

Changes to Annual Limits and Medicare Premiums and Deductibles in 2019

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Every year we typically get a few changes when it comes to contribution limits to our IRA's, 401K's, Roth's etc. In 2019 however, we had quite a few amendments and I'd like to take some time to review them in case you need to make any adjustments to your withholdings on your paychecks or contributions.

In 2018 you could contribute \$5,500 per year to your IRA and if you are 50 or older you could add another \$1,000 for a catch up contribution [1]. However, in 2019 the initial contribution limit has been raised to \$6,000 per year, as well as the additional \$1,000 catch up contribution if you qualify. These numbers are the same for Roth IRA contributions as well.

When it comes to your employer plans, there have also been some changes. In 2018 you could contribute \$18,500 to your employer 401K plan, and if you were 50 or older you could contribute an additional \$6,000 for a total of \$24,500. In 2019 these figures have increased to \$19,000 and again, if you are 50 or older you can still contribute an additional \$6000 per year as a catch up contribution for a total of \$25,000. Remember, if your employer provides a match, that is in addition to your contributions and has no impact on your contribution limits.

A few other changes worth mentioning are in regards to Medicare. If you were just turning 65 in 2018 and turned your Medicare Part B on, your monthly premium was \$134 [1]. In 2019 if your turning 65 and turning your Medicare Part B on, the monthly premium has increased to \$135.50. I know, you may be thinking that's not much, but lets dig a little deeper. There have also been a few deductible changes as well. In 2018 the part B deductible was \$183, in 2019 part B deductible rose to \$185.

Lets take a quick look at Medicare Part A deductible changes. In 2018, if you went into the hospital, the first 60 days a patient would pay a \$1,340 dollar deductible. In 2019 the first 60 day deductible changed to \$1,364. In 2018 the next 30 days the deductible was \$335 and in 2019 that changed to \$341. If you are still in the hospital after 90 days, in 2018 the following 60 days had a deductible of \$670 dollars, in 2019 that changed to \$682 dollars.

Finally, there is one other topic I'd like to touch on. Often times when people retire they will sometimes take a large withdrawal out of a retirement plan or complete a Roth conversion. Most often this is because they are concerned about their tax bill, and are unaware of other expenses that could potentially arise when taking those retirement plan withdrawals or Roth conversions. Some people may not be aware of when you pull money out of a retirement account or do a Roth conversion that the funds show up as earned income when you file your taxes [2]. This is coupled with the fact that Medicare part B premiums have tiers based on income, so that withdrawal or Roth conversion may affect more than you realize.

For example, let's say you're a married couple and your normal retirement income is \$120,000 per year. You decide you're going to convert \$210,000 of your IRA to a Roth. In theory that would change your Medicare premium from what you would normally pay when you have \$120,000 income per year as a married couple of \$135.50 each to \$433.40 each. So as you can see, a distribution or Roth conversion can have a significant impact. You want to make sure you know what those income level thresholds are and make sure you stay under those thresholds.

To summarize, there are many changes to consider when it comes to deductibles, premiums and contributions. Some of these have more tax implications than meet the eye and when making these decisions it's important to speak with a financial professional to determine what is right for you.

References

- [1] College for Financial Planning. *2019 ANNUAL LIMITS RELATING TO FINANCIAL PLANNING*. Retrieved from: https://www.cffp.edu/documents/annual-limits/2019_Annual_Limits.pdf
- [2] Nelson, V. *Taking Some Pain Out Of Roth Conversions*. (2014, July 15). Retrieved from: <https://www.forbes.com/sites/greatspeculations/2014/07/15/taking-some-pain-out-of-roth-conversions/#18dde9bc6a46>

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