

KNOW YOUR BENEFITS



Prescription Drug Formularies and Tiers



When it comes to your health care benefits, understanding how prescription drug coverage works can help you make informed decisions and potentially save money. One key part of your health plan is the prescription drug formulary, and within that formulary, you'll likely encounter tiers.

This article explains prescription drug formularies and tiers and how they impact out-of-pocket costs.

What Is a Formulary?

A formulary is a list of prescription medications that your health insurance plan covers. It is also commonly referred to as a prescription drug list. Formularies are typically organized by drug categories and include both brand-name and generic medications. If a drug is on the formulary, it means your plan will help pay for it; however, how much you pay depends on the tier the drug falls into.

Tiered drugs may also be identified as preferred or nonpreferred in the tier. The plan favors preferred drugs due to their cost-effectiveness and clinical value, resulting in lower out-of-pocket costs. On the other hand, nonpreferred drugs, while not on the preferred list, are still covered but at a higher cost because they are more expensive or have alternatives.

Some formulary medications are covered at 100%, meaning there is no out-of-pocket cost for you. For others, you may have a copayment, which is a fixed amount you pay for medication. Your plan determines the copay. You may also have to pay coinsurance, a percentage of the medication's cost, which can add up to higher out-of-pocket spending.

What Are Tiers and How Do They Work?

Many health plans use a tiered system to organize the drugs in their formulary. Each tier represents a different level of cost sharing between you and your insurance provider. Generally speaking, the higher the tier, the higher the cost of the medicine.

Depending on their strength, type, or purpose, medications are typically categorized into tiers, ranging from generics to the most expensive medicines. Your health insurance plan may split up prescription drugs into three-tier, four-tier or even five-tier groupings. Furthermore, keep in mind that some health plans also require prior authorization or step therapy for certain drugs, meaning you may need approval before the plan covers the medication, or you may need to try a lower-tier drug first.

These levels generally range from generic drugs to brand-name drugs to specialty drugs. Here's a breakdown of what each term generally means:

- **Generic drugs** have the same active ingredients as brand-name drugs and are approved by the Food and Drug Administration for safety and effectiveness. You'll usually pay the lowest copayment or coinsurance for Tier 1 drugs.
- **Brand-name drugs** are medications sold under a proprietary, trademarked name given by the pharmaceutical company that developed them. Despite having the same active ingredient, the brand-name and generic drugs can vary by strength, uses, form, administration and labeling. Generic drugs typically become available after the patents for brand-name medicines expire.
- **Specialty drugs** are high-cost medications used to treat complex or chronic conditions, such as cancer or autoimmune diseases. These drugs also often require special handling, administration or approval. These generally cost the most and are at the top of the tiered lists.

According to KFF's 2025 Employer Health Benefits Survey, 84% of covered workers are in a plan with three, four or more tiers of cost sharing for prescription drugs. Two-thirds (60%) of those covered by employer-sponsored plans have four or more tiers, which was the most common. As such, the next subsections outline how tier grouping may look and what medicines are in each level.

3-tier Plan

1. Generic drugs
2. Brand-name drugs, including preferred and nonpreferred options
3. Highest-cost drugs

4-tier Plan

1. Low-cost generic and brand-name drugs
2. Higher-cost generic and brand-name drugs
3. High-cost, mostly brand-name drugs that may have generics available in Tiers 1 or 2
4. Highest cost, mostly brand-name drugs

5-tier Plan

1. Preferred generic drugs
2. Nonpreferred generic drugs
3. Preferred brand-name drugs
4. Nonpreferred brand-name drugs
5. Highest cost, including most specialty medications

Keep in mind that this is generally how the tiers can be explained. Each health plan will have its own tiered system and description for each category, so it's important to review and understand your health plan's specific formulary.

What if My Prescribed Drug Isn't Listed?

If a drug you're prescribed isn't listed within any tier, it may mean that it's not covered under your insurance plan. In this case, it may qualify for a discount through your insurance's drug discount program, or you'll have to pay the full price for the medication. You can avoid surprises at the pharmacy by checking your plan's formulary in advance before filling a prescription.

If you're prescribed a drug not covered under your plan, you can ask your prescriber if there are other options available.

Where Can I Find My Formulary?

Most insurance providers offer a searchable formulary tool on their website. You can log in to your member account and look up medications by name to see their tier, coverage status and any restrictions. Alternatively, you can call your insurer using the phone number on your member ID card. Your copay or coinsurance values for each tier may also be listed on your insurance card.

Also, during open enrollment, your employer may provide a summary of your prescription drug coverage, including a link or PDF of the formulary.

Conclusion

Prescription drug formularies and tiers are designed to balance access to necessary medications with cost control. There are often five drug tiers, although some plans may only have three or four. By familiarizing yourself with your plan's formulary and understanding how the tiers work, you can make smarter choices about your prescriptions and manage your health care expenses more effectively.

Review your health plan documents or speak with HR for more information about your prescription benefits.