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Medicare Part D Creditable Coverage

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Compliance Updates

Medicare Part D

Part D	Creditable Coverage
The prescription drug piece of Medicare	Coverage at least as good as Part D

Part D Out-of-Pocket Maximum (OOPM) Is Rising

- **As OOPM climbs toward $2,400, Medicare may look more attractive to eligible individuals than the group plan — making an accurate creditable coverage determination more important than ever.**
- Employers aren't required to offer creditable coverage but must notify employees and Medicare-eligible spouses of their plan's status.

Creditable Coverage Notices

October 15 Deadline to distribute Creditable Coverage notices to all Part D eligible individuals — enrolled or seeking to enroll.

Who

Recommend distributing to all eligible employees, rather than just employees over a certain age.

How

The ERISA electronic distribution safe harbor applies — some employers still mail to benefit Medicare-eligible spouses.

Timing

The notice should reflect upcoming renewal creditability for calendar year plans, if available.

If Plan Not Finalized

The notice applies to the current plan in effect; an updated notice is required if creditability changes.

Medicare Part D

The $2,400 OOPM may or may not impact whether an employer plan is creditable.

Simplified Method

- Does NOT consider the $2,400 OOPM
- Available to many, but not all, employers
- A “new” version was announced for 2026

Actuarial Analysis

- DOES consider the $2,400 OOPM
- Available to all employers
- Unaffected by the new simplified method

New or old method allowed for 2026 only — the new method is required starting 2027.

Medicare Part D – Simplified Method

2027 Only

Old Simplified Method

- Provide coverage for brand-name and generic prescriptions
- Provide reasonable access to retail providers
- Pay on average at least **60%** of participants' prescription drug expenses
- No annual benefit maximum, or a maximum of at least $25,000; OR an expectation of at least $2,000 annually per Medicare-eligible individual

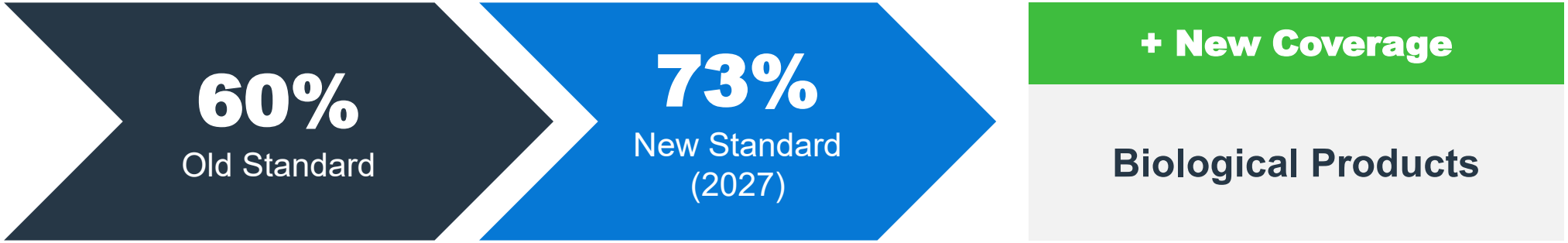
New Simplified Method

- Provide coverage for brand-name and generic prescriptions and biological products
- Provide reasonable access to retail pharmacies
- Pay on average at least **73%** (for 2027) of participants' prescription drug expenses

CMS increased the actuarial value standard from 60% to 73% using 2023 Part D claims experience, added biological product coverage, and removed references to benefit maximums and deductible amounts. CMS does not propose specific criteria for "reasonable access."

Old vs. New Methods

New method has fewer requirements, but the threshold is higher.



- Biological products were added "due to changes in the prescription drug landscape"
- Coverage requirement was increased to 73% because "CMS has determined that the 60% value is no longer an accurate representation of the value of the Part D benefit"

Medicare Reminders

Medicare Secondary Payer Rules

- Prevents employers with 20+ employees from taking Medicare into account for group benefits
- Cannot require or incentivize a move to Medicare
- Cannot limit plan options for Medicare-eligible employees or spouses
- Applies based on total employee count — not just eligible or enrolled

Opt-Out Payments

(a/k/a cash in lieu of benefits)

- Cannot be offered to those enrolled in Medicare, unless they also have group coverage

ICHRAs

- Can be offered to those enrolled in Medicare, but must comply with applicable classification rules and minimum class sizes
- **Medicare eligibility alone is NOT an allowable class**

Process & Next Steps

Making the Determination

Carrier / TPA / PBM

Carriers / TPAs / PBMs often provide the testing or tools and notify clients.

- Reach out to your carrier / TPA / PBM to find out if they're able to support.
- Use a standard letter template and deliver to your clients to confirm the results and notification of members.

Consulting Determination

Many consulting firms can assist with the determination.

- Data Needed: SBC and SPD
- Options May Include:
  - Simplified Method
  - Actuarial Method

Client Determination

Clients could make the determination on their own. However, there are a few things to consider:

- Understanding the actuarial value of a plan can be complex
- The client would be taking on a risk that could otherwise be pushed to a carrier, TPA, PBM or consulting firm

Next Steps for Employers

Step 1

Understand the importance of Creditable Coverage and the changes for 2027

Step 2

Make a determination for each plan

Step 3

Provide Creditable / Non-Creditable Coverage notification to all employees by October 15, 2026

Thank you

For more information visit **www.hubinternational.com**

APPENDIX

Glossary of Terms

- **Actuarial Analysis —** Method for testing Part D creditability using a plan's full design; unlike the simplified method, it does factor in the Part D OOPM.
- **Carrier —** The insurance company underwriting a fully insured health plan.
- **CMS (Centers for Medicare & Medicaid Services) —** The federal agency that sets Medicare Part D creditable coverage standards.
- **Creditable Coverage —** Employer coverage that's at least as good as Medicare Part D.
- **ERISA (Employee Retirement Income Security Act) —** Federal law governing employee benefit plans, including notice distribution rules.
- **FI (Fully Insured) —** A funding arrangement where premiums are paid to a carrier that assumes the claims risk.
- **HDHP (High-Deductible Health Plan) —** A plan design most likely to flip from creditable to non-creditable under the new simplified method.
- **HRA (Health Reimbursement Arrangement) —** An employer-funded account that can affect a plan's actuarial value calculation.
- **ICHRA (Individual Coverage HRA) —** Lets employers reimburse employees for individual health insurance premiums.
- **Medicare Secondary Payer (MSP) Rules —** Prevent employers with 20+ employees from taking Medicare into account for group health benefits.
- **MERP (Medical Expense Reimbursement Plan) —** An employer-funded plan that can impact actuarial value testing.
- **OOPM (Out-of-Pocket Maximum) —** The cap on a Part D enrollee's annual drug costs — rising from $2,000 (2025) to $2,400 (2027).
- **Opt-Out Payment —** Cash paid to an employee who declines group coverage (a/k/a cash in lieu of benefits).
- **Part D —** The prescription drug piece of Medicare.
- **PBM (Pharmacy Benefits Manager) —** Administers prescription drug benefits on behalf of a plan.
- **SBC (Summary of Benefits and Coverage) —** A standardized plan document used to test creditable coverage.
- **SF (Self-Funded) —** A funding arrangement where the employer assumes the claims risk directly.
- **Simplified Method —** A standardized formula for testing Part D creditability without a full actuarial analysis.
- **SPD (Summary Plan Description) —** A plan document used to test creditable coverage.
- **TPA (Third-Party Administrator) —** Administers a self-funded health plan on behalf of the employer.