Compliance Bulletin

Medicare Part D Changes Affecting Employer Plans for 2026 and 2027

The Inflation Reduction Act of 2022 (IRA) continues to reshape the Medicare Part D program through calendar years 2026 and 2027. While many provisions are designed to reduce costs for beneficiaries, they may also impact employer-sponsored prescription drug coverage. Key changes include the following:

Calendar Year 2026

- **Indexed annual out-of-pocket limit (OOP):** The annual OOP threshold is capped at **$2,100** for 2026, reflecting an inflation adjustment to the $2,000 cap introduced in 2025.
- **Revised liability framework:** Part D includes revised liability to reflect negotiated prices taking effect for selected drugs in 2026.
- **Revised creditable coverage method:** For 2026 only, non-retiree drug subsidy (RDS) plans may use either the prior simplified method or a revised simplified method to determine whether their coverage is creditable.

Calendar Year 2027

- **Coverage gap formally eliminated:** The Part D coverage gap or "donut hole" was eliminated in 2025 and is codified under the redesigned benefit.
- **Annual OOP limit:** 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.
- **Prior creditable coverage method expires:** For 2027 and beyond, non-RDS plans can no longer use the prior simplified determination method; only the revised simplified method may be used.

Employer Considerations

The Medicare Part D changes implemented under the IRA continue to apply for 2026 and are codified for 2027 and beyond. Employers that sponsor prescription drug coverage for Medicare-eligible individuals should become familiar with these developments, particularly as they relate to creditable coverage determinations. Employers and their benefit advisors may also consider monitoring prescription drug cost trends and reviewing existing cost-management strategies, as appropriate. In addition, employers should become familiar with the revised simplified determination method if they have not already done so.

Creditable Coverage

Employers that provide prescription drug coverage to individuals who are eligible for Medicare Part D must inform them and the Centers for Medicare and Medicaid Services whether their prescription drug coverage is creditable, meaning that the coverage is at least as good as Medicare Part D coverage.

In light of the IRA's changes to the Medicare Part D benefit, one of the methods for determining whether coverage is creditable has been revised to better reflect actuarial equivalence.

Under the revised simplified determination method, a group health plan must be designed to pay, on average, at least **72% of a participant's drug expenses for calendar year 2026** and **73% for calendar year 2027** (increased from 60% under the prior methodology) to be considered creditable.

Employers should consult with their benefit advisers on use of the revised method for calendar years 2026 and 2027 to ensure the appropriate Medicare Part D disclosure notices are sent.

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