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MEANS-TESTED MEDICARE PART B PREMIUMS TO START IN 2007

The 2003 Medicare Prescription Drug Act not only brought Medicare Part D into existence, but made significant changes to the way in which Medicare Part B premiums are calculated. Beginning in 2007, about 1.5 million seniors will be required to pay higher premiums under a new means test. Part B covers doctor's visits and outpatient care. Means testing will not apply to Medicare Part D premiums.

Currently, premiums are set at a level equal to 25% of the estimated Part B spending in any given year, with the other 75% paid by the government. Under the means-tested provision, the government subsidy will be reduced for higher income individuals. For the wealthiest individuals, the subsidy will decline from 75% to 20%. The change will be phased in over three years, with the premiums calculated on a sliding scale based on annual gross income. The means test will apply to single individuals with annual adjusted gross incomes greater than \$80,000, and couples with annual adjusted gross incomes greater than \$160,000.

To illustrate the effect of the means testing, the 2006 Part B premium is \$88.50 per month, and this premium is expected to rise to at least \$98.20 in 2007. Individuals with annual incomes from \$80,000 to \$100,000 will pay approximately \$111.20 per month, those with annual incomes from \$100,000 to \$150,000 will pay approximately \$130.70 per month, those with annual incomes from \$150,000 to \$200,000 will pay approximately \$150.10 per month, and those with annual incomes over \$200,000 will pay \$169.50 per month. These estimates are provided by the Centers for Medicare and Medicaid Services. When means testing is fully phased in by 2009, individuals with annual incomes over \$200,000 may pay as much as \$314.60 per month. This is more than three times the premium for individuals with annual incomes less than \$80,000.

In preparation for means testing in 2007, the Internal Revenue Service will release tax return information to the Social Security Administration (SSA). This will allow the SSA to identify beneficiaries that will be subject to the means testing. The premium will be based on adjusted gross income, with some modifications, and the premium will be based on income from the two tax years prior to the year SSA determines the individual's eligibility for means testing. Modified adjusted gross income from a tax year more recent than what the IRS provides will be used when:

- The beneficiary experiences a major life-changing event;
- The major life-changing event in question results in a significant reduction in the individual's adjusted gross income;
- The beneficiary requests that the SSA use a more recent tax year's modified adjusted gross income; and
- The beneficiary provides evidence of the event and evidence of the reduction in modified adjusted gross income.

Life-changing events include the death of a spouse, marriage, divorce, full or partial work stoppage, loss of income from income-producing property (when the loss is not at the beneficiary's direction), and certain losses or reduction of pension benefits. Beneficiaries will be able to use the new SSA-44 form to report life-changing events when the form becomes available.

This change to the calculations for the Medicare Part B premium represents a significant shift in philosophy regarding Medicare, and it illustrates the need for careful planning. Seniors may want to adjust their financial and tax plans so that they can minimize the effect of this change. The attorneys at Oast & Hook can assist seniors with reviewing and updating their financial, tax and estate plans to respond to changes in the law and the client's circumstances.

Update

Last week's *Elder Law News* discussed changes in the law regarding charitable contributions from IRAs. The limit on IRA distributions that can be made directly to charity is \$100,000 per donor per year. Because the IRA distribution is not included in taxable income for that year, the donor cannot take a charitable deduction for the direct IRA distribution to charity.

Announcement

Oast & Hook is pleased to announce that Cheryl Weaver from the Suffolk Department of Social Services was the winner of the gift basket that was raffled off at our seminar.

Oast & Hook

Oast & Hook is an elder law firm. We represent older persons, disabled persons, their families, and their advocates. The practice of elder law includes estate planning, investment and insurance advice, estate and

trust administration, powers of attorney, advance medical directives, titling of assets and designations of beneficiaries, guardianships, conservatorships, and public entitlements such as Medicaid, Medicare, Social Security, and SSI, disability planning, income tax planning and preparation, bill paying, account management and reporting, care management, and fiduciary services. We also handle litigation involving these issues, such as will contests and estate administration disputes. For more information about Oast & Hook, please visit our website at www.oasthook.com.

Oast & Hook is the Virginia member of the Special Needs Alliance, a nationwide network of disability attorneys. As members of this alliance, we assist personal injury attorneys in resolving their cases to enhance the judgments and awards of their disabled clients and to maintain the eligibility of these clients for SSI and Medicaid. We are experienced in protecting the public benefits of persons with special needs and in assisting with the management of their assets. For more information about the Special Needs Alliance, visit its website at www.specialneedsalliance.com.

Speakers

If you are interested in having an elder law attorney from Oast & Hook speak at an event, then please call Vivian Lane at 757-399-7506.

Distribution of This Newsletter

Oast & Hook encourages you to share this newsletter with anyone who is interested in issues pertaining to the elderly, the disabled and their advocates. The information in this newsletter may be copied and distributed, without charge and without permission, but with appropriate citation to Oast & Hook, P.C. If you are interested in a free subscription to the *Elder Law News*, then please e-mail us at eln@oasthook.com, telephone us at 757-399-7506, or fax us at 757-397-1267.

Please visit us on the world wide web at:

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Our website contains information about Oast & Hook and an archive of our newsletters and other estate planning, estate administration, and elder law articles in searchable form at.

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