

3 Hidden Tax Traps for High-Income Rutgers Faculty Near Retirement (and How to Avoid Them!)

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Executive Summary

- **Learn how to protect against Medicare surcharges** by learning about “IRMAA” the Income Related Monthly Adjustment Amount premium penalties assessed at various income thresholds.
- **Understand why saving too much into pre-tax Rutgers 401(a) and 403(b) accounts can backfire** - resulting in a tax bomb for you and your heirs.
- **How missing the NJ pension income exclusion** can cost you by keeping more of your retirement income.

For many Rutgers physicians, retirement planning focuses on saving as aggressively as possible into pre-tax 401(a) and 403(b) retirement plans. While this discipline creates a solid financial foundation and security – it can also create unexpected and avoidable tax problems leading up to and throughout retirement.



Late career Rutgers physicians, professors, and dentists can mitigate the biggest tax mistakes – which are commonly made during the transition into retirement, through proactive financial planning. Here are four hidden tax traps that may impact your Medicare premiums, NJ state tax bill, and cause your overall retirement “paycheck” to shrink.

IRMAA Surcharges: The Medicare Tax Most Never See Coming

As Rutgers physicians retire and enroll in Medicare or reach retirement early and enroll in Medicare at age 65, they may be shocked to learn that they could be paying hundreds of additional dollars a month (per person) for Medicare Part B & D premiums. If your income exceeds certain income thresholds – even by \$1, you will be paying IRMAA (Income Related Monthly Adjustment Amount) surcharges, or additional monthly premiums, for Medicare Part B and Part D. Large income spikes near retirement can raise Medicare premiums for years due to IRMAA surcharges, even if the higher income was temporary.

Rutgers physicians and high-income faculty are especially vulnerable since they may be subject to income spikes such as:

- Large required minimum distributions (“RMDs”)
- Sale of real estate or your medical practice

- High income consulting work opportunities
- Social Security retirement income

The IRMAA calculation is based on your Modified Adjusted Gross Income (“MAGI”)¹ from two years in arrears. Therefore, any IRMAA penalties levied in 2026 i from your MAGI on your 2024 tax return. The IRMAA penalty will last for at least one year, unless your income drops out of the threshold income ranges, or you have a successful appeal due to a life changing event. The income ranges and penalties for IRMAA Medicare Part B & D are as follows²:

Medicare 2026 Part B Premiums by Income If your filing status and yearly income in 2024 was:				Medicare 2026 Part D Premiums by Income If your filing status and yearly income in 2024 was:			
File Individual Tax Return	File Joint Tax Return	File Married & Separate Tax Return	(In 2026) Each Month You Pay	File Individual Tax Return	File Joint Tax Return	File Married & Separate Tax Return	(In 2026) Each Month You Pay
\$109k or less	\$218k or less	\$109k or less	\$202.90	\$109k or less	\$218k or less	\$109k or less	Your Plan Premium
Above \$109k up to \$137k	Above \$218k up to \$274k	N/A	\$284.10	Above \$109k up to \$137k	Above \$218k up to \$274k	N/A	\$14.50 + your plan premium
Above \$137k up to \$171k	Above \$274k up to \$342k	N/A	\$405.80	Above \$137k up to \$171k	Above \$274k up to \$342k	N/A	\$37.50 + your plan premium
Above \$171k up to \$205k	Above \$342k up to \$410k	N/A	\$527.50	Above \$171k up to \$205k	Above \$342k up to \$410k	N/A	\$60.40 + your plan premium
Above \$205k & less than \$500k	Above \$410k & less than \$750k	Above \$109k & less than \$391k	\$649.20	Above \$205k & less than \$500k	Above \$410k & less than \$750k	Above \$109k & less than \$391k	\$83.30 + your plan premium
\$500k or above	\$750k or above	\$391k or above	\$689.90	\$500k or above	\$750k or above	\$391k or above	\$91.00 + your plan premium

While these additional premiums can be substantial for one spouse, if both spouses are enrolled in Medicare, you both pay the increased premiums – effectively doubling the penalty. IRMAA surcharges are usually deducted from your social security retirement benefit.

Physicians who are subject to these high-income thresholds may want to consider careful and proactive financial planning. Running a tax pro-forma during the year may allow you to coordinate investment income, social security, RMDs, and large spikes in income to help combat Medicare surcharge surprises. Increasing additional pre-tax retirement contributions and deferring income in the years leading up to

¹ Modified Adjusted Gross Income (MAGI) is an individual's [Adjusted Gross Income](#) (AGI) plus certain tax-exempt deductions added back, such as foreign income, tax-exempt interest, and non-taxable Social Security.

