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March 23, 2023

Kevin Ruggeberg, FSA, MAAA
Vice President & Senior Consulting Actuary
Lewis & Ellis, Inc.

Subject: Your 03/15/2023 Questions re: Blue Cross and Blue Shield of Vermont 2024 Large Group Rating Program Filing (SERFF Tracking #: BCVT-133551255)

Dear Mr. Ruggeberg:

In response to your request dated March 15, 2023, here are *your questions* and our answers:

1. *On page 31 of BCBSVT's actuarial memorandum, there is a chart calculating the "Total Trend for Drugs Eligible for rebates".*

   While we provide the answer to each sub-question below, we wanted to give more context regarding the table on page 31. We use this table to develop a trend for rebate-eligible drugs, but it does not include any actual or estimated rebates. We expect future increases in rebates will mirror increases in cost and utilization for rebate-eligible drugs. This ensures that the ratio of rebates to rebate-eligible allowed drug claims is consistent between the experience and projection period.

   a. *Please clarify whether the dollar amounts in the column labeled "Experience Period Allowed Charges" represent spending in the specified drug categories before or after rebates.*

      The experience allowed charges do not include rebates.

   b. *Is the column labeled "Projected Allowed Charges after Contract Changes" an estimate of drug spending during the projection period after rebates?*

      The projected allowed charges represent the trended totals for each respective category for the claims underlying the pharmacy trend base. These claims do not include rebates.

   c. *What is meant by "Contract Changes"? Does "Contract Changes" include anything other than pharmacy rebates? If so, please provide a list of all items in the category of "Contract Changes".*

      We include any contracted changes in discounts and dispensing fees when projecting future allowed costs.

2. *Please provide the premium impact of the "contract changes" to the projected allowed charges shown in the chart on page 31.*

   As discussed in the response to objection 1, the table on page 31 is only used to develop a trend factor for rebates. Contract changes in discounts and dispensing fees also affect the overall pharmacy trend. If we were incorporating better contracted discount and dispensing fee rates, it would lower premium by decreasing projected pharmacy claims, but increase premium to a lesser degree by decreasing projected rebates. Conversely, worsening contracted discount and dispensing fee rates would have the opposite effect. We estimate that the changes in discounts and dispensing fees [redacted].

3. *Please provide the experience period rebates referenced on page 30 of the memorandum that BCBSVT uses to calculate projected pharmacy rebates.*

   The experience period used to calculate projected rebates is variable. As noted in section 3, we start the rating for each group with a twelve-month experience with at least two months of runout. If we were to produce a renewal today we would use the most current period available, which would be January 2022 – December 2022, paid through February 2023. We always use the same experience period for pharmacy claims and pharmacy rebates in a group renewal.

4. *Were the "Projected Rebates" noted in the chart on page 4 of the memorandum derived from the figures contained in the chart on page 31?*

   The figures contained in the chart on page 31 are used to develop the rebate projections underlying the chart on page 4. Page 31 develops a trend factor for rebate-eligible drugs based on the claims underlying the pharmacy trend base. We then apply this trend factor to each group's rebates, to trend them from the experience to projection period.

5. *In the response to Question 8 of Objection 1, BCBSVT states that "pharmacy rebates continue to be lower than expected" and that RBC may be negatively impacted as a result. Please explain why pharmacy rebates "continue" to be lower than expected and estimate the impact on premiums of this phenomenon.*

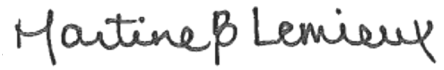
   The 340B Drug Pricing Program sets a ceiling price for manufacturers on drug sales to certain healthcare facilities, and participation in the program is required in order for drugs to be covered by Medicaid and Medicare Part B. The hospitals then can provide the 340B drugs to commercial patients and are reimbursed at their normal contracted rates[1]. Manufacturers often do not consider the drugs purchased through this program to be rebate-eligible, since they were purchased at a cost well below the average sales price. As certain hospitals, especially academic medical centers with specialty pharmacies, have expanded efforts to provide drugs purchased under the 340B program to

[1] See p.20 https://gmcboard.vermont.gov/sites/gmcb/files/documents/340B%20Intro%20for%20GMCB%20Technical%20Advisory%20Group.pdf

their patients, the number of rebate-eligible drug claims have been correspondingly lower for payers. This has resulted in pharmacy rebates being less than expected, since drugs that were previously rebate-eligible transitioned to a 340B setting. We estimate the impact of this phenomenon on premium as 1.0 percent.

Please let us know if you have any further questions, or if we can provide additional clarity on any of the items above.

Sincerely,



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