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2025 CHANGES - MEDICARE PART D CREDITABLE COVERAGE - JULY 2024

Employers sponsoring any size group health plan that provides prescription drug coverage are not required to offer creditable coverage, but they are required to determine whether the prescription drug coverage is creditable and then must communicate creditable or non-creditable coverage status annually to eligible employees and their family members and to the Centers for Medicare & Medicaid Services (CMS). Medicare Part D prescription drug coverage will expand in 2025 as required under the Inflation Reduction Act (IRA), which could impact whether an employer's group health plan provides creditable prescription drug coverage. Plans that met creditable coverage status previously may no longer be creditable beginning in 2025. Employers who offer prescription drug coverage need to be aware of the Medicare Part D changes, take the required steps to understand the creditable status of their prescription drug plan(s) for 2025, and then clearly communicate status to eligible employees and report status to CMS.

CREDITABLE STATUS – WHY IT MATTERS

Individuals become eligible for Medicare Part D (prescription drug coverage) upon enrolling in Medicare Part A, Medicare Part B, or both. Individuals who are eligible for Medicare Part D can delay enrollment if they are enrolled in other creditable prescription drug coverage (e.g., through an employer-sponsored group health plan). However, an individual who delays Medicare Part D enrollment and goes 63 days or more without creditable prescription drug coverage may then face late enrollment penalties when the individual eventually chooses to enroll in Medicare Part D.

Employers are not required to offer creditable prescription drug coverage, but employers are required to determine and communicate creditable (or non-creditable) status to eligible individuals. The information assists Medicare Part D eligible individuals in making an informed decision about whether to enroll in Medicare Part D. In addition, reporting the information to CMS is required to help CMS determine when there might be other creditable coverage available to individuals who are eligible for Medicare.

DETERMINING WHETHER AN EMPLOYER'S PRESCRIPTION DRUG COVERAGE IS CREDITABLE

Prescription drug coverage is creditable if the actuarial value of the coverage equals or exceeds the actuarial value of standard prescription drug coverage under Medicare Part D. In other words, coverage is creditable if the expected amount of paid claims for prescription drugs under the coverage is at least as much as the expected amount of paid claims under the standard Medicare Part D benefit. Often an insurance carrier or third-party administrator (TPA) will provide information to a plan sponsor detailing whether a plan's drug coverage is creditable. But if a plan sponsor does not receive this information from the carrier or TPA, the plan sponsor (e.g., the employer) is responsible for making the determination, or for hiring an actuary to help with the determination.

If a plan sponsor is not applying for the subsidy available to sponsors of a qualified retiree prescription drug plan, the sponsor may be able to use a "simplified method" for determining whether the prescription drug coverage is creditable. If a plan does not meet the criteria under the simplified determination method, that does not automatically mean the plan is not creditable; but in that case, the plan must obtain an actuarial determination of whether the actuarial value of the coverage equals or exceeds the actuarial value of standard prescription drug coverage under Medicare Part D.



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SIMPLIFIED METHOD FOR DETERMINING CREDITABLE STATUS

To qualify for the simplified determination and be deemed creditable, the plan must meet the following criteria:

1. Cover brand-name and generic prescription drugs;
 2. Provide reasonable access to retail providers;
 3. Pay on average at least 60% of participants' prescription drug expenses; and
 4. Depending upon whether the plan is stand-alone or integrated (i.e., the prescription drug benefit is combined with other coverage with a combined deductible and annual/lifetime maximums):
- + A stand-alone drug plan must satisfy at least one of the following standards:
 - + Have either no annual benefit maximum or a minimum annual benefit of \$25,000; or
 - + Have an actuarial expectation that the amount payable by the plan will be at least \$2,000 annually per Medicare-eligible individual.
 - + An integrated plan must:
 - + Have a maximum annual deductible of \$250;
 - + Have either no annual benefit maximum or a minimum annual benefit of \$25,000; AND
 - + Have a lifetime combined benefit maximum of at least \$1 million.

See the simplified method description here – <https://www.cms.gov/Medicare/Prescription-Drug-Coverage/CreditableCoverage/Downloads/CCSimplified091809.pdf>.

CMS guidance indicates that the simplified method will continue to be available for 2025, but that it may be changed or no longer available beginning in 2026. See final Part D redesign program instructions here - <https://www.cms.gov/files/document/final-cy-2025-part-d-redesign-program-instructions.pdf>.

