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**Franklin Templeton**  
Wealth Planning

# By the numbers: Changes set for Social Security and Medicare in 2025

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The Social Security Administration and the Centers for Medicare & Medicaid Services recently announced key figures for the upcoming year.

After several years of above-average cost-of-living adjustments for Social Security, beneficiaries will receive a lower cost-of-living allowance (COLA) in 2025 based on the current inflation environment. Recipients will still get a 2.5% raise, which is lower compared to the 3.2% increase last year, and 8.7% increase in 2023. The adjustment for 2025 (2.5%) is more in line with the average increase over the last 20 years (2.6%).

For Medicare, there will be a slight rise in costs for 2025 as the monthly base premium for Medicare Part B increases from \$174.70 to \$185. Also, the annual deductible for all Medicare Part B beneficiaries will be \$257 in 2025, an increase of \$17 from 2024.

On a positive note, beginning in 2025 all Medicare prescription drug plans will have a \$2,000 cap on what you pay out-of-pocket for prescriptions drugs covered by your plan. This change eliminates a coverage gap that has existed for years in plans (also known as the “donut hole”). For more information see Medicare’s Cost in the Coverage Gap. (See <https://www.medicare.gov/drug-coverage-part-d/costs-for-medicare-drug-coverage/costs-in-the-coverage-gap>).

As retirees (and workers) gauge their finances for the upcoming year, here are some key figures to consider.

## The Impact of Inflation on Social Security

	2024	2025
<b>Wage base</b>	\$168,600	\$176,100
<b>Earnings test (total amount of wages that can be earned before benefits are reduced)</b>	\$22,320	\$23,400
<b>Average monthly retirement benefit</b>	\$1,927	\$1,976

Note: The earnings test only applies in years before attaining full retirement age. A higher earnings amount (\$62,160 for 2025) applies during the year of attaining full retirement age. If retirement benefits are withheld because of earnings, benefits will be increased beginning at full retirement age to account for benefits that were withheld.

## Medicare Part B Premiums

Beneficiaries who file individual tax returns with modified adjusted gross income:	Beneficiaries who file joint tax returns with modified adjusted gross 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 or equal to \$500,000	Greater than \$400,000 and less than or equal to \$750,000	\$591.90
Greater than or equal to \$500,000	Greater than or equal to \$750,000	\$628.90

Source: Centers for Medicare & Medicaid Services. Income based on modified adjusted gross income (MAGI), which includes tax-exempt interest income. MAGI is based on income reported on the tax return from two years prior.

## Planning considerations

If possible, taxpayers may want to manage income heading into retirement to avoid facing higher Medicare Part B premiums (note that Medicare Part D premiums also increase at higher income levels). Be mindful that premiums are based on income tax returns from two years prior. For example, your tax return at age 63 will determine premiums when enrolling in Medicare at age 65.

It may be wise to avoid a large surge in income (from a Roth IRA conversion, for example). This influx in income may result in higher Medicare premiums. On a positive note, qualified distributions from Roth accounts are not factored into the income calculation to determine Medicare premiums. For that reason, partial Roth IRA conversions while still working may be a way to achieve tax diversification heading into retirement, while also avoiding higher Medicare Part B premiums in some cases.

Regarding Social Security, those who are still working should not opt to claim benefits prior to their full retirement age since it's likely that benefits will be withheld due to the earnings test. The earnings test does not apply once an individual reaches their full retirement age (age 67 for those born in 1960 or later). If longevity risk is a concern, consider delaying Social Security past full retirement age. Retirement benefit amounts will increase by 8% for each year delayed up to age 70.

For more insight on planning for Social Security benefits see our investor education resource, "Five things you need to know about optimizing Social Security." (See <https://franklintempletonprod.widen.net/s/sx9hvhzxxqgfive-things-you-need-to-know-about-social-security-flyer-oss-fl>).

For insight on Medicare benefits please refer to our investor education resource, "Three key things to understand about Medicare." (See <https://franklintempletonprod.widen.net/s/zhlwgcfrpt/three-key-things-to-understand-about-medicare-flyer-ktmed-fl>).

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