Medicare Part D Creditable Coverage

FAQ

Disclaimer: The information in this FAQ is for general guidance only and is not legal advice. Laws and regulations surrounding Medicare Part D creditability are subject to change without notice, and may vary by jurisdiction. While PacificSource strives to provide meaningful information, the completeness and accuracy of the information below cannot be guaranteed. For legal advice, please consult an appropriate legal professional.

What is Medicare Part D creditable coverage?

Prescription drug coverage is creditable if the expected amount of paid claims under the coverage is at least as much as the expected amount of paid claims under the standard Medicare Part D benefit as determined by Centers for Medicare and Medicaid Services (CMS).

As long as a Medicare Part D-eligible beneficiary stays on a plan which counts as creditable coverage, they can avoid monthly premium penalties associated with signing up for Medicare Part D late. The monthly premium penalty is equal to 1% of the "national base beneficiary premium" times the number of full, uncovered months a beneficiary did not have Part D or creditable coverage.

Who is responsible for disclosing creditable coverage status to the government and/or beneficiaries?

Employers, unions, and other entities that sponsor group health plans for employees or retirees are responsible for providing creditable coverage disclosure to Medicare eligible individuals on their plan. This includes employers of all sizes, whether fully insured or self-funded.

PacificSource provides sample notices that may be used for disclosing creditable coverage status. Entities that provide group health plans for employees or retirees are also responsible for completing the online Disclosure to CMS Form to report the creditable coverage status of their prescription drug plan.

Who must be notified?

Plan sponsors must provide written creditable coverage disclosure to:

- Medicare-eligible active working individuals and their dependents
- Medicare-eligible COBRA individuals and their dependents
- Medicare-eligible disabled individuals covered under the plan sponsor's prescription drug plan
- Any retirees and their dependents covered under the plan sponsor's prescription drug plan

Additionally, plan sponsors must complete the online Disclosure to CMS Form.

What if my organization does not offer retiree health care coverage?

Creditable coverage notifications must be provided to all Part D-eligible individuals who are covered under or apply for a plan sponsor's prescription drug benefit plan, regardless of whether retiree health care coverage is offered.

When is notification required?

Plan sponsors must provide written disclosure of creditable coverage to eligible beneficiaries at minimum:

- Prior to October 15th each year
- Prior to the effective date of enrolling in the sponsor's plan and upon any change that affects whether the coverage is creditable prescription drug coverage
- Upon beneficiary request

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Additionally, the online Disclosure to CMS Form must generally be completed:

- Within 60 days from the beginning of the plan year (contract year, renewal year)
- Within 30 days after termination of a prescription drug plan
- Within 30 days after any change in creditable coverage status

How do I know if my plan is creditable?

CMS provides Creditable Coverage Simplified Determination guidelines to assist in creditability determinations. As a courtesy to our clients, PacificSource also performs regular creditability testing on our standard benefit designs. You may use this information as a starting point for your determination of your plan's creditable coverage status. You will need to consult your pharmacy benefit summary to determine your plan's description of benefits, and you will need to consult the PacificSource creditability table appropriate to the beginning of your plan year.

If your plan has custom benefits and you are unable to determine creditability from the materials provided, you may request additional support from your PacificSource Account Executive, Account Manager, or Sales Executive.

How does PacificSource perform its Medicare Part D creditability testing?

PacificSource makes an actuarial determination as to whether the expected amount of paid claims for eligible beneficiaries under the plan sponsor's prescription drug coverage is at least as much as the expected amount of paid claims for the same eligible beneficiaries under the standard Medicare prescription drug benefit.

How often does PacificSource test Medicare Part D creditability?

PacificSource tests Medicare Part D creditability annually, or upon any change that affects whether the coverage is creditable. PacificSource aims to make one determination per plan per year, and that determination is meant to be valid for the entire plan year. Standard plan determinations are generally available 90 days prior to the start of the plan year.

Do account-based health arrangements influence creditability?

Flexible Spending Accounts (FSAs) and Health Savings Accounts (HSAs) are not considered in creditability determinations. However, if an employer or union-sponsored Health Reimbursement Account (HRA) is offered in conjunction with a high deductible health plan or other employer or union-sponsored group health plan, then the amounts credited to the HRA in a given year should be treated as increasing the expected prescription drug claims payable from the non-account benefit. This means that a plan that is not creditable on its own could become creditable if paired with an HRA.

If you are unable to determine whether your plan qualifies as creditable coverage due to an HRA, you may request additional support from your PacificSource Account Executive, Account Manager, or Sales Executive.

Why do coordination of benefits between the sponsored plan and Medicare Parts A and B influence creditability? How do I know if I am secondary or not?

The coordination of benefits between Medicare and other coverage requires determining who pays first. If Medicare Part A or B pays first and an employer, union, or other entity-sponsored plan featuring a combined medical and prescription drug deductible pays second, then the sponsored plan receives only the leftover medical claims from Medicare while Rx claims are passed directly through to the sponsored plan's deductible. In this case, the sponsored plan is not expected to pay very much in Rx claims, because Rx is filling a deductible alone that was intended for both Medical claims and Rx claims.

On the other hand, if the same sponsored plan is paying primary (or if there is no secondary plan at all), then the combined deductible will provide its intended coverage for both Medical and Rx claims. For this reason, it is important to know whether your plan pays secondary to determine creditability. In general:

- If you know your beneficiaries will be enrolling into Medicare Parts A and B and that Medicare will be paying first, then your sponsored plan is secondary.
- If you know your beneficiaries will not be enrolling into Medicare Parts A and B or that Medicare will not be paying first, then your sponsored plan is not secondary.