



# FACT SHEET

## Prescription Drug Formularies: Value to the Consumer

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### What is a formulary?

A formulary is a list of preferred prescription medications that represent the clinical judgment of providers and pharmacists for the treatment of disease and prevention of illness.

### Who uses formularies?

Formularies are used by health plans, pharmacy benefit management companies (PBMs), hospitals, self-insured employers, and government agencies.

### What is the purpose of a formulary?

The primary purpose of a formulary is to encourage the use of the most cost-effective drugs and treatments while upholding the highest standards of safety for the consumer. Health plans assess drugs on their formularies to assure they are **safe, effective, affordable, have minimal side effects**, and maintain or improve **quality patient care**.

### What are pharmacy benefit managers (PBMs)?

PBM companies manage administrative services in processing and analyzing prescription claims for pharmacy benefit and coverage programs. PBM services can include contracting a network of pharmacies; establishing payment levels for provider pharmacies; negotiating rebate arrangements; developing and managing formularies, preferred drug lists, and prior authorization programs; maintaining patient compliance programs; performing drug utilization review; and operating disease management programs. They allow the health plans or other organizations who contract with them to deliver prescription drugs in a cost-effective manner while improving compliance with recommended guidelines for safe and effective drug use.

### What types of formularies exist?

In general, there are 3 types of formulary structures: open, closed, and partially/selectively closed.

*Open Formulary:* The health plan or PBM provide coverage for all medications regardless of whether or not they are listed on the formulary. Physicians are, however, encouraged to prescribe drugs on the formulary and patients may or may not incur additional out-of-pocket expense for use of non-formulary drugs.

*Closed Formulary:* Non-formulary drugs are not reimbursed by the plan. When medically necessary, patients and physicians can gain access to non-formulary medications through an exceptions process.

*Partially/Selectively Closed Formulary:* An open formulary with a few select drugs or class of drugs that are not covered, or one in which reimbursement might be denied for an entire class of drugs such as those for cosmetics or weight loss.

### How are formularies developed?

Health plans or PBMs typically have a Pharmacy and Therapeutics (P&T) committee which is responsible for developing, managing, updating and administering the formulary. The committees include physicians, pharmacists, and other health professionals who evaluate and select the medications that would treat different conditions. P&T committees evaluate and critique published literature and nationally accepted clinical practice guidelines, when selecting which drugs may be the best options for listing in a drug formulary. Reviews of medical and scientific publications, relevant utilization experience and physician recommendation help ensure health plans' members have access to the safest, most effective and most affordable drugs to treat their conditions.



#### SOURCES:

HRSA Office of Pharmacy Affairs. <http://www.hrsa.gov/opa/glossary.htm>. Accessed 19 May 2009.

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