COMPLIANCE ISSUES

CMS REVISES MEDICARE PART D CREDITABLE COVERAGE RULES

EMPLOYERS THAT offer prescription drug coverage will need to take a fresh look at whether their plans qualify as creditable coverage after the Centers for Medicare & Medicaid Services finalized rules that take effect in 2027.

The changes follow a major redesign of Medicare Part D in 2025, which significantly enhanced prescription drug benefits by lowering enrollees' maximum out-of-pocket costs. As a result, CMS concluded that the long-standing method employers use to determine whether their drug coverage is "creditable" no longer reflects today's Medicare benefit.

The changes may be particularly important for employers that offer high-deductible health plans, as some of those plans may have a harder time meeting the new creditable coverage standards.

Importance of creditable coverage

Employees generally must enroll in Medicare Part D when they first become eligible unless they have creditable prescription drug coverage through another source, such as an employer-sponsored health plan.

If they go 63 consecutive days or more without creditable coverage after becoming eligible, they may face a permanent late-enrollment penalty if they later sign up for Part D.

Because of that, employers that offer prescription drug coverage typically must notify Medicare-eligible employees and dependents each year whether their coverage is creditable. The notice is usually distributed before the annual Medicare open enrollment period that begins Oct. 15.

What's changing

For years, many employers have relied on a simplified "safe harbor" test to determine whether their prescription drug coverage qualified as creditable. Under that approach, plans generally qualified if they met several basic coverage standards and paid at least 60% of prescription drug costs on average.

Beginning in 2027, that methodology goes away.

Instead, employers generally will need to:

- Use actuarial testing to compare their prescription drug coverage with Medicare Part D, or
- Use CMS' revised simplified methodology.

Under the revised approach, employer plans generally must cover brand-name drugs, generic drugs and biological products, provide reasonable pharmacy access and pay an average of at least 73% of participants' prescription drug costs in 2027. CMS has indicated that required actuarial values are expected to continue increasing in future years.

The higher standard means some employer health plans that previously qualified as creditable may no longer do so without plan changes or a more detailed actuarial review.

High-deductible health plans may face particular challenges. However, CMS emphasized that HDHPs are not automatically considered non-creditable, and plan features such as covering certain preventive or maintenance medications before the deductible and lowering member cost-sharing after the deductible is met may help some HDHPs satisfy the new standards.

Reviewing your prescription drug benefits now can help avoid compliance issues while ensuring employees receive the information they need to make important Medicare coverage decisions.

Steps to take before 2027

- Review whether your prescription drug coverage will continue to qualify as creditable.
- Coordinate with us or your carriers to complete updated creditable coverage testing.
- Pay particular attention to high-deductible health plans, which may require additional analysis.
- Update Medicare Part D creditable coverage notices, if necessary, before annual Medicare open enrollment.
- Communicate any changes early so Medicare-eligible employees can make informed enrollment decisions and avoid late-enrollment penalties.

Planning ahead can help avoid compliance issues and keep your employees informed.

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