



CMS Updates Simplified Method for Determining Creditable Coverage Status for 2026

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This month, the Centers for Medicare and Medicaid Services (CMS) announced [final instructions](#) for the changes to Medicare Part D prescription drug coverage mandated by the Inflation Reduction Act of 2022 (IRA) which will affect employer-sponsored plans in 2026. The changes are intended to enhance benefits and offer cost savings for enrollees but will also impact the ability of some prescription benefit plans to continue qualifying as creditable coverage.

What significant change did the IRA make to the creditable coverage determination?

The IRA generally [increased the benefits and actuarial value](#) of Medicare Part D coverage. As a result, when employer plans are compared actuarially to the Medicare Part D coverage, the employer plan must be designed to pay 72 percent of participants' prescription drug expenses, compared to 60 percent in the previous standard. Employer prescription drug coverage that previously met creditable coverage standards may no longer do so when compared against the higher benchmark of the improved Medicare Part D.

How can an employer determine if prescription drug coverage is creditable coverage?

Employers will typically rely on their insurance carrier, third-party administrators (TPAS), pharmacy benefit managers (PBMs), and administrative services only (ASO) providers for guidance on whether the actuarial value of a particular benefit option qualifies as creditable or prescription drug coverage for Medicare-eligible employees.

Instead of the annual actuarial valuation, CMS offers a simplified determination of creditable coverage status for plan sponsors if the prescription drug benefit option meets certain design and coverage requirements.

Prescription drug programs participating in the retiree drug subsidy (RDS) program are not eligible for the simplified determination. Among other requirements, to use the current simplified method, the prescription

drug plan must have a deductible not greater than \$250 for prescription drugs. The current method may be used for 2025 and 2026.

The Final Instructions issued April 7, 2025, provide a revised simplified determination method that may be used beginning January 1, 2026. The revised method aligns the requirements more closely to the actuarial value of Medicare Part D as updated by the IRA and eliminates certain outdated requirements (for example, conditions relating to preexisting conditions and annual limits that are no longer permissible after enactment of the Affordable Care Act).

What are the requirements in the final instructions for the revised simplified determination?

Under the revised simplified determination method, a plan will be deemed to provide prescription drug coverage with an actuarial value that equals or exceeds the actuarial value of Part D coverage if it:

- Provides reasonable coverage for brand name and generic prescription drugs and biological products.
- Provides reasonable access to retail pharmacies.
- Is designed to pay on average at least 72 percent of participants' prescription drug expenses.

The current simplified method only requires coverage of 60 percent of participants' prescription drug expenses. Employers using the simplified method should compare the requirements under the current and revised simplified determinations to determine if their prescription drug plan will qualify under the new standards. For 2026 only, non-RDS group health plans are permitted to use either the existing simplified determination methodology or the revised simplified determination methodology.

How do these changes to the creditable coverage simplified determination impact employees and covered participants?

Employer plan sponsors are not required to offer prescription drug coverage to their employees. But, if they do, they must provide an annual notification to Medicare Part D-eligible plan participants of their prescription drug plans' creditable coverage status (typically referred to as the "Notice of Creditable Coverage"). Individuals eligible for Medicare Part D who fail to maintain creditable coverage for a period of 63 continuous days or more will face a late enrollment penalty when they eventually enroll in Part D. As a result, this Notice of Creditable Coverage serves an important purpose for these individuals to prove they maintained creditable coverage and avoid late enrollment penalties when they ultimately enroll in Part D.

It is not legally required that prescription drug coverage be creditable, but it can cause employees in non-creditable coverage options to have lifetime penalties if they fail to enroll in Medicare in lieu of or in addition to employer-sponsored coverage.

What steps should sponsors of HDHPs take to continue to qualify as creditable coverage?

For employers who sponsor high deductible health plans (HDHPs), satisfying the higher 72 percent threshold under the revised simplified method and increased actuarial value of Medicare Part D may be a concern. The Final Instructions and related guidance suggest that HDHPs should:

- Not apply a deductible to preventive (i.e., maintenance) medications.
- Use a reasonable and supportable allocation of the HDHP deductible attributable to prescription drug expenses.
- Offer lower cost-sharing than standard Part D coverage once the deductible is met.

CMS acknowledges that the higher actuarial value may cause some prescription drug programs to fail to meet the creditable coverage standards and this is one of the stated reasons for allowing employers to use either the current or revised simplified determination standard for 2026 as a way of easing the transition.

Employer Action Items

Employers using the current simplified method should implement the following steps as soon as possible.

- **Contact Your Carrier, TPA, ASO, or PBM.**
Employers should begin planning now with their vendors to evaluate whether current plan designs would meet the revised simplified determination standards for creditable coverage in 2026 and, if not, develop a strategy for 2026 and 2027 benefit planning.
- **Evaluate deductibles in your prescription drug coverage.**
The plans at most risk of being deemed non-creditable are HSA compatible HDHPs. HDHP deductibles are adjusted annually, and in 2025, the minimum deductibles are \$1,650 for self-only coverage and \$3,300 for other-than-self-only (family) coverage. The IRA imposed a \$2,000 limit on Part D deductibles (increasing to \$2,100 in 2026). Because the HDHP minimum deductible for other-than-self-only coverage is higher than the \$2,000 Part D out-of-pocket maximum introduced by the IRA, all HSA-compatible HDHPs will potentially lose creditable coverage status for 2026. This change can also impact other prescription drug coverage that is not an HDHP if it has a higher deductible than the new Part D deductible. This is not the only consideration, but it is a simple way for employers to get a quick sense of how their plans compare under the new Part D coverage.
- **Develop a participant communication strategy.**
Plan sponsors should prepare a communications strategy to advise affected individuals of the changes to the creditable coverage requirements and the potential impact on HDHPs and other benefit options in 2026. These individuals will need to weigh the pros and cons of remaining in an employer plan that is no longer creditable coverage or transitioning to Medicare or a potentially higher cost plan of the employer that meets the creditable coverage standard. Communications should consider the timing of open enrollment and election changes so that employees are able to drop the group health plan coverage to enroll in Medicare Part D by cafeteria plan rules and restrictions on mid-year election

changes. Medicare-eligible individuals who lose creditable coverage will be eligible for a two-month special enrollment period into Part D, so timing of the employer notice and communications is particularly important.

- Consider a Medicare enrollment guide for employees.

The interaction of Medicare and group health coverage is one of the more confusing areas for employees when making decisions about their benefit coverage. Failing to make the correct choices can result in significant financial exposure relating to coordination of benefits with COBRA, for example, or in lifetime premium penalties under Medicare for untimely enrollment. Plan sponsors may want to consider providing an enrollment guide or other resource to employees addressing the interaction between non-creditable prescription drug coverage and Medicare Part D late enrollment penalties and how enrollment in Medicare Parts A, B, or D (or a Medicare Advantage Plan) will result in the loss of health savings account (HSA) contribution eligibility.

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