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July 6, 2021

Chair Kevin Mullin
Green Mountain Care Board
144 State Street
Montpelier, Vermont 05620

Re: Solvency Impact of "2022 Vermont ACA Market – Small Group Rate Filing (SERFF # BCVT-132829562)" of Blue Cross Blue Shield of Vermont

Dear Chair Mullin:

The Department of Financial Regulation ("DFR") respectfully submits the following solvency opinion regarding Blue Cross Blue Shield of Vermont ("BCBSVT" or the "Company") and its recent proposed rate filing: "**2022 Vermont ACA Market – Small Group Rate Filing**."[1]

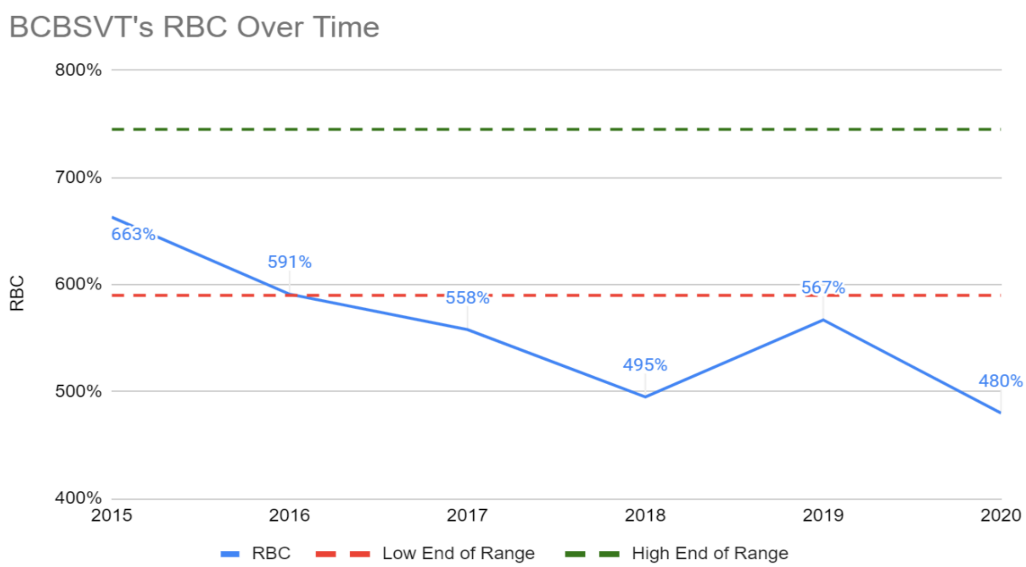
After years of significant uncertainty caused first by regulatory changes (both proposed and enacted) at the federal level and then by a once-in-a-generation pandemic – Vermont's health insurance marketplace appears to have steadied, at least for the time being.

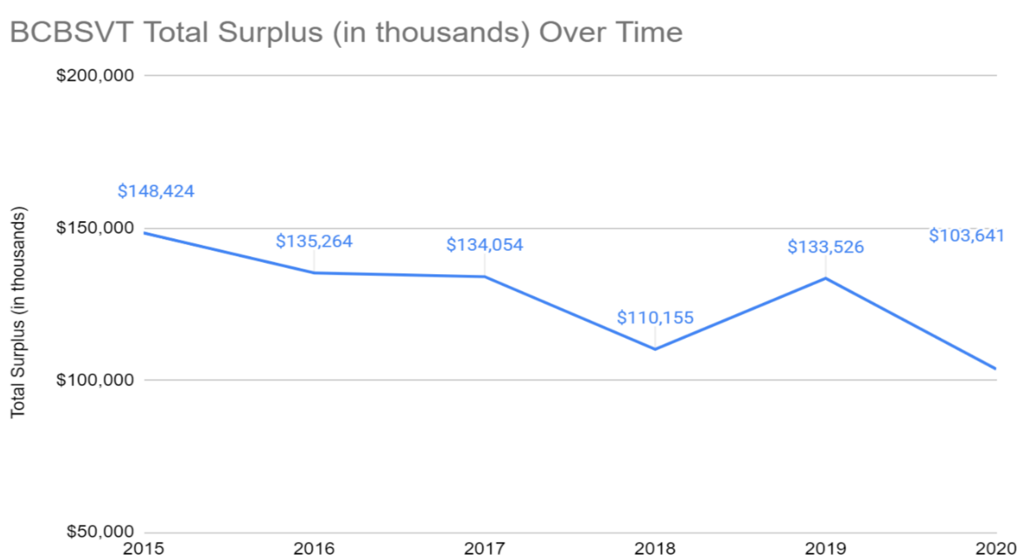
To be clear, there are still pandemic-related uncertainties that could have a significant impact on Vermont's healthcare system, such as: (1) the degree to which the medical services underutilized during the pandemic are deferred or permanently foregone; (2) how delayed and/or foregone care impacts population health in the short and long terms; (3) the ultimate direct and indirect costs of treating COVID-19 infected patients – particularly with regard to potential long-term health impacts; and (4) the potential cost associated with a COVID-19 vaccination program if the vaccines are required to be re-administered on a regular basis. However, with access to highly effective vaccines and Vermont's high COVID-19 vaccination rates, much of the pandemic-related uncertainty has been mitigated.

