Benefits
BULLETIN

Medicare Part D Notice of Creditable (or Non-Creditable) Coverage

• **September 2026** •

The Medicare Modernization Act (MMA) of 2003 requires group health plan sponsors (including employers) that offer prescription drug coverage to notify Medicare-eligible individuals each year whether coverage is creditable (expected to pay as much as standard Medicare Part D) or non-creditable. This notice helps individuals make informed decisions about enrolling in Part D and can protect them from late enrollment penalties.

Recent Changes to Medicare Part D

The Inflation Reduction Act (IRA) significantly changed Medicare Part D beginning in 2025 by drastically lowering the Medicare Part D annual out-of-pocket (OOP) cap from $8,000 for individuals in 2024 to $2,000 in 2025. For 2026, the indexed cap increased by $100, bringing it to $2,100 for individuals. In 2027, the annual OOP cap remains in effect and continues to be indexed annually. Once the limit is reached, enrollees have no additional cost-sharing for covered drugs.

The IRA also removed what is known as the Medicare Part D "donut hole"–a coverage gap for enrollees when their Medicare Part D prescription drug plans reach the limits on what the plan will cover for drugs. Because of these changes, some prescription drug plans that were previously creditable may no longer meet the standard. Many traditional plan designs may remain creditable, while some HDHPs and other plan designs may not satisfy the revised standard. Creditable status must be determined separately for each plan option. **Employers are not required to offer creditable prescription drug coverage**.

Determining Whether a Prescription Drug Plan is Creditable

Prescription drug coverage is creditable if its value equals or exceeds standard Medicare Part D coverage. Plans may use the design-based **simplified determination method** or obtain an **actuarial determination**. Beginning with coverage on or after January 1, 2027, plans

using the simplified determination methodology must use CMS's revised simplified methodology. Under this methodology, a prescription drug plan is considered creditable if it pays, on average, at least 73% of a participant's drug expenses, with CMS establishing updated percentages for later years through updated regulatory guidance. This means some plan designs deemed creditable under this method in the past may no longer qualify going forward. Plans that do not meet this method may still qualify through an actuarial determination.

Account-based arrangements, such as **health reimbursement arrangements (HRAs), health flexible spending accounts (FSAs), and health savings accounts (HSAs) are exempt** from the disclosure requirements beginning in 2027, but the exemption does not apply to an underlying group health plan that provides prescription drug coverage.

Notice Requirements

Who must provide the notice? All group health plan sponsors (including employers) offering prescription drug coverage whether fully insured, self-insured, or level-funded, must provide the notice. There are no exceptions for government, church, or small group plans.

Who is entitled to receive the notice? Plan sponsors must issue notices to all individuals eligible for Medicare Part D, including active employees and their dependents, COBRA beneficiaries, and retirees. **Plan sponsors may provide the notice to all employees to simplify compliance.**

When must the notices be issued?

- Before an individual's initial enrollment period for Part D;
- Before the effective date of coverage for any Medicare Part D-eligible individual who joins an employer plan; and
- Annually before October 15 each year for all Medicare Part D-eligible individuals covered under the prescription drug plan.

Plan sponsors can satisfy these three requirements by regularly including the notice in their initial, special, and annual open enrollment materials that are provided to all plan participants.

Additionally, notices must be issued whenever prescription drug coverage ends or creditable coverage status changes, and upon an individual's request.

How can the notices be delivered? The notices can be provided by paper delivery by hand or first-class mail, or electronically in accordance with applicable DOL electronic-disclosure requirements.

Plan sponsors may issue a standalone notice or include the notice in open enrollment or other plan materials so long as the notice is prominent and conspicuous. CMS provides **model language** to use to satisfy this "prominent and conspicuous" requirement.

What information must be included in the notice? CMS provides **model notices** to use for disclosing whether coverage is creditable or non-creditable.

CMS Reporting

In addition to the individual notices, plan sponsors are required to electronically disclose the prescription drug plan's creditable or non-creditable status to CMS. This disclosure is required:

- **Annually** within 60 days after the beginning of each plan year (March 1 for calendar-year plans); and
- **Within 30 days** following the termination of the prescription drug plan or a creditable coverage status change that occurs after the annual disclosure has been made.

Plan sponsors can satisfy this requirement by completing an **online disclosure form**. Plans receiving the Retiree Drug Subsidy (RDS) satisfy this requirement during the RDS process and do not need to file separately.

Penalty for Noncompliance

CMS does not prescribe a specific monetary penalty for failing to provide the individual notice or complete the CMS disclosure. Nevertheless, noncompliance may cause Medicare-eligible individuals to miss enrollment opportunities or incur Part D late enrollment penalties.

Action Items

(1) **Determine Creditable Status:** Plan sponsors should annually coordinate with insurance carriers, TPAs, or trusted advisors to confirm whether their prescription drug coverage is creditable or non-creditable.

(2) **Select a Distribution Method:** Plan sponsors might consider regularly including the notice with plan enrollment materials that are made available to all participants on an annual basis, as this can streamline and consolidate distribution efforts.

(3) Be Mindful of Mid-Year Changes: Notices to both individuals and CMS are required upon the occurrence of any mid-year plan change that affects the plan's creditable status. Timely, accurate notices protect Medicare-eligible individuals from late enrollment penalties.

ADDITIONAL RESOURCES

Entities Required to Provide Disclosure

Procedures to Determine and Document Creditable Status of Prescription Drug Coverage

Creditable Coverage Disclosure to CMS Guidance & Instructions