

The ABCDs of Medicare

Created in 1965, Medicare is a federal health insurance program designed for people ages 65 and over. Regardless of income, medical history, or health status, these individuals are covered.

In the program's history, it's expanded in various ways, such as the inclusion of coverage for prescription drug plans and private Medicare Advantage plans that offers a variety of needs depending on budget. The cost can change every year — in 2025, most people with Medicare saw a 2.5% cost-of-living-adjustment (COLA) in their Social Security benefits.¹

What does Medicare provide?

Most Americans aged 65 or older rely upon Medicare for a large portion of their medical care. Coverage is composed of four parts:

1. Part A: Hospital Insurance
2. Part B: Medical Insurance
3. Part C: Medicare Supplement (Medicare Advantage Plans)
4. Part D: Prescription Drug Coverage

Medicare Part A

Medicare Part A covers the costs associated with a stay in a hospital or skilled nursing facility as well as care provided by home health care services. All those who qualify for Medicare are automatically enrolled for Part A coverage. While there is no premium for those who qualify, there is a deductible of \$1,676 in 2025 for each benefit period.

Medicare Part B

Medicare Part B covers the costs incurred by a doctor's services, various outpatient care and a litany of additional services (e.g., lab tests, flu shots, ambulance). Unlike Part A, eligible participants are not automatically enrolled in Part B. There is a monthly premium associated with this coverage, and most seniors have their Part B premiums deducted automatically from their monthly Social Security retirement income. Your premium amount is based on the last two years of your Adjusted Gross Income (AGI). You may wish to discuss ways to reduce your AGI with your Mesriow wealth advisor and tax professional.

In 2025, there is also a Part B deductible of \$257 per year, and then you are typically responsible for 20% of incurred expenses once that deductible is met.

Medicare Part C

Medicare Parts A and B may not provide enough protection for the medical expenses you could incur in advanced age. As such, it is critical to obtain Medicare Part C, also known as Medicare Supplement. Unlike Parts A and B, Medicare Supplement is placed through a private carrier. The premium for your Medicare Supplement is based on your age and the qualities and features of the specific plan. The premiums are billed directly by the carrier; they cannot be deducted from your Social Security income.

The largest Medicare supplement program is called Medicare Advantage (MA).

Medicare Part D

Part D of Medicare is for prescription drug coverage. Like Part C, this coverage is offered through competing commercial carriers; the cost will vary based on the level of coverage and copay. However, unlike Part C, this part can be deducted from Social Security income or billed directly by the carriers.

How much does Medicare cost?

Most seniors have their Part B premiums deducted automatically from their monthly Social Security retirement income (Medicare premiums are billed directly to beneficiaries that do not receive Social Security retirement benefits). For most of Medicare enrollees, the 2025 monthly premium will be \$185.

However, taxpayers with adjusted gross income greater than \$106,000 (single filers) or \$212,000 (married filing jointly) or more will pay monthly premiums of \$259.00 to \$94.50.

Beneficiaries who file individual tax returns with income:	Beneficiaries who file joint tax returns with income:	Total monthly premium amount
Less than or equal to \$106,000	Less than or equal to \$212,000	\$185.00
Greater than \$106,000 and less than or equal to \$133,000	Greater than \$212,000 and less than or equal to \$266,000	\$259.00
Greater than \$133,000 and less than or equal to \$167,000	Greater than \$266,000 and less than or equal to \$334,000	\$370.00
Greater than \$167,000 and less than or equal to \$200,000	Greater than \$334,000 and less than or equal to \$400,000	\$480.90
Greater than \$200,000 and less than \$500,000	Greater than \$400,000 and less than \$750,000	\$591.90
Greater than or equal to \$500,000	Greater than or equal to \$750,000	\$628.90

In addition to earned income, up to 85% of Social Security retirement income, pension payments, and most investment income (including tax-exempt bond interest) is included in adjusted gross income. This also includes IRA withdrawals and Roth IRA conversions.

Medicare premiums are based upon the most recent tax return on file with the IRS — therefore, there is a one-year lag to determine the Part B premium category. For example, year 2025 premiums are based upon 2023's tax returns (filed in 2024).

What can you do if your income has changed?

Social Security lists five factors that could result in a new decision about the required Medicare Part B premium:

- You married, divorced, or became widowed.
- You or your spouse stopped working or reduced your work hours.
- You or your spouse lost income-producing property because of a disaster or other event beyond your control.
- You or your spouse experienced a scheduled cessation, termination, or reorganization of an employer's pension plan.
- You or your spouse received a settlement from an employer or former employer because of the employer's closure, bankruptcy, or reorganization.

This process is initiated by requesting a "Medicare Income-Related Monthly Adjustment Amount: Life-Changing Event" form from Social Security. Documentation verifying the event and the reduction in income must accompany the form.

Still working at age 65

If you are still working when you turn 65, you should discuss your Medicare enrollment options with your Mesirow wealth advisor. Generally, workers do enroll in Medicare Part A, because it is free, but it is important to understand whether your current employer coverage will change in any way if you enroll in Medicare Part A. However, if you are enrolled in your employer's High Deductible Plan with a Health Savings Account then it may be more prudent to not enroll in Part A.

The decision whether to enroll in Medicare Part B is more complicated. If your employer has more than 20 employees, generally, you can wait until you retire. However, if your employer has fewer than 20 employees, it is generally recommended that you enroll in Medicare Part B when you are first eligible in order to avoid a premium penalty.

Summary

Medicare can be a complex program to navigate with a multitude of considerations depending on your nuanced situation. This is merely an overview. We invite you to reach out to your Mesirow Wealth Advisor so that we can help you understand your options and connect you with professionals with additional expertise.

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1. <https://www.aarp.org/retirement/social-security/info-2023/cola-benefits-and-medicare-premiums-rise.html>.

<https://www.mesirow.com/sites/default/files/PDFs/Wealth/2024-Contribution-Limits.pdf>

Source: www.medicare.gov

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