[1] Under 8 V.S.A. § 4062, DFR must provide to the Green Mountain Care Board an analysis and opinion on the filing's impact on BCBSVT's solvency.

With that backdrop, DFR, in consultation with Oliver Wyman[2], has worked to identify and quantify the most significant areas of uncertainty in an effort to assist the Green Mountain Care Board with its review of the rate request and the need to balance consumer affordability with company solvency.

The two most important elements of solvency, the Risk Based Capital ("RBC") ratio and total surplus, both decreased as of December 31, 2020, however, as the Oliver Wyman Analysis spells out in more detail, both elements are expected to increase in 2021 and remain within the approved range in 2022.[3]





[2] The Department has consulted with its outside actuarial consultants at Oliver Wyman in preparing this letter, which incorporates by reference Oliver Wyman's report (attached hereto).
[3] For example, had BCBSVT received their federal alternative minimum tax credit in fiscal year 2020, the company's RBC would be approximately 80% higher.

DFR does not expect the proposed filed rate would have a significant impact on our overall solvency assessment of BCBSVT.

BCBSVT Solvency Opinion

DFR has and will continue to monitor BCBSVT's surplus and its solvency, as well as potential threats to surplus and solvency, using all available tools. DFR believes that the range of surplus targeted by BCBSVT is reasonable and necessary for the protection of policyholders. BCBSVT is currently below its targeted RBC range, although it is anticipated that the Company will be slightly above this range at the end of fiscal year 2021 and approximately at the midpoint of the approved range at the end fiscal year 2022.[4]

Background

Vermont law requires DFR to protect consumers by supervising insurance companies to ensure their solvency, liquidity, stability, and efficiency.[5] DFR has a special responsibility with respect to BCBSVT, which was created by statute and is subject to comprehensive DFR regulation.[6] BCBSVT insures more Vermonters than any other health insurance company and DFR is BCBSVT's primary regulator and, for many purposes, its sole regulator.

Analysis of Solvency

DFR considers insurer solvency to be the most fundamental aspect of consumer protection. Determining an insurer's solvency is more complex than whether at any given moment the insurer has more assets than liabilities. Rather, it is an intricate analysis of many factors to discern how close the insurer is to insolvency now, and in what direction it will move in the future.

The primary factor in an insurer's ability to maintain adequate solvency is whether the insurer consistently charges adequate premium rates. DFR considers a rate to be adequate if it is sufficient to cover expected claims and expenses, and to contribute to the insurer's surplus when appropriate. Over the long term, charging inadequate premium rates can result in assets that are too low and liabilities that are too high, which presents a material and direct threat to the solvency of the insurer.

Rates are developed by predicting future behavior and future claims. Therefore, it is impossible to predict with certainty the "correct" rate to charge in a given year that will be both adequate and not excessive. Charging a higher or lower rate merely makes it more or less likely that the rate will be adequate. To protect against rates that turn out to be inadequate, whether due to unexpectedly high claims or some other factor, insurers must maintain a surplus of funds. An insurer's surplus is the amount of assets remaining after accounting for all liabilities it must (or may have to) pay out. A sufficient surplus is crucial to an insurer's solvency.

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[4] The Department previously approved an updated target RBC ratio range of 590% - 745%. A copy of the order can be found at https://dfr.vermont.gov/sites/finreg/files/regbul/dfr-order-19-07-i-bcbsvt-rbc.pdf.
[5] 8 V.S.A. § 10.
[6] 8 V.S.A. Chapters 123, 125; *see also In re Vt. Health Svc. Corp.*, 144 Vt. 617, 624 (1984).

