Medicare Part D Notices: Top 5 Frequently Asked Questions

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Employers with group health plans that provide prescription drug coverage to Medicare-eligible individuals are subject to specific disclosure obligations under Medicare Part D. Medicare Part D requires employers to disclose whether their prescription drug coverage is creditable to both the Centers for Medicare and Medicaid Services (CMS) and to Medicare Part D-eligible individuals. These disclosures must be made on an annual basis and at certain other designated times.

Understanding these obligations is more than just a compliance task; it ensures employees can make informed health care decisions and avoid costly penalties. By understanding the rules and planning ahead, employers can help ensure a more seamless benefits experience.

This Compliance Overview highlights the top five common questions employers ask about Medicare Part D disclosures. Whether a plan sponsor is reviewing their obligations ahead of open enrollment or ensuring year-round compliance, these answers to frequently asked questions can help provide clarity regarding key requirements.

1. What is the Medicare Part D notice, and why is it important?

A Medicare Part D notice is a disclosure that informs Medicare-eligible individuals whether the prescription drug coverage offered by an employer's group health plan is creditable. Creditable coverage means that the plan is expected to pay, on average, as much as the standard Medicare Part D plan. This notice is important for two main reasons:

- **It helps employees decide whether to enroll in Medicare Part D without facing late enrollment penalties**. If Medicare beneficiaries are not covered by creditable prescription drug coverage and do not enroll in Medicare Part D when first eligible, they will likely pay higher premiums if they enroll later. This penalty would apply for the **entire duration of the individual's Part D coverage**, resulting in permanently increased monthly premiums.
    - For example, if an employee waited 14 months after they were eligible for Medicare to join a Medicare drug plan and didn't have creditable drug coverage, they would have to pay a 14% late enrollment penalty in addition to their monthly plan premium. The penalty amount comes from the "national base beneficiary premium," which changes each year, so the penalty amount may also change each year. However, this monthly penalty is added for as long as the individual has Medicare drug coverage, even if they switch plans.
- **It is a required disclosure for employers**. Medicare Part D requires employers to comply with two annual disclosure requirements. Employers must disclose whether their prescription drug coverage is creditable to:
    - Medicare-eligible individuals (using the Part D notice); and
    - CMS.

2. What is the CMS disclosure?

In addition to providing the Part D notice to Medicare-eligible individuals, plan sponsors are also required to disclose to CMS whether their prescription drug coverage is creditable. These are two **separate but related** requirements. Although both relate to whether an employer's prescription drug coverage is considered creditable, they differ in who they're intended for and when they need to be provided.

The disclosure must be made to CMS on an annual basis, or upon any change that affects whether the coverage is creditable. At a minimum, the CMS creditable coverage disclosure notice must be provided at the following times:

- Within **60 days** after the start of the plan year (for calendar year plans, this deadline is generally **March 1** of each year);
- Within 30 days after the termination of the prescription drug plan; and
- Within 30 days after any change in the creditable coverage status of the prescription drug plan.

Plan sponsors are required to provide the disclosure notice to CMS through completion of the disclosure form on the CMS creditable coverage webpage. This is the sole method for compliance with the CMS disclosure requirement unless a specific exception applies.

3. Do Medicare Part D notices need to be sent to all employees?

All plan sponsors that offer prescription drug coverage, regardless of size, must provide notices of creditable or non-creditable coverage to Medicare-eligible individuals each year. Disclosure notices are required to be provided only to all Part D-eligible individuals who are covered under, or who apply for, the plan's prescription drug coverage, regardless of whether the prescription drug coverage is primary or secondary to Medicare Part D. The disclosure notice requirement applies to Medicare beneficiaries who are active or retired employees, disabled or on COBRA, as well as Medicare beneficiaries who are covered as a spouse or a dependent.

To simplify plan administration, plan sponsors often decide to provide the disclosure notice to all plan participants since employers may not be aware of whether a current employee has any dependents who are Medicare eligible.

4. When do the Medicare Part D notices need to be provided?

Medicare Part D notices must be provided prior to the Medicare Part D annual coordinated election period that begins Oct. 15. It also must be provided:

- Prior to the effective date of coverage for any Medicare-eligible individual who joins the plan (most plans satisfy this requirement by including the notice in their open enrollment materials);
- Whenever prescription drug coverage ends or changes so that it is no longer creditable or becomes creditable; and
- Upon a beneficiary's request (while there is no formal guidance as to how soon the notice must be provided after a request, it is a good idea to provide it as soon as possible).

Although CMS' model creditable coverage notices refer to an individual's current prescription drug coverage, it is important for employers to remember that they must also issue updated notices whenever changes occur that affect the creditable status of that coverage. For example, if a notice distributed prior to Oct. 15 indicates that a plan's coverage is creditable, but design changes effective on the first day of a new plan year render it non-creditable, a new notice would need to be provided.

5. How do employers determine if their coverage is creditable?

Prescription drug coverage is considered creditable if its actuarial value equals or exceeds the actuarial value of standard Medicare Part D. In general, this actuarial determination measures whether the expected amount of paid claims under the group health plan's prescription drug coverage is at least as much as the expected amount of paid claims under the Medicare Part D prescription drug benefit. While formal actuarial certification is not required (unless applying for the retiree drug subsidy or RDS), employers may still consult actuaries to ensure accuracy.

For plans that have multiple benefit options (for example, PPO, HDHP and HMO), the creditable coverage test must be applied **separately** for each benefit option. Under existing CMS guidance, there are two methods for determining whether coverage is creditable: a **simplified determination method** and an **actuarial determination method**.

However, given the significant changes made to Medicare Part D by the Inflation Reduction Act, CMS has established a **revised simplified determination methodology** for calendar year 2026. Under the revised simplified determination method, coverage must be designed to pay, on average, at least 72% of a participant's drug expenses (an increase from 60% under the current method) to be considered creditable. Non-RDS group health plans are permitted to use either the existing simplified determination methodology or the revised simplified determination methodology for 2026; for 2025, the current simplified determination method remains unchanged.

LINKS AND RESOURCES

- CMS' creditable coverage webpage provides more information about the required notices, including links to model notices.
- CMS' Medicare Part D Improvements webpage provides guidance on changes to the Part D benefit newly in place for calendar year 2026.
- The Medicare Part D webpage provides general information on the Medicare Part D program, including covered benefits.

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