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Medicare Part D: Final calendar year 2025 Part D Redesign Program Instructions provide needed clarifications

CMS released its Medicare Part D payment policies for 2025, as well as the Final CY 2025 Part D Redesign Program Instructions. This builds on the Draft CY 2025 Part D Redesign Program Instructions that were released by CMS on January 31.

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Background

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 requires group health plan sponsors that provide prescription drug coverage to inform individuals eligible for Medicare Part D whether the plan's coverage is "creditable" or "non-creditable." Prescription drug coverage is creditable when it is at least actuarially equivalent to Medicare's standard Part D coverage and non-creditable when it does not provide, on average, as much coverage as Medicare's standard Part D plan.

Knowing if their prescription drug coverage is creditable allows Medicare-eligible participants and retirees to make informed decisions about whether to remain in their current prescription drug plan or enroll in Medicare Part D during the Part D annual enrollment period. Individuals who do not enroll in Medicare Part D during their initial enrollment period (IEP) and who subsequently go at least 63 consecutive days without creditable coverage (e.g., because they dropped their creditable coverage or have non-creditable coverage) generally will be subject to higher premiums if they enroll in a Medicare drug plan at a later date.

The improvement to Medicare Part D benefits forthcoming in 2025 in the form of a \$2,000 out-of-pocket limit will improve the actuarial value of the Medicare Part D standard plan, effectively raising

the bar for employer sponsored plans.¹ Plan sponsors will need to review their prescription drug benefits and determine if what they offer is equivalent to or better than the newly enriched Part D benefit.

Final Calendar Year (CY) 2025 Part D Redesign Program Instructions

The Centers for Medicare and Medicaid Services (CMS) released Draft CY 2025 Part D Redesign Program Instructions that noted that one of the methods previously used by a majority of plan sponsors to determine the creditable nature of their plans, the creditable coverage simplified determination methodology, would no longer be a “valid methodology to determine whether an entity’s prescription drug coverage is creditable or not.” However, CMS subsequently clarified in the Final Instructions that it will continue to permit the use of the creditable coverage simplified determination methodology for CY 2025 for group health plan sponsors not applying for the Retiree Drug Subsidy (RDS). The Final Instructions further state that CMS will reevaluate the continued use of the existing creditable coverage simplified determination methodology, or establish a revised methodology, for CY 2026.

The Final Instructions also confirm that there are no changes to the requirements for retiree prescription drug plans applying for the RDS. These plans must annually attest that the actuarial value of prescription drug coverage under the plan is at least equal to the actuarial value of standard prescription drug coverage, not taking into account the value of any discount provided under the Manufacturer Discount Program.

Implications for plan sponsors

Given the improvements in the standard Medicare Part D plan, notably the reduced out-of-pocket limit, qualified high deductible health plans (HDHPs) and some drug plans will have difficulty demonstrating that the prescription drug benefit they offer will provide at least as good a benefit as the newly improved Medicare Part D prescription drug benefit.

This raises an important communication issue for plan sponsors related to their obligation to disclose the creditable nature of the prescription drug plans they offer. Plan sponsors are obligated to provide a notice of creditable or non-creditable coverage to Part D eligible individuals by October 15 each year to coincide with the beginning of the Medicare Part D annual enrollment period. The notice required pertains to the current plan year (e.g., the creditable status of 2024 plan provisions must be disclosed by October 15, 2024). If a plan will lose its creditable status for the 2025 plan year, providing a notice for the 2025 plan year in 2025 would be too late for a participant to make a determination if they should enroll in Part D or their employer’s plan. Therefore, particularly as it pertains to a change in status from creditable to non-creditable, plan sponsors should consider issuing a special communication regarding this change and providing a notice of

¹Note plans sponsored by unions, church groups and certain other entities that offer prescription drug coverage on a group basis to active and retired employees and beneficiaries who are Medicare eligible individuals must also comply.

non-creditable coverage for the 2025 plan year on or before October 15, 2024. This will allow participants to determine if they should enroll in Part D or continue with their employer sponsored coverage. Additionally, as part of the communication, plan sponsors should note that if participants enroll in Part D for 2025, they may be asked for a copy of their 2024 notice of creditable coverage and explain to participants how they can access or request a copy of this notice.

Early and clear communication will aide in addressing the particular concern of the working aged, who may believe they can enroll in Medicare when they stop working in 2026 (and later) but find out they are subject to late enrollment penalties because their employer plan was not creditable in 2025.

In closing

Plan sponsors that offer prescription drug coverage will need to determine whether their drug plan satisfies CMS's new creditable coverage standard, given the improvements to Medicare Part D beginning in 2025, and undertake communication efforts, where necessary, regarding the change in status of their prescription drug plans, if applicable.

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