The adequate level of surplus is necessarily different for every insurer, since it depends heavily on both the volume and type of the insurance business conducted, as well as the quality and nature of the insurer's underlying assets and the environment in which the insurer operates. DFR uses several tools to assess surplus adequacy, including periodic financial examinations, corporate governance review, and analysis of such areas as RBC, claims reserve development, and risk mitigation strategies. This surplus assessment is dynamic and prospective.

<u>Impact on Solvency of Proposed Rate</u>

DFR does not expect the proposed rate as filed will have a significant impact on our overall solvency assessment of BCBSVT. Any downward adjustments to the filing's rate components that are not actuarially supported, however, will reduce BCBSVT's surplus and negatively impact its solvency. Although it is anticipated that the Company will return to its approved range by the end of fiscal year 2022, unanticipated future events could negatively impact the Company. Accordingly, any departure from the filed rate should be made with caution.

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Please do not hesitate to contact me if you have any questions.

Sincerely,

Michael S. Pieciak
Commissioner

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Mr. Michael S. Pieciak
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89 Main Street
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July 6, 2021

Analysis of Blue Cross Blue Shield of Vermont's Current Capital Position and Implications on Their 2022 Individual and Small Group ACA-Compliant Filings

Dear Commissioner Pieciak:

The Vermont Department of Financial Regulation (DFR) has engaged Oliver Wyman Actuarial Consulting, Inc. (Oliver Wyman) to perform an analysis of Blue Cross Blue Shield of Vermont's (BCBSVT) current financial position in support of your solvency opinion regarding BCBSVT's 2022 Vermont Individual and Small Group filings with the Green Mountain Care Board (GMCB). The purpose of this letter is to provide you with our analysis with respect to BCBSVT's current financial position and solvency, and potential solvency implications if BCBSVT's requested rates are not approved in full. This letter is not intended for any other purposes.

BACKGROUND

BCBSVT is requesting an average rate increase of 7.9% for Individual policies and an average rate decrease of 7.8% for Small Group policies in their 2022 ACA-compliant filings to the GMCB, when compared to their 2021 merged market VISG premium rates. The rate increases vary between a 2.6% decrease to a 9.8% increase by plan in the Individual filing and between a 19.8% decrease and a 7.0% decrease by plan in the Small Group filing. The rate actions by plan are shown in Table 1 for Individual and Table 2 for Small Group on the following page. DFR is required to provide a solvency opinion to the GMCB with regard to BCBSVT's rate increase request.

Table 1
BCBSVT Proposed 2022 Rate Increases Over 2021 Rates - Individual

Product	Plan	Proposed Rate Increase[1]
BCBSVT EPO	BCBSBVT Blue Rewards Catastrophic Plan	-2.55%
BCBSVT EPO	BCBSBVT Bronze Plan	6.17%
BCBSVT EPO	BCBSBVT Bronze Plan Integrated	6.24%
BCBSVT EPO	BCBSBVT Silver Plan	7.14%
BCBSVT EPO	BCBSBVT Silver Reflective Plan	7.55%
BCBSVT EPO	BCBSBVT Gold Plan	8.45%
BCBSVT EPO	BCBSBVT Platinum Plan	9.79%
BCBSVT EPO CDHP	BCBSBVT Bronze CDHP Plan	6.54%
BCBSVT EPO CDHP	BCBSBVT Silver CDHP Plan	7.42%
BCBSVT EPO CDHP	BCBSBVT Silver CDHP Reflective Plan	7.78%
BCBSVT EPO Vermont Preferred	BCBSBVT Vermont Preferred Bronze Plan	7.15%
BCBSVT EPO Vermont Preferred	BCBSBVT Vermont Preferred Silver Plan	7.57%
BCBSVT EPO Vermont Preferred	BCBSBVT Vermont Preferred Silver Reflective Plan	8.12%
BCBSVT EPO Vermont Preferred	BCBSBVT Vermont Preferred Gold Plan	9.10%
BCBSVT EPO Vermont Select CDHP	BCBSBVT Vermont Select Bronze Plan	7.00%
BCBSVT EPO Vermont Select CDHP	BCBSBVT Vermont Select Silver Plan	7.27%
BCBSVT EPO Vermont Select CDHP	BCBSBVT Vermont Select Silver Reflective Plan	7.65%
BCBSVT EPO Vermont Select CDHP	BCBSBVT Vermont Select Gold Plan	9.35%

