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Medicare Part D Creditable Coverage Determination Update

The Centers for Medicare and Medicaid Services ("CMS") recently released final instructions addressing the Medicare Part D prescription drug benefit redesign changes effective beginning in 2026. The instructions:

- Revise the existing Simplified Method for determining the creditable (or non-creditable) status of prescription drug coverage provided under an employer-sponsored group health plan
- Allow group health plans to use the existing Simplified Method or the Revised Simplified Method to determine creditable status of prescription drug coverage in 2026.

Background

Employers sponsoring group health plans with prescription drug benefits are required to notify both CMS and Medicare Part D-eligible individuals as to whether the prescription drug coverage provided is "creditable" or "non-creditable."

It is important to note that, generally, a Medicare Part D eligible individual is:

- Enrolled in Medicare Part A or Part B; and
- Resides in a service area of a Part D plan.

This may include active employees, COBRA qualified beneficiaries, retirees, and spouses and other dependents of the employee who are enrolled in Medicare and are covered by the plan.

Prescription drug coverage is considered "creditable" if the actuarial value of the coverage provided equals or exceeds the value of standard prescription drug coverage provided under Medicare Part D. Coverage that is not as good as Medicare Part D is considered "non-creditable."

An employer with a fully insured prescription drug plan can usually rely on the carrier to disclose whether the coverage is creditable or non-creditable.

For an employer with a self-funded plan (or a fully insured plan for which the carrier has not made a creditable coverage determination), CMS rules provide two methods to determine creditable coverage:

- Simplified Method (based on plan design features)
- Actuarial Determination (based on an analysis of claims information)

As previously reported, the Inflation Reduction Act of 2022 ("IRA") made improvements to Medicare Part D prescription drug benefits, beginning in 2025.

CMS acknowledged that due to these improvements, some group health plans offering prescription drug benefits that met Part D creditable coverage requirements in the past might no longer meet those requirements for plan years beginning in 2025. However, CMS still permitted group health plans to use the existing Simplified Method to determine creditable (or non-creditable) status of prescription drug coverage in 2025.

What's New?

On April 7, 2025, CMS released its Final CY 2026 Part D Redesign Program Instructions ("2026 Final Instructions"). The provisions relating to creditable coverage are summarized below.

Revised Simplified Method

The 2026 Final Instructions revised the parameters of the Simplified Method to better reflect actuarial equivalence with the enhanced Part D benefits for 2026.

Under the Revised Simplified Method, prescription drug coverage will be deemed to have an actuarial value that equals or exceeds the actuarial value of standard Part D coverage if it meets all of the following standards:

- Provides reasonable coverage for brand name and generic prescription drugs and biological products;
- Provides reasonable access to retail pharmacies; and
- Is designed to pay on average at least 72% of participants' prescription drug expenses

The Revised Simplified Method's changes to the existing Simplified Method include:

- Adding coverage of biological products
- Eliminating requirements related to annual and lifetime benefit maximums
- Eliminating requirements related to an annual deductible
- Increasing the payment threshold from 60% to 72%

High-Deductible Health Plans

The 2026 Final Instructions point out that although plans with high annual deductibles might appear less likely to meet the requirement to pay at least 72% of prescription drug expenses under the Revised Simplified Method, this risk can be mitigated through other aspects of benefit design, such as:

- Not applying a deductible to preventive medications
- A reasonable and supportable allocation of the deductible attributable to prescription drug expenses
- Offering lower cost sharing than standard Part D coverage once the deductible is met

Creditable Coverage Determinations for 2025, 2026, and 2027

As mentioned above, CMS is still permitting group health plans to use the existing Simplified Method to determine creditable (or non-creditable) status of prescription drug coverage in **2025**.

For 2026 only, group health plans will be permitted the choice of using the existing Simplified Method or the Revised Simplified Method to determine creditable coverage status (as well as the Actuarial Determination method).

For 2027, CMS has indicated that it does not intend to permit the continued use of the existing Simplified Method. If this position is finalized, group health plans would have to use either the Revised Simplified Method or the Actuarial Determination method to determine creditable coverage status for 2027.

Employer Action

Group health plan sponsors should review the guidance in the 2026 Final Instructions and be aware of their options to determine creditable status of their prescription drug coverage as described above. As they evaluate their benefit design for the upcoming plan year, sponsors will need to:

- Understand whether prescription drug benefits are considered creditable or non-creditable, and
- If there is a change in the creditable status of the prescription drug coverage, consider whether to:
    - Modify prescription drug benefit coverage to maintain creditable status, or
    - Maintain current prescription drug benefits, even if it means becoming non-creditable.

If a prescription drug plan changes creditable status, an updated disclosure to CMS must be provided within 30 days of the change. Notice should also be provided to participants.

Keep in mind, a late enrollment penalty may apply for individuals who do not maintain creditable coverage for a period of 63 days or longer following their initial enrollment period for Medicare Part D.