

Medicare Part D: Understanding Prescription Drug Coverage in 2026

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If you are approaching Medicare age, you have probably heard the term “Medicare Part D.” You may also have heard about the infamous “donut hole,” prescription drug formularies, preferred pharmacies, deductibles, coinsurance and something called “creditable coverage.” If all that sounds complicated or intimidating, it’s because it is.

Medicare Part D is the portion of Medicare that provides outpatient prescription drug coverage. Unlike Medicare Part A and Part B, however, Part D is administered through private insurance companies that contract with Medicare. Beneficiaries can purchase a standalone Prescription Drug Plan (PDP) to supplement Original Medicare, or they can receive prescription drug coverage through a Medicare Advantage plan that has Part D coverage built in.

Over time, there have been some very significant changes to the Medicare Part D program. In fact, it’s fair to say the Part D benefit has been completely redesigned over the past couple years. The old “donut hole” is gone, beneficiaries now have an annual limit on their out-of-pocket prescription drug costs, and the federal government has begun negotiating prices for certain high-cost prescription drugs.

EXECUTIVE SUMMARY

- ▶ The Medicare Part D prescription drug benefit has changed dramatically over the past few years. Coverage has been improved, and the “donut hole” gap was eliminated as of 2025.
- ▶ The 2026 out-of-pocket maximum is \$2,100. Once a beneficiary reaches that amount in qualifying out-of-pocket costs, there is no additional cost sharing for covered Part D drugs for the remainder of the year.
- ▶ The maximum 2026 deductible is \$615. Beneficiaries generally pay 100% of covered prescription drug costs (excluding premiums) until the deductible is satisfied. Individual plans can offer different deductibles or even no deductible at all.
- ▶ Part D premiums vary considerably. In 2026, the average monthly premium for standalone Part D plans is approximately \$35. Individual plan premiums can be considerably higher or lower.
- ▶ The largest Part D insurers include Centene, CVS Health, UnitedHealthcare, Humana and Health Care Service Corporation (HCSC). These five largest organizations account for nearly three-fourths of Part D enrollment.
- ▶ Creditable coverage is important. People who delay enrolling in Part D generally need other prescription drug coverage that is at least as good as Medicare's standard Part D benefit to avoid a potentially permanent (and expensive) late enrollment penalty.

WHAT IS MEDICARE PART D?

Medicare Part D was created in 2003 and became effective in 2006. It provides coverage for prescription drugs that are obtained through a pharmacy rather than drugs that are generally administered by a physician or hospital. Part D is voluntary, but that doesn't mean there are no

consequences to delaying enrollment. A Medicare beneficiary who goes without Part D or other creditable prescription drug coverage for 63 days or more after becoming eligible can face a late enrollment penalty when eventually enrolling. That penalty adds up, and it generally remains with the beneficiary for as long as he or she has Medicare prescription drug coverage.

Part D coverage can be obtained in two basic ways: (1) A person with Original Medicare can purchase a standalone Part D prescription drug plan; or (2) Someone enrolled in Medicare Advantage can choose a Medicare Advantage Prescription Drug plan, commonly called an MA-PD, that combines medical and prescription drug coverage. This distinction is important because the premiums and benefits can be quite different.

In 2026, the average monthly premium for standalone Part D plans is about \$35. By comparison, the average premium attributable to Part D coverage within Medicare Advantage plans is about \$8, although that figure is heavily influenced by the large number of Medicare Advantage plans that charge no separate premium for drug coverage.

Higher-income Medicare beneficiaries may also pay a surcharge for their Part D coverage just as Medicare Part B beneficiaries may be subject to an additional rate load under the federal Income-Related Monthly Adjustment Amount (IRMAA) laws. The higher a beneficiary's modified adjusted gross income is above specified thresholds, the more he or she may pay for Part D coverage. This is yet one more reason why it's important to look at the total Part D costs and benefits rather than simply choosing the plan with the lowest monthly premium.

THE 2026 PART D BENEFIT

The standard Part D benefit in 2026 has three basic stages: (1) The deductible stage. The maximum deductible is \$615 (\$700 in 2027), although some plans have a lower deductible (or no deductible at all). Until the deductible is met, the beneficiary generally pays 100% of the cost of covered Part D drugs, although some plans may have different deductible structures. (2) The initial coverage stage. Under the standard benefit, the beneficiary generally pays 25% of the cost of covered Part D drugs. The remaining cost is shared among the Part D plan, drug manufacturers and Medicare. (3) The catastrophic coverage stage. Once the beneficiary reaches \$2,100 (\$2,400 in 2027) in qualifying Part D out-of-pocket spending (excluding premiums and certain other expenses), he or she enters the catastrophic coverage phase. During this phase, the beneficiary pays nothing in cost sharing for covered Part D drugs for the remainder of the calendar year.

WHAT HAPPENED TO THE “DONUT HOLE”?

The “donut hole” was one of the most confusing features of the old Part D program. Under the original Part D design, beneficiaries moved through an initial coverage period and then, after their drug spending reached a certain level, entered a coverage gap. During that gap, beneficiaries could be responsible for a significant portion of their prescription costs before eventually reaching catastrophic coverage. That coverage gap has now been eliminated.

The Inflation Reduction Act of 2022 fundamentally changed the Part D benefit. The first major changes took effect in 2023, additional changes occurred in 2024 and 2025, and the redesigned benefit continues in 2026. So, if someone tells you that Medicare Part D still has a “donut hole,” they are describing the old benefit, not the benefit that exists today.