² Boomer Benefits, Medicare Costs for 2026 <https://boomerbenefits.com/new-to-medicare/medicare-cost/>

IRMAA can help keep MAGI low. Charitable giving and strategic Roth IRA conversions may help turn forever IRMAA, into only a couple of years' worth of exceeding IRMAA thresholds.

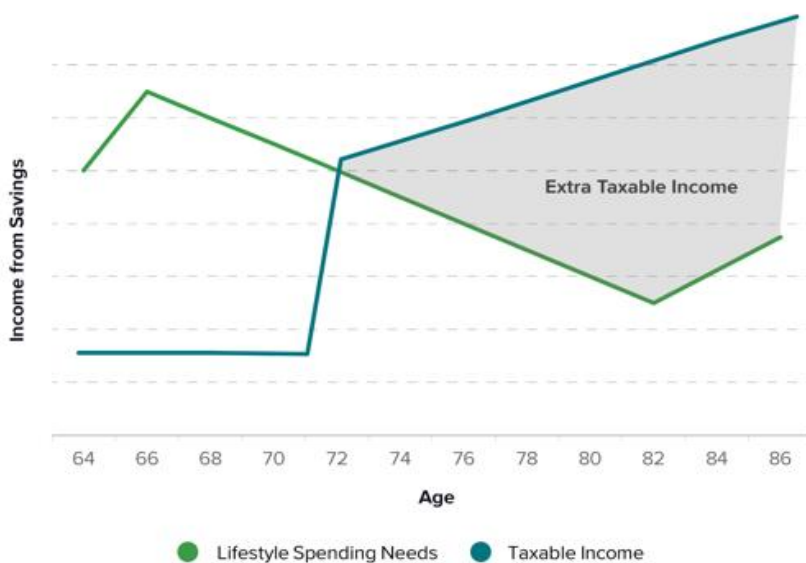
Traditional IRA account owners have considerations to make before performing a Roth IRA conversion. These primarily include income tax consequences on the converted amount in the year of conversion, withdrawal limitations from a Roth IRA, and income limitations for future contributions to a Roth IRA. In addition, if you are required to take a required minimum distribution (RMD) in the year you convert, you must do so before converting to a Roth IRA.

Too Much in Tax Deferred (Pre-Tax) Retirement Accounts

The sage advice given to most early and mid-career Rutgers faculty is to save as much as possible. As their [Rutgers 401\(a\) and 403\(b\) accounts in the NJ ABP](#) keep growing, many save into the traditional pre-tax bucket to help offset and lower their high gross incomes through pre-tax payroll deductions. However, this can turn a good problem into a bad one if diversifying the taxability of one's retirement income is not considered³.

Large Rutgers 401(a) and 403(b) pre-tax balances will have the highest marginal tax rates (they are taxed as ordinary income) upon withdrawal at retirement. Heavy reliance on pre-tax Rutgers retirement plans can lead to higher taxes later, because every dollar withdrawn is fully taxable.

Required minimum distribution (RMD's) will cause you to have ordinary income amounts you do not want or need and reduce control over your tax liability after age 73 or 75. These RMDs may create tax on income you don't need as seen in the following graph which shows how the average retiree spends less in retirement as they age, with RMDs shown as taxable income.



This inflexibility can produce higher taxation of social security benefits – in some cases, we have seen marginal brackets exceed 40% until some element of social security is fully taxed or some deductions are phased out. This can increase one's modified adjusted income and increase IRMAA, and other hidden taxes like the 3.8% net investment income tax. Finally, because of the Secure Act 2.0, most non-eligible designated beneficiaries (non-spouses) who inherit an IRA will have

to deplete inherited pre-tax retirement accounts within ten years upon receipt. This can potentially create

³ Whether to choose the pre-tax option or the post tax Roth option (if available) is a complex decision based on your current marginal tax rate vs anticipated retirement marginal tax bracket.

a tax bomb that your children could inherit while they themselves are drawing down inherited accounts during their peak (and highest tax bracket) earning years.

A smarter strategy to prevent this is to contribute to Roth IRAs and individual (after-tax) accounts. Roth IRAs can provide tax-free income and no RMDs over the owner's lifetime if set up properly, and individual accounts may be subject to more favorable and lower capital gains tax rates. Asset location, or where you house your investments, often is ignored. It may make sense to reposition your higher appreciation assets, like stocks, in your individual or Roth IRA accounts where they will not be subject to RMDs and will keep your pre-tax balances low. It is critical to also use tax arbitrage opportunities and to never let a low tax bracket go to waste. If you can accelerate income and pay taxes at a discount prior to social security and RMDs increasing your taxable income, you can potentially lower your lifetime tax bill.

