

Understanding the Impact of the Inflation Reduction Act (IRA) on Medicare Part D Creditable Coverage Status Starting January 1, 2025

OVERVIEW

The Inflation Reduction Act (IRA), signed into law in 2022, introduces significant changes to the Medicare Part D benefit beginning in 2025. These updates will change the criteria for what constitutes **creditable prescription drug coverage**. This shift has the potential to affect seniors age 65 and over who currently rely on commercial insurance plans for their prescription drug coverage.

WHAT IS CREDITABLE COVERAGE?

Creditable coverage refers to prescription drug coverage that is equivalent to or better than standard Medicare Part D prescription drug coverage. Commercial plan sponsors must disclose whether their prescription drug coverage is creditable each year prior to Medicare Open Enrollment.

CHANGES STARTING JANUARY 1, 2025

Medicare has revised its criteria for what constitutes creditable coverage to align with the updated Medicare Part D benefit, effective January 1, 2025. Some commercial plans may no longer qualify as creditable coverage under the new standards.

IMPACT ON SENIORS 65+

The changes to creditable coverage could have significant implications for seniors in commercial plans. Medicare-eligible individuals who don't have creditable prescription drug coverage for 63 days or longer typically have to pay a late-enrollment penalty.

Penalties for Lack of Creditable Coverage: If a senior's commercial health plan will no longer be considered creditable coverage in 2025 and they fail to enroll in a Medicare Part D plan, they may face a late enrollment penalty if they decide to join a plan later. This penalty is calculated as follows:

The penalty is 1% of the "national base beneficiary premium" (\$36.78 in 2025) times the number of full, uncovered months the senior did not have Part D or creditable prescription drug coverage. This amount is rounded to the nearest \$.10 and added to their monthly Part D premium.



For example, if a senior goes 12 months without creditable coverage, the penalty would be 12% of the national base beneficiary premium, or \$4.41, which would be added to their monthly premium for as long as they have Medicare Part D. There is no limit on the amount of penalty that must be paid.

WHAT EMPLOYER PLAN SPONSORS CAN DO

IRA-related changes to the definition of creditable prescription drug coverage could impact seniors with health coverage from commercial health plans. Commercial plan sponsors should regularly monitor and disclose their creditable coverage status to ensure plan members are informed about their prescription drug coverage options and do not face the possibility of late-enrollment penalties.

WHAT EMPLOYEES CAN DO

If you are eligible for Medicare but currently receiving your health insurance through an employer, be sure to check that you've received confirmation that your health plan provides creditable coverage before Medicare's annual open enrollment period begins on October 15th. Reach out to your health plan with any questions so you can make informed decisions and avoid potential penalties.