THERE IS NO ONE-SIZE-FITS-ALL PART D PLAN

This is where Part D can become particularly confusing. Every plan has a formulary, which is the list of prescription drugs the plan covers. Drugs are generally divided into tiers, with lower-cost generic drugs receiving more favorable cost sharing and expensive brand-name and specialty drugs occupying higher tiers. A particular plan can be inexpensive for someone taking five generic medications and a terrible choice for someone taking two expensive specialty drugs. Plans may also impose different utilization management requirements such as prior authorization, quantity limits or step therapy for certain medications.

Pharmacy networks matter, too. Many Part D plans have preferred pharmacies where beneficiaries pay lower copayments or coinsurance. A pharmacy that is convenient may not necessarily be the pharmacy that provides the lowest cost under a particular plan. This is why simply asking, “What is the cheapest Part D plan?” is the wrong question. The better question is: Which plan provides the best total cost and coverage for the specific drugs I take and the pharmacies I use?

WHO PROVIDES PART D COVERAGE?

Medicare does not directly administer your prescription drug plan. Private insurance companies do. The Part D market is highly concentrated. In 2026, the five largest organizations --- UnitedHealthcare, Humana, Centene, CVS Health and Health Care Service Corporation --- account for 74% of Part D enrollment. Centene is the largest standalone Part D sponsor, while UnitedHealthcare is the largest Medicare Advantage drug plan sponsor. Some of the names consumers encounter include Wellcare, which is part of Centene; Aetna/SilverScript, which is part of CVS Health; UnitedHealthcare; and Humana. It is important to note that the availability of individual plans varies by state and region. The “best” Part D plan in one state may not even be available in another.

WHAT IS CREDITABLE COVERAGE?

There is one important facet of Part D that people who are still working particularly need to understand: creditable coverage. Creditable prescription drug coverage is coverage that is expected to pay, on average, at least as much as Medicare's standard Part D coverage. Employer-sponsored prescription drug coverage can qualify, as can certain other types of coverage, including Federal Employees Health Benefits, TRICARE and certain state programs.

Why does this matter?

Suppose you turn 65 but continue working and remain covered under your employer's health plan. You may decide not to enroll in Part D because you already have prescription drug coverage through your employer. That may be perfectly reasonable, but you need to know whether the employer's prescription drug coverage is creditable because your decision can have significant consequence.

Employers and other entities that provide prescription drug coverage generally must notify Medicare-eligible individuals annually whether their coverage is creditable. CMS says that notice generally must be provided before October 15 each year. If your employer's coverage is creditable, you can generally delay Part D without incurring the late enrollment penalty provided you maintain that creditable coverage and enroll within the applicable Special Enrollment Period

when that employer-sponsored coverage ends. If it isn't creditable, delaying Part D can become an expensive mistake.

THE MEDICARE PRESCRIPTION PAYMENT PLAN

There is one other relatively new feature worth understanding. Beginning in 2025, Part D plans were required to offer the Medicare Prescription Payment Plan. Instead of paying a large prescription bill at the pharmacy, a beneficiary can elect to spread qualifying out-of-pocket prescription costs over monthly payments throughout the year. It should be noted that this isn't a discount program and it doesn't reduce the total amount the beneficiary owes. It's simply a payment arrangement that is designed to help someone who has a very expensive medication early in the year when cash flow might be tight.

WHAT HAS MEDICARE ACTUALLY CHANGED?

The changes to Part D over the last several years are among the most significant changes to Medicare prescription drug coverage since the program began. The Inflation Reduction Act eliminated the coverage gap, established the annual out-of-pocket limit, capped the cost of covered insulin for Medicare beneficiaries at \$35 per month, eliminated cost sharing for certain recommended adult vaccines, created the Medicare Prescription Payment Plan and authorized Medicare to negotiate prices for certain high-cost drugs.

In 2026, the first negotiated Medicare drug prices took effect for the initial group of selected drugs. CMS also established a new subsidy mechanism for selected drugs as part of the redesigned Part D benefit. These changes are intended to make prescription drugs more affordable for Medicare beneficiaries, but they also fundamentally change the economics of the Part D program for insurers, drug manufacturers and the federal government.

THE BOTTOM LINE

Medicare Part D is considerably better for many beneficiaries than it was under the original benefit design, but it is still complicated. The good news is that the dreaded donut hole is gone, and beneficiaries now have a predictable annual out-of-pocket limit for covered Part D drugs. The bad news is that premiums, deductibles, formularies, pharmacy networks and cost sharing can vary substantially from one plan to another.

Perhaps the most important point of all: Don't choose a Part D plan based solely on the premium. A \$5-a-month plan that doesn't cover your medications isn't necessarily a bargain. A \$50-a-month plan with a higher premium could save you hundreds—or even thousands—of dollars over the course of the year if it provides better coverage for the medications you actually take. Medicare Part D was designed to provide affordable access to prescription drugs. The benefit has evolved considerably since 2006, and the changes taking effect in recent years have made it more valuable ... but also more complicated.

The bottom line is simple: Know your drugs. Know your pharmacy. Know your plan. Also, don't assume the plan you chose last year is still the best plan for you this year as Medicare Part D benefits change, premiums increase, and individual health care needs evolve.