A brand-name drug is a medicine that has been discovered, developed and marketed by a pharmaceutical company. Once a new drug has been discovered a patent is filed on it that prevents a rival company from creating a generic version for up to 20 years.

**Tip:** Brand-name drugs tend to be more expensive than their generic counterparts.
A drug formulary is a list of medications covered by your health insurance plan separated into several tiers or categories based on the price of the drug to maximize your prescription drug benefit.

**Tip:** A drug formulary is also known as a drug list or a preferred drug list. If you see one of those titles, know that it is the same as a drug formulary.
Generic drugs are identical to brand-name drugs in active ingredients, dosage, safety, strengths, quality, performance, and intended use. They can be manufactured by several different drug companies.

Tip: Generic drugs are usually sold at significant discounts from the branded-drug prices. They are often on the lowest tiers on your drug formulary.
Words That Matter
Understanding the Language of Insurance

Basics of Drug Formularies

Non-Preferred Brand-Name Drugs

A common tier containing brand-name drugs that have a generic alternative that is clinically equivalent. Since cost effective options are available, these drugs will be in a more expensive tier than generic and preferred brand-name drugs.
Preferred Drugs

A common tier that identifies cost-effective brand-name drugs. These drugs are usually cheaper because of price negotiations between your plan and the drug manufacturer.

Tip: Some formularies will have multiple tiers each with different preferred drugs in them.
Prior Authorization

A restriction placed on certain drugs that require your doctor get authorization from your benefit plan before your plan will cover the medication.

Tip: Prior authorization is often seen as PA on drug formularies.
Understanding the Language of Insurance

Basics of Drug Formularies

**Quantity Limits**

A coverage limit to how many doses you can get of a particular drug in a period of time, determined by your plan.

**Tip:** Quantity limits is often seen as QL on drug formularies.
Step Therapy

A requirement placed on certain drugs that you first try, or have tried, an alternative medication that is cheaper and determined to be safe and effective.

Tip: Step therapy is often seen as ST on drug formulary.
Tiers

Tiers are the categories or levels that covered drugs are sorted into, usually presented in order from lower cost to higher cost.

Tip: Drug formularies use a tier system, typically between 3 to seven levels. The lower tiers are generic drugs and the higher tiers are preferred name-brand drugs and non-preferred name-brand drugs.