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## Medicare Part D Creditable Coverage: What You Should Know

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Medicare Part D creditable coverage is an important concept for employees to understand, regardless of how far away retirement may seem. With more Americans working past age 65, navigating both employer-sponsored coverage and Medicare is becoming increasingly common. As such, being informed about this topic now can help avoid costly penalties when it's time to transition to Medicare coverage.

This article explains Medicare Part D creditable coverage.

### What Is Medicare Part D?

Medicare is the federal health insurance program available to individuals age 65 and older, as well as certain individuals with qualifying disabilities. Part D is the Medicare component that provides prescription drug coverage.

Upon becoming eligible for Medicare, individuals may enroll in a Part D plan, either as a standalone prescription drug plan or as part of a Medicare Advantage plan. Enrollment may be delayed if other qualifying drug coverage is in place. Still, the financial consequences of that delay depend on whether current coverage meets a specific federal standard known as creditable coverage.

### What Is Creditable Coverage?

Prescription drug coverage is considered creditable when its actuarial value equals or exceeds the actuarial value of standard Medicare Part D coverage. In practical terms, this means the employer-sponsored plan is expected to pay at least as much toward prescription drug costs as a standard Part D plan would.

The federal government establishes this benchmark annually. Under the Inflation Reduction Act, the Centers for Medicare and Medicaid Services introduced a revised simplified method for 2026 with a 72% actuarial value threshold (up from 60%), with the old 60% method still available for 2026 but scheduled for elimination in 2027. Employers are required to test their prescription drug plans against this standard each year and communicate the results to all plan members.

That result is delivered through a Notice of Creditable Coverage, which employees should receive annually by Oct. 15, the start of Medicare's annual enrollment period (AEP). The notice will indicate whether the employer's plan is or isn't creditable coverage under Medicare guidelines.

### The Late Enrollment Penalty

The creditable or noncreditable status of an employer's plan has direct financial implications for employees enrolling in Medicare Part D. Individuals who maintain creditable prescription drug coverage through an employer plan may delay enrollment in Medicare Part D without penalty. Creditable coverage avoids the penalty during the deferral period. However, this protection is not a permanent shield. Once employer coverage ends, individuals must enroll in Medicare Part D within the 63-day special enrollment period to avoid a late enrollment penalty. Failure to do so results in a late enrollment penalty equal to 1% of the "national base beneficiary premium" times the number of months the individual has gone without Part D or creditable drug coverage. This penalty is permanent and is added to the monthly Part D premium for the duration of enrollment.

The majority of employer-sponsored plans meet the creditable coverage standard, but employees should confirm their plan's status by reviewing their annual notice each fall.

## Key Situations to Be Aware Of

While creditable coverage becomes most relevant as individuals approach Medicare eligibility, several life events may warrant a review of coverage status:

- **Reaching age 65**, which is the point of initial Medicare Part D eligibility
- **Retiring or separating from employer coverage**, since this transition affects enrollment decisions
- **A spouse or dependent turning 65 or enrolling in Medicare**, particularly if they are covered under the employer plan
- **Significant changes to employer plan benefits**, which may affect the plan's creditable status
- **Medicare's AEP**, which runs from Oct. 15 to Dec. 7, is an annual opportunity to review Medicare options

## The Annual Notice of Creditable Coverage

Federal law requires employers to provide a Notice of Creditable Coverage to all Medicare-eligible individuals covered under the plan. This notice must be issued at least once per year, no later than Oct. 15. It may be distributed by mail, electronically or through an employer's benefits portal.

Employees are strongly encouraged to retain this notice. Upon enrolling in Medicare Part D, individuals may be required to provide documentation confirming creditable coverage during any period in which Part D enrollment was deferred. The annual notice serves as that documentation.

Employees who are unable to locate a previous notice should contact HR to confirm their plan's creditable coverage status.

## Summary

Employees are encouraged to review their annual Notice of Creditable Coverage each fall and retain it for their records. Understanding whether employer-sponsored prescription drug coverage meets the Medicare creditable coverage standard is an important step in planning for a smooth transition to Medicare and in avoiding penalties that would otherwise persist throughout retirement.

Reach out to your HR representative if you have questions about your plan's creditable coverage status. For more information about Medicare enrollment and plan information, visit [Medicare.gov](https://www.medicare.gov).