



*Employee Benefits Compliance:  
Medicare Part D – Creditable Coverage  
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# Today's Speaker



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# Medicare Part D– A Review

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# Origin of Medicare Part D

Medicare enacted in 1965

- No coverage for outpatient Rx– at the time, 90% of Rx spending was paid out-of-pocket
- Rise of “blockbuster” drugs like Lipitor, Celebrex, Zoloft
- Efforts in 1988 and 1993 to include Rx benefit in Medicare failed due to cost concerns
- By 2000, less than 1/3 of drug spending was paid out-of-pocket

Medicare Modernization Act of 2003: Effective January 1, 2006

- Rx benefit for Medicare through private Rx plans
- Monthly premium (average \$46.50/month in 2025)
- Person eligible when they become eligible for Part A (hospital) and Part B (medical)



# Medicare Part D Late Enrollment Penalty

## Initial Enrollment Period

- 7-month period beginning on the first day of the month that falls three months before the Part D Eligible turns 65 and lasting for three months after the birthday month

## Late Enrollment Penalty

- An amount that's permanently added to your Part D premium if at any time after your Initial Enrollment Period is over, there's a period of 63 or more days in a row when you don't have Part D or [other creditable Rx coverage](#)



# How much is the late enrollment penalty?

Penalty calculation:

1% x # of full uncovered months you were eligible for Part D but didn't enroll and didn't have other creditable Rx coverage "x national base beneficiary premium" (\$36.78 in 2025)

Note:

- Amount is rounded to nearest \$0.10 and added to monthly premium
- Will go up when the national base beneficiary premium goes up
- Late enrollment penalty is added to retiree's premium for as long as they have Medicare drug coverage, even if they switch plans



# Late Enrollment Penalty Example

Q: Waylon Smithers elected Medicare Part A and B when he turned 65, but he did not elect Part D until he retired 14 months after his initial election period. Burns Industries, Smithers' former employer, does not provide creditable coverage to its employees. What penalty will Smithers pay?

A: Smithers will have to pay a 14% late enrollment penalty in addition to his monthly plan premium.

\$36.78 (2025 national base beneficiary premium)

X 0.14 (14% penalty)

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\$5.15 (rounded to the nearest \$0.10 = \$5.20)

Smithers' monthly penalty for 2025 will be \$5.20. This amount will be added to his Part D plan's monthly premium.





# Creditable Rx Coverage

- Rx coverage that's expected to pay, on average, at least as much as Medicare drug coverage
  - “Actuarial value of the coverage meets or exceeds the actuarial value” of the standard Rx coverage under Part D
  - Could be individual coverage or plan sponsored by a current or former employer or union, TRICARE, the Indian Health Service, or the Department of Veterans Affairs (VA)



# Employer Obligations

- NO obligation to offer creditable coverage
- Determine creditable status prior to Open Enrollment
- Disclose to all Medicare Eligibles on the plan
- Report Disclosure to CMS
- Communicate with plan participants (active, retired and COBRA) regarding changes in creditable status



# How does employer know if the coverage it offers is creditable?

- Fully insured plan: carrier will usually report
- Self-funded plan:
  - Sometimes TPA will provide information, otherwise
  - Use the Simplified Method, or
  - Ask an actuary– Coverage is considered creditable if its actuarial value  $\geq$  the actuarial value of standard Medicare Part D prescription drug coverage



# Creditable Coverage Determination: Simplified Method

Rx plan is deemed to be creditable if it:

- Provides coverage for brand and generic prescriptions
- Provides reasonable access to retail providers;
- Is designed to pay on average at least 60% of participants' prescription drug expenses; and,
- Satisfies at least one of the following:
  - Rx coverage has no annual benefit maximum benefit or a maximum annual benefit payable by the plan of at least \$25,000, or
  - Rx coverage has an expectation that the amount payable by the plan will be at least \$2,000 annually per Medicare eligible individual.

## Caveats:

- Simplified Method cannot be used for entities applying for RDS → must use actuary
- Method different for plans where Rx coverage is provided in [Integrated Plan](#)



# Integrated Plan

Defined as any plan of benefits that is offered to a Medicare eligible in which the prescription drug benefit is combined with other coverage offered by the entity (i.e., medical, dental, vision, etc.) and the plan has all of the following plan provisions:

- A combined plan year deductible for all benefits under the plan,
- A combined annual benefit maximum for all benefits under the plan, and
- A combined lifetime benefit maximum for all benefits under the plan.



# Creditable Coverage Determination: Simplified Method (Integrated Plan)

Rx plan is deemed to be creditable if it:

- Provides coverage for brand and generic prescriptions;
- Provides reasonable access to retail providers;
- Is designed to pay on average at least 60% of participants' prescription drug expenses;
- Has no more than a \$250 deductible per year;
- Has no annual benefit maximum or a maximum annual benefit payable by the plan of at least \$25,000; and
- Has a lifetime combined benefit maximum of at least \$1 million.



## Survey Question No. 1

Is your Rx plan integrated with other coverage or does it have separate deductibles/maximums?



# Survey Question No. 1

- A. Our plan is integrated, with a single deductible/maximums for Rx and other benefits.
- B. Our plan is not integrated.
- C. Not sure.





# Employer Disclosure of Creditable Status

Content must include:

- That the employer has determined that the prescription drug coverage is creditable (or non-creditable);
- The meaning of creditable coverage;
- That an individual generally may only enroll in a Part D plan from October 15 through December 7 of each year; and
- Why creditable coverage is important and an explanation that the individual could be subject to payment of higher Part D premiums if there is a break in creditable coverage of 63 days or longer before enrolling in a Part D plan.

