GBS Health & Benefits Compliance

Part D Creditable Coverage: Determination Method Comparison Chart

Starting in 2027, plan sponsors will no longer be permitted to use the original simplified determination method to determine whether their coverage is creditable. Only the revised simplified determination method or an actuarial determination will remain available. For 2026 only, plan sponsors may still choose between the original and revised simplified methods (or an actuarial determination) but should begin preparing now for the 2027 transition. Note that employers applying for the retiree drug subsidy are not eligible to use either simplified method and must instead use an actuarial determination.

The chart below compares the original and revised simplified determination methods, including the criteria that plans must meet under each.

Criteria	Original Simplified Method	Revised Simplified Method
Minimum drug expense	Plans must be designed to pay, on average, at least 60% of participants' drug expenses	Plans must be designed to pay, on average, at least 72% of participants' drug expenses for 2026 and at least 73% of participants' drug expenses for 2027
Brand-name drug coverage	Reasonable coverage required	Reasonable coverage required (retained)
Generic drug coverage	Reasonable coverage required	Reasonable coverage required (retained)
Biological products	Not addressed	Explicitly included in the criteria
Retail pharmacies	Reasonable access required	Reasonable access required (retained)
Annual/lifetime limits	Minimum limit standards required, though largely prohibited under the Affordable Care Act	Eliminated as an outdated criterion
Annual deductible	Specific deductible-related standards applied	Removed (reflects that most employer plans integrate medical and drug coverage)
Effect on high deductible health plans (HDHPs)	Deductible rules could make qualification harder	While higher-deductible plans (including HDHPs) may seem less likely to meet the higher drug expense threshold, the risk can be mitigated by other plan design features (e.g., not applying a deductible to preventive medications, a reasonable and supportable allocation of the deductible attributable to prescription drug expenses, or offering lower cost sharing than standard Part D coverage once the deductible is met)

Key Compliance Reminders

- **Test each option separately**. If a plan offers multiple benefit options, such as PPO, HMO, and HDHP options, the creditable coverage determination should be made separately for each option.
- **Prepare for the 2027 change**. For 2026, non-RDS plan sponsors may still use the original simplified method, revised simplified method, or an actuarial determination. Beginning in 2027, the original simplified method will no longer be available.
- **Watch HDHP results carefully.** HDHPs may require closer review because higher deductibles can affect whether the plan satisfies the applicable prescription drug expense threshold.
- **Do not use the simplified method for RDS plans**. Employers applying for the retiree drug subsidy must use an actuarial determination.
- **Account-based plans:** HRAs, HSAs, and FSAs are exempt from the creditable coverage disclosure requirements for coverage beginning on or after January 1, 2027.
- **Notice and reporting deadlines:** Notices are generally due before October 15, and the CMS online disclosure is due within 60 days after the start of the plan year

Recommended Employer Action Steps

- Identify each prescription drug coverage option that must be tested.
- Confirm whether the employer currently relies on the original simplified method.
- Ask the carrier, TPA, PBM, or actuary to confirm whether each option is expected to be creditable for 2026 and 2027.
- Prepare and distribute Medicare Part D notices before October 15, ideally the first week of October so Medicare-eligible employees have key information available just prior to Medicare open enrollment.
- Submit the CMS online disclosure within 60 days after the start of the plan year (March 1 is the deadline for calendar year plans).

Why this matters

- Medicare-eligible individuals may face a late enrollment penalty if they go 63 days or more without creditable prescription drug coverage after becoming eligible for Part D.
- Employers should confirm each plan option's creditable status early enough to provide accurate notices before the annual October 15 deadline (the beginning of Medicare open enrollment).

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