Failing to Take Advantage of the NJ Pension Income Exclusion

New Jersey offers one of the most overlooked retirement state tax retirement benefits that many physicians fail to account for. NJ offers a pension income exclusion – which allows married couples filing jointly over age 62 to exclude up to \$100,000 of retirement income from NJ taxes if their total gross income (line 27 of NJ-1040) is \$150,000 or less⁴. Many New Jersey retirees miss out on the pension income exclusion because they assume it applies automatically or to all retirement income.

Eligible Income includes:

- 401(a)/403(b)/401(k) distributions
- Pensions
- Annuities
- IRA withdrawals

If your total gross income is even \$1 dollar over \$100k in gross income, the amount of your retirement income that is excluded from NJ tax is reduced as seen in the chart below.

⁴ NJ Division of Taxation, Retirement Income Exclusions, <https://www.nj.gov/treasury/taxation/njit7.shtml>

Total Income of \$100,001 - \$150,000

If your total income is \$100,001, but not more than \$150,000, you can exclude a **percentage** of your reported taxable pension, annuity, and IRA withdrawals.

Use the chart below to determine your exclusion amount. Multiply your taxable pension found on Line 20a of the 2025 NJ-1040, by the percentage listed next to your 2025 filing status.

Total Income	% of Taxable Pension	Filing Status
\$100,001 - \$125,000	50 %	Married filing jointly
	25 %	Married filing separately
	37.5 %	Single/head of household/qualifying widow(er)
\$125,001 - \$150,000	25 %	Married filing jointly
	12.5 %	Married filing separately
	18.75 %	Single/head of household/qualifying widow(er)
\$150,001 or more	Not eligible for a pension exclusion	

Furthermore, you must prorate your exclusion amount based on the number of months you reside in New Jersey if you are a part-year resident. This is a preventable tax trap for those who are close to the \$100k threshold which can save potentially thousands of dollars.

For many high-net-worth Rutgers physicians who contribute to a 401(a) or 403(b) in New Jersey, they pay NJ state taxes on their retirement contributions. However, if they retire in NJ and must withdraw over \$150,000 from their retirement sources and thus do not qualify for the NJ pension income exclusion, they could find themselves potentially being double taxed by NJ.

In that situation, it would be prudent to enlist professional tax help, and a fee-only advisor who specializes in the New Jersey retirement system, to help identify which contributions the IRS should exclude from NJ state taxation.

Making a Roth conversion or capturing investment gains at the wrong time can trigger the NJ income tax threshold tax trap. It becomes critical to consider looking at your tax circumstance over multiple years (not just the current year) and then decide when to make certain decisions such as when to convert an IRA to a Roth, or when to capture the gain on an appreciated asset. Splitting those actions over multiple years could lead to significant tax savings. Ensure that you work with a fee-only financial planner who regularly checks your yearly tax projections.

Conclusion

Your financial life may be complex – but it should not be inefficient.

Retirement success is not determined by how much you saved and earned, but by how much you keep, and how your plan adapts to changing tax rules. Being intentional about your retirement income and building flexibility to control your tax brackets can help Rutgers physicians in New Brunswick and Newark

NJ avoid these hidden tax traps. If you are a Rutgers physician or Rutgers faculty members and would value a second perspective on how these tax issues work together within your overall financial plan, [I would be happy to connect for a brief conversation.](#)

Common Tax Questions for High-Income Rutgers Faculty Near Retirement:

How can Medicare IRMAA raise costs for high-income Rutgers retirees?

Medicare IRMAA can raise your Medicare premiums if your income is too high, even for just one or two years. This is because Medicare looks back at past tax returns (usually two years in arrears).

When should Rutgers physicians and professors appeal Medicare IRMAA surcharges?

When they receive the letter of initial IRMAA determination notice in November and their income is reduced, they anticipate their income to be reduced later in the year, or the following year.

Why do many Rutgers faculty have too much in pre-tax 401(a) and 403(b) accounts?

Most Rutgers retirement savings are defaulted to tax-deferred and large balances can create high taxable income later. Rutgers faculty must proactively change their salary reductions to direct their contributions into a designated Roth 403(b) account.

What is the New Jersey pension income exclusion?

New Jersey lets some retirees exclude part of their retirement income from state tax – but only if they qualify. Income limits and coordination rules can reduce or eliminate the benefit.

Why don't these tax issues show up until close to or after retirement?

Retirement account withdrawals, Social Security, and investments can interact in ways that were not obvious during work years. As a result, retirement income stacks on top of each other all at once, which can trigger these hidden tax traps.

Can planning ahead help reduce these retirement tax problems?

Yes-planning ahead can often lower taxes and avoid costly surprises. Don't wait until you retire to start tax planning as your options will shrink.

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