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Changes to Medicare Part D Creditable Coverage Determination

The Inflation Reduction Act of 2022 (“IRA”) made several changes that will affect the structure of the Medicare Part D prescription drug benefit program beginning in 2025. The Centers for Medicare and Medicaid Services (“CMS”) released final instructions around the redesign of the program and:

- acknowledge that some group health plans offering prescription drug benefits that have met Part D creditable coverage requirements in prior years may no longer meet those requirements for plan years beginning in 2025.
- permit group health plans to continue to use the simplified determination method for determining creditable (or non-creditable) status of the prescription drug program in 2025.

■ Background

Employers sponsoring group health plans with prescription drug benefits are required to notify their Medicare Part D-eligible participants and beneficiaries as to whether the drug coverage provided under the plan is “creditable” or “non-creditable.” This notification must be provided prior to October 15th each year. Also, following the plan’s annual renewal (among other times), the employer must notify CMS of the creditable status of the drug plan.

Group health plan 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. For most employer-sponsored group health plans, there are two ways to determine creditable status: use CMS’s simplified determination tool, or obtain a certification from an actuary.

The CMS tool allows a plan to determine creditable status based on plan design features such as deductible and out-of-pocket max, while the actuarial certification method requires an analysis of claims information.

■ What's Changed?

The IRA made changes to the structure of the standard Medicare Part D benefit by amending which categories of benefit count toward true out-of-pocket costs and lowering the out-of-pocket max to \$2,000.

Because the IRA enhances the Medicare Part D benefit, it may result in some group health plans that historically met a creditable coverage standard to lose that status unless certain plan design changes are made.

In the draft instructions for creditable coverage determinations, CMS indicated that the simplified determination tool would no longer be a valid method for determining creditable status for Calendar Year 2025. CMS reversed its earlier position, however, and will permit group health plans to use the simplified tool for 2025. CMS will re-evaluate this position for 2026, including whether to continue to use the existing methodology or establish a revised version. It is possible that plans will need to engage the services of an actuary to determine creditable status after 2025.

■ What Does This Mean for Group Health Plans?

As a result of the IRA changes to the Medicare Part D benefit, some prescription drug plans that were creditable in Calendar Year 2024 will not be creditable in Calendar Year 2025.

For plan years beginning in 2025, group health plan sponsors should determine whether to:

- update prescription drug benefit coverage to maintain creditable status, or
- maintain current prescription drug benefits, even if it means becoming non-creditable.

It is important to note that a late enrollment penalty may apply to individuals who do not maintain creditable coverage for a period of 63-days or longer following their initial enrollment period for Medicare Part D.

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.