

Words That Matter

*Understanding the
Language of Insurance*

Basics of Drug Formularies

Brand-Name Drugs

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.



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Drug Formulary

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.

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Generic Drugs

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.

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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.



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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.



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

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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.



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Tip: Prior authorization is often seen as PA on drug formularies.

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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.

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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.

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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.