CMS guidance indicates that the simplified method will continue to be available for 2025, but that it may be changed or no longer available beginning in 2026. See final Part D redesign program instructions here - <https://www.cms.gov/files/document/final-cy-2025-part-d-redesign-program-instructions.pdf>.

MEDICARE PART D COVERAGE CHANGES IN 2025

The IRA legislation requires a phased approach aimed at lowering prescription drug costs for Medicare. Beginning in 2025, amongst other changes, out-of-pocket drug spending for Medicare Part D coverage will be capped at \$2,000. This will increase the actuarial value of the coverage available via Medicare Part D. For this reason, employers who have previously assumed creditable status from one plan year to the next may need to take a closer look at whether their plan design for 2025 will still meet creditable status. For plans that do not meet the requirements of the simplified method described above (e.g., high deductible health plans (HDHPs)), it may be necessary to obtain an actuarial determination to confirm status. It seems unlikely that many HDHPs will be creditable after the 2025 Medicare Part D changes, but keep in mind that an HRA offered alongside the group health plan can be considered when determining creditable status.





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NOTE: For employer-sponsored prescription drug coverage, creditable status determinations must be made upon plan renewal. For example, for an August – July plan year, creditable status based on the 2025 Medicare Part D changes must be determined for the plan that goes into effect in August 2025. Creditable status for the August 2024 – July 2025 plan year is tied to the 2024 Medicare Part D plan design.

If the creditable status of an employer's prescription drug coverage will change for the 2025 plan year, employers may want to communicate and educate in addition to what is set forth in CMS' model notices discussed below (e.g., perhaps a cover letter explaining who should care (Medicare Part D eligible individuals) and why creditable status matters).

REQUIRED DISCLOSURE OF CREDITABLE STATUS TO ELIGIBLE PARTICIPANTS

Detailed guidance from CMS on these disclosures can be found here - https://www.cms.gov/Medicare/Prescription-Drug-Coverage/CreditableCoverage/downloads/Updated_Guidance_09_18_09.pdf

CONTENT OF THE DISCLOSURE

Disclosures of creditable (or non-creditable) coverage must address the following:

- + 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 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 makes model notices available in both English and Spanish for purposes of the disclosure requirement. The model notices can be found on CMS' page here – <https://www.cms.gov/Medicare/Prescription-Drug-Coverage/CreditableCoverage/Model-Notice-Letters.html>

Guidance on completing the Notice of Creditable Coverage can also be found on our resources page here – <https://www.benefitcomply.com/resources/guidance-for-completing-medicare-part-d-notice-of-creditable-coverage/>

TIMING OF THE DISCLOSURE

The notice is required to be provided to Medicare Part D eligible individuals at the following times:

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



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TIP FOR DISTRIBUTION TIMING

The first three occasions use the term “prior to,” which according to CMS means within the last 12 months, so the 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).

WHO IS ENTITLED TO RECEIVE THE DISCLOSURE

The notice must be provided to Medicare Part D eligible individuals who are eligible to enroll in the plan sponsor’s prescription drug plan. This includes employees, COBRA participants, and retirees, as well as their spouses and dependents. Individuals are eligible for Medicare Part D if they are enrolled in either Medicare Part A or Medicare Part B and live in the service area of a Medicare Part D plan. In other words, if somebody is both Medicare Part D eligible AND eligible to enroll in the plan sponsor’s prescription drug plan, a notice is required.

Since it may be difficult for a plan sponsor to identify which individuals are eligible for Medicare Part D (e.g., spouses or disabled dependents), many plan sponsors choose to provide the disclosure notice to everyone who is eligible to enroll in their prescription drug plan.

METHOD OF DELIVERY FOR THE DISCLOSURE

When providing the notices, CMS prefers using paper documents because Medicare Part D eligible individuals are more likely to receive and understand them, and because it is easier to ensure that paper documents have been received by both employees and eligible spouses and dependents. However, although paper notices sent by mail are preferred, the notices may be sent electronically in accordance with the Department of Labor’s (DOL’s) electronic delivery safe harbor for required ERISA disclosures. The safe harbor 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.

CMS has indicated that a plan sponsor providing a disclosure notice may generally provide a single notice to both the eligible individual and all his or her eligible dependents. However, a separate disclosure notice must be provided if the plan sponsor knows that any eligible spouse or dependent resides at a different address from the participant.

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