Age Limit for Regular and Catch-up Contributions?**

Another good question.

While you must begin taking annual required minimum distributions (RMDs) from a 401(k), SIMPLE IRA, or traditional IRA account after reaching age 70 1/2, you can continue to contribute to your 401(k), SIMPLE IRA, or Roth IRA account after reaching that age, as long as you have self-employment income (subject to the income limit for annual Roth contribution eligibility).

But you may not contribute to a traditional IRA after reaching age 70 1/2.

## Claim a Self-Employed Health Insurance Deduction for Medicare and Long-Term Care Insurance Premiums

If you are self-employed as a sole proprietor, an LLC member treated as a sole proprietor for tax purposes, a partner, an LLC member treated as a partner for tax purposes, or an S corporation shareholder-employee, you can generally claim an above-the-line deduction for health insurance premiums, including Medicare health insurance premiums, paid for you or your spouse.

**Key point.** You don't need to itemize deductions to get the tax-saving benefit from this above-the-line self-employed health insurance deduction.

**Medicare Part A Premiums**

Medicare Part A coverage is commonly called *Medicare hospital insurance*. It covers inpatient hospital care, skilled nursing facility care, and some home health care services. You don't have to pay premiums for Part A coverage if you paid Medicare taxes for 40 or more quarters during your working years. That's because you're considered to have paid your Part A premiums via Medicare taxes on wages and/or self-employment income.

But some individuals did not pay Medicare taxes for enough months while working and must pay premiums for Part A coverage.

- If you paid Medicare taxes for *30-39 quarters*, the 2019 Part A premium is $240 per month ($2,880 if premiums are paid for the full year).

- If you paid Medicare taxes for *less than 30 quarters*, the 2019 Part A premium is $437 ($5,244 for the full year).
- Your spouse is charged the same Part A premiums if he or she paid Medicare taxes for less than 40 quarters while working.

**Medicare Part B Premiums**

Medicare Part B coverage is commonly called *Medicare medical insurance or Original Medicare.* Part B mainly covers doctors and outpatient services, and Medicare-eligible individuals must pay monthly premiums for this benefit.

Your monthly premium for the current year depends on your modified adjusted gross income (MAGI) as reported on Form 1040 for two years earlier. For example, your 2019 premiums depend on your 2017 MAGI.

MAGI is defined as “regular” AGI from your Form 1040 plus any tax-exempt interest income.

**Base premiums.** For 2019, most folks pay the base premium of $135.60 per month ($1,627 for the full year).

**Surcharges for higher-income individuals.** Higher-income individuals must pay surcharges in addition to the base premium for Part B coverage.

For 2019, the Part B surcharges depend on the MAGI amount from your 2017 Form 1040. Surcharges apply to unmarried individuals with 2017 MAGI in excess of $85,000 and married individuals who filed joint 2017 returns with MAGI in excess of $170,000.

Including the surcharges (which go up as 2017 MAGI goes up), the 2019 Part B monthly premiums for each covered person can be $189.60 ($2,275 for the full year), $270.90 ($3,251 for the full year), $352.20 ($4,226 for the full year), $433.40 ($5,201 for the full year), or $460.50 ($5,526 for the full year).

The maximum $460.50 monthly premium applies to unmarried individuals with 2017 MAGI in excess of $500,000 and married individuals who filed 2017 joint returns with MAGI in excess of $750,000.

**Medicare Part D Premiums**

Medicare Part D is private prescription drug coverage. Premiums vary depending on the plan you select. Higher-income individuals must pay a surcharge in addition to the base premium.

**Surcharges for higher-income individuals.** For 2019, the Part D surcharges depend on your 2017 MAGI, and they go up using the same scale as the Part B surcharges.

The 2019 monthly surcharge amounts for each covered person can be $12.40, $31.90, $51.40, $70.90, or $77.40. The maximum $77.40 surcharge applies to unmarried individuals with 2017

MAGI in excess of $500,000 and married individuals who filed 2017 joint returns with MAGI in excess of $750,000.

**Medigap Supplemental Coverage Premiums**

Medicare Parts A and B do not pay for all health care services and supplies. Coverage gaps include copayments, coinsurance, and deductibles.

You can buy a so-called *Medigap* policy, which is private supplemental insurance that's intended to cover some or all of the gaps. Premiums vary depending on the plan you select.

**Medicare Advantage Premiums**

You can get your Medicare benefits from the government through Part A and Part B coverage or through a so-called *Medicare Advantage plan* offered by a private insurance company.

Medicare Advantage plans are sometimes called Medicare Part C.

Medicare pays the Medicare Advantage insurance company to cover Medicare Part A and Part B benefits. The insurance company then pays your claims. Your Medicare Advantage plan may also include prescription drug coverage (like Medicare Part D), and it may cover dental and vision care expenses that are not covered by Medicare Part B.

When you enroll in a Medicare Advantage plan, you continue to pay Medicare Part A and B premiums to the government. You may pay a separate additional monthly premium to the insurance company for the Medicare Advantage plan, but some Medicare Advantage plans do not charge any additional premium. The additional premium, if any, depends on the plan that you select.

**Key point.** Medigap policies do not work with Medicare Advantage plans. So if you join a Medicare Advantage plan, you should drop any Medigap coverage.

**Premiums for Qualified Long-Term Care Insurance**

These premiums also count as medical expenses for purposes of the above-the-line self-employed health insurance premium deduction, subject to the age-based limits shown below. For each covered person, count the lesser of premiums paid in 2019 or the applicable age-based limit.

Your age as of December 31, 2019, determines your maximum self-employed health insurance tax deduction for your long-term care insurance as follows:

- $790—ages 41-50
- $1,580—ages 51-60
- $4,220—ages 61-70
- $5,270—over age 70

**How to Claim the Above-the-Line Deduction**

According to the draft version of the 2019 Form 1040, you claim the above-the-line deduction for self-employed health insurance premiums on Line 16 of Schedule 1 of Form 1040 (Additional Income and Adjustments to Income).

**I'm Here**

As you approach your senior years (let's call them your younger-older years), your retirement and medical plans become more important. If you have questions about your medical or retirement plans, please call us at 859-441-2020 or contact us through our web site www.ahm-cpa.com.

Sincerely,

*Anneeken, Huey & Moser PLLC*