

# Understanding Insurance Terms

Whether you have Medicare or a commercial policy, health insurance can be a confusing topic. This resource will help you understand some commonly used terms in both kinds of plans.

## Commercial Insurance

Commercial insurance, also known as private insurance, is coverage that you get from your employer or buy directly from insurance companies through the marketplace.

Here are a few terms you might come across if you have commercial insurance:



**Prior authorization:** Before agreeing to cover your prescription, your plan asks your doctor to provide information about why you need a particular medicine.



**Step therapy:** You may be required to try other medicines before your plan will agree to cover your prescription for the specific medicine your doctor has prescribed.



**Formulary:** A formulary is a list of generic and brand-name prescription medicines covered by your plan.



**Premium:** The premium is a monthly fee that is charged by your insurance plan.



**Out-of-pocket costs:** After the premium is paid, any additional costs that are not covered by your insurance (for example, your deductible or copay) are considered “out-of-pocket” costs.



**Specialty pharmacy:** A pharmacy that focuses on specialty medicines for people with complex diseases. Specialty pharmacies mail medicines to you rather than having you pick them up.

# Medicare

Medicare is a federal health insurance program for people aged 65 years and older, and/or people with certain disabilities.

Here are some common terms you might come across if you have Medicare:



**Annual enrollment period or open enrollment period:** The period from October 15 to December 7 when you can enroll in a Medicare Advantage Plan with Part D or a stand-alone Prescription Drug Plan, make changes to your Medicare and Medicare Part D plans, or switch Medicare plans.



**Life events:** Certain events that, if experienced, allow you to make changes to your Medicare Advantage and Medicare prescription drug coverage plans. Some qualifying life events include moving, losing your current health insurance coverage, or changes to your plan's contract with Medicare. Rules about when you can make changes and the types of changes you can make are different for each situation.



**Medicaid:** A joint federal and state program, separate from Medicare, that helps pay medical costs for people with low incomes, limited assets, and disabilities.



**Medicare Extra Help (also known as the Low-Income Subsidy or LIS):** A Medicare program that helps people with limited income and resources pay Medicare prescription drug program costs, like premiums, deductibles, and coinsurance.



**Service area:** The geographic area where a health insurance plan accepts members.



**Medicare Prescription Drug Plan (also known as Medicare Part D):** Medicare Part D provides prescription drug coverage for people on Medicare. It helps people pay for prescription drugs that are considered medically necessary; these drugs are usually self-administered (for example, you can swallow or inject them yourself). Part D is optional, so to take part, you need to enroll in a Medicare Prescription Drug Plan or a Medicare Advantage Plan.



**Specialty pharmacy:** A pharmacy that focuses on specialty medicines for people with complex diseases. Specialty pharmacies mail medicines to you rather than having you pick them up.

## 4 Stages of Medicare Part D Coverage

1

**Deductible:** The amount you have to pay for medications each year before your plan begins to pay a portion of the cost.

2

**Initial coverage:** After you pay your deductible, you will have to pay a portion of the cost or other specified amounts for covered medications or medical services. Depending on the plan, this amount could be a copay (a fixed dollar amount) or coinsurance (a percentage of the cost). You'll pay this amount until your total costs move you into the coverage gap stage.

3

**Coverage gap (also called "donut hole"):** A period of time in which you may pay a higher amount (no more than 25% for brand-name drugs or 37% for generics) for your medications until you reach the catastrophic coverage stage (see below); in 2020, the coverage gap will close, meaning that you will pay no more than 25% for any covered drug. *Note: If you have Medicare Extra Help, you do not have a coverage gap. You will pay different drug costs during the year.*

4

**Catastrophic coverage:** The final stage of Part D coverage, where you emerge from the coverage gap and pay significantly less for your medications for the remainder of the year.

For complete information about Medicare Part D, visit [medicare.gov/find-a-plan](https://www.medicare.gov/find-a-plan).  
You can also download Medicare's free guide at [medicare.gov/medicare-and-you](https://www.medicare.gov/medicare-and-you).

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The programs and Part D plans have many fine details that are not necessarily reflected in this guide. These details could impact program eligibility and coverage details for individual patients.



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