CMS Model Notice:

<https://www.cms.gov/Medicare/Prescription-Drug-Coverage/CreditableCoverage/Model-Notice-Letters.html>



# Employer Disclosure of Creditable Status

## Timing:

- Prior to commencement of the annual enrollment period for Medicare Part D (i.e., BEFORE Oct. 15);
- Prior to an individual's IEP for Medicare Part D;
- Prior to the effective date of coverage for any Medicare Part D eligible individual who enrolls in the plan sponsor's prescription drug coverage;
- Whenever the employer no longer offers prescription drug coverage or changes it so that it is no longer creditable or becomes creditable; and
- Upon request by a Medicare Part D eligible individual.



# Employer Disclosure of Creditable Status

## Practical Considerations:

- Timing: Employer can meet the first three timing requirements by providing the notice at the following times:
  - Each year during the employer's open enrollment period\*, or in late September/early October to coincide with the Medicare Part D open enrollment period; and
  - When individuals are first eligible for the prescription drug coverage (e.g., new hires).
- Recipients: Notice must be provided to Part D eligible individuals who are eligible to enroll in the plan sponsor's Rx plan.
  - Employees, COBRA participants, retirees, their spouses and dependents
  - Since it may be difficult for a plan sponsor to identify which individuals are eligible for Part D (e.g., spouses or disabled dependents), many plan sponsors provide the disclosure notice to everyone who is eligible to enroll in their prescription drug plan.



# Employer Disclosure of Creditable Status

## Delivery Method:

- Paper notices sent by mail
- Electronic delivery in accordance with Department of Labor's (DOL's) electronic delivery [safe harbor](#) for required ERISA disclosures.
  - Allows for electronic distribution to those who have access to the employer's electronic system as an integral part of their daily duties at their regular workplace, and to those who provide consent to an electronic distribution.



# Employer Disclosure of Creditable Status

## Delivery Method:

- OK to send single notice to eligible individual and all eligible dependents at the same address
- When incorporated with other information or notices (such as in a Notice & Disclosure Packet or Enrollment Guide)
  - Disclosure must meet special requirements for being "prominent and conspicuous"
  - First page of the materials or guide must include reference to specific location/page number of the disclosure.
    - "Page-one reference" must appear in at least 14-point font and, for emphasis, must be bolded, offset, or contained within a separate call-out box.

**If you (and/or your dependents) have Medicare or will become eligible for Medicare in the next 12 months, a Federal law gives you more choices about your prescription drug coverage. Please see page 18 for more details.**



## Survey Question No. 2

How do you typically deliver the creditable/non-creditable coverage notice to Medicare-eligibles?



## Survey Question No. 2

- A. We mail it out as a standalone notice to all plan members.
- B. We include it as a separate notice in our open enrollment packet.
- C. We send it out with our notices and disclosures.
- D. We include it in our Benefit Guide.
- E. None of the above.



# Reporting Creditable Status To CMS

Plan sponsors of Rx plans must report to CMS annually

- Within 60 days after beginning of plan year
- Usually done by the employer (not carrier or TPA)
- Instructions and online form for reporting: <https://www.cms.gov/Medicare/Prescription-Drug-Coverage/CreditableCoverage/CCDisclosure>.
- Information needed to complete:
  - General employer information, including EIN
  - Type of coverage (e.g. "Group Health Plan: Employer Sponsored Plan")
  - # of Rx plan options offered and creditable or non-creditable status of each
  - Estimated # of Part D-eligible individuals covered under each plan
  - Date of creditable coverage notice distribution to Part D eligibles





## Survey Question No. 3

Who reports your plan's creditable coverage status to CMS?



# Survey Question No. 3

- A. Carrier or TPA.
- B. Broker/consultant.
- C. We do this ourselves.
- D. Not sure.



# Changes in 2025 and 2026

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# Richer Part D Benefits

Inflation Reduction Act of 2022:

- Beginning January 1, 2025, out-of-pocket drug spending for Medicare Part D coverage are capped at \$2,000 (\$2,100 in 2026).
  - Increases the actuarial value of the coverage available via Part D, making it more difficult for plans to be creditable



# New Simplified Method

- Group health plan provides creditable coverage under Part D, if it:
  - Offers 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.
    - Big increase from 60%
- Optional for plans that don't receive the RDS in 2026 only.



## Survey Question No. 4

Who reports your plan's creditable coverage status to CMS?



## Survey Question No. 4

- A. None– the carrier or TPA told us the result
- B. Old simplified method
- C. New simplified method
- D. We used an actuary



## Survey Question No. 5

Are you planning to change your Rx benefit to ensure your plan remains creditable?





## Survey Question #5

- A. Yes– that's really important to our employees
- B. Yes– we're required to by collective bargaining agreement
- C. No– it is simply too costly
- D. It depends on the cost



# Employer Obligations

- Determine creditable status prior to Open Enrollment
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# Notices and Guidance

CMS Creditable Coverage page—

<https://www.cms.gov/medicare/employers-plan-sponsors/creditable-coverage>

CMS Part D Redesign Program Instructions—

<https://www.cms.gov/files/document/final-cy-2025-part-d-redesign-program-instructions.pdf>

Disclosure to CMS Form—

<https://www.cms.gov/medicare/employers-plan-sponsors/creditable-coverage/disclosure-form>

Model Notice Letters

<https://www.cms.gov/medicare/employers-plan-sponsors/creditable-coverage/model-notice-letters>



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# Questions





*Thank you!*