Table 2
BCBSVT Proposed 2022 Rate Increases Over 2021 Rates – Small Group

Product	Plan	Proposed Rate Increase[2]
BCBSVT EPO	BCBSBVT Bronze Plan	-9.46%
BCBSVT EPO	BCBSBVT Bronze Plan Integrated	-9.43%
BCBSVT EPO	BCBSBVT Silver Plan	-18.82%
BCBSVT EPO	BCBSBVT Silver Reflective Plan	-8.50%
BCBSVT EPO	BCBSBVT Gold Plan	-7.96%
BCBSVT EPO	BCBSBVT Platinum Plan	-6.97%
BCBSVT EPO CDHP	BCBSBVT Bronze CDHP Plan	-9.18%
BCBSVT EPO CDHP	BCBSBVT Silver CDHP Plan	-16.84%
BCBSVT EPO CDHP	BCBSBVT Silver CDHP Reflective Plan	-8.37%

[1] 2022 BCBSVT ACA Market Individual Rate Filing
[2] 2022 BCBSVT ACA Market Small Group Rate Filing

Product	Plan	Proposed Rate Increase[2]
BCBSVT EPO Vermont Preferred	BCBSBVT Vermont Preferred Bronze Plan	-8.65%
BCBSVT EPO Vermont Preferred	BCBSBVT Vermont Preferred Silver Plan	-19.82%
BCBSVT EPO Vermont Preferred	BCBSBVT Vermont Preferred Silver Reflective Plan	-7.94%
BCBSVT EPO Vermont Preferred	BCBSBVT Vermont Preferred Gold Plan	-7.29%
BCBSVT EPO Vermont Select CDHP	BCBSBVT Vermont Select Bronze Plan	-8.74%
BCBSVT EPO Vermont Select CDHP	BCBSBVT Vermont Select Silver Plan	-18.43%
BCBSVT EPO Vermont Select CDHP	BCBSBVT Vermont Select Silver Reflective Plan	-8.38%
BCBSVT EPO Vermont Select CDHP	BCBSBVT Vermont Select Gold Plan	-7.12%

ANALYSIS

Our analysis focuses on three aspects:

1. Analysis of BCBSVT's Current Financial Position as of December 31, 2020
2. Benchmarking - BCBSVT's Current RBC Ratio and Capital Range Among Comparative Companies
3. Limited Modelling of Adjusted Capital and Surplus Scenarios with Negative Adjustments to the Proposed Premium Rates and COVID-19 Impacts

Analysis of BCBSVT's Current Financial Position as of December 31, 2020

BCBSVT reported statutory net income of $13.2 million for the year-ended December 31, 2020, driven by a net underwriting gain of $13.0 million. As of December 31, 2020, BCBSVT's total adjusted capital was $103.6 million, a $29.9 million decrease on the total adjusted capital as of December 31, 2019. Excluding the $13.2 million net income reported in 2020, there was a $43.1 decrease in total adjusted capital in the year due largely to a $51.4 million decrease in aggregate write-in gains or losses in surplus. It is our understanding that this significant decrease is due to realized pension investment losses in 2020.

The ACL RBC also decreased somewhat which had a favorable impact on the RBC ratio at the end of 2020 as reported annual membership that had remained relatively flat from 2016 to 2019, decreased roughly 10% from 2019 to 2020. As a result of the reduced capital, BCBSVT's RBC ratio decreased from 567% to 480% from 2019 to 2020. The December 31, 2020 RBC ratio of 480% is 110 percentage points below the low end of the approved surplus range of 590% to 745%.

BCBSVT's 2016 through 2020 reported statutory results are summarized in Table 3 that follows.

Table 3
BCBSVT Statutory Financials (in Millions)[3]

	2016	2017	2018	2019	2020
Total Revenue	$547.3	$578.3	$517.4	$537.7	$479.1
Total Claims Expense	509.5	531.7	477.7	496.9	385.2
Administrative Expenses	56.0	48.1	55.3	54.6	80.9
Net Underwriting Gain/Loss	**(18.2)**	**(1.5)**	**(15.5)**	**(13.8)**	**13.0**
Change in Value of Affiliates	5.1	3.7	(0.9)	7.0	12.4
Other Investment Income	(0.9)	1.7	6.9	(1.1)	(9.3)
Total Investment Income Gain/(Loss)	**4.2**	**5.4**	**6.0**	**5.9**	**3.2**
Other Income	**2.6**	**2.7**	**1.9**	**2.6**	**(2.1)**
Pre-Tax Income	**(11.4)**	**6.7**	**(7.6)**	**(5.3)**	**14.0**
Federal Income Tax	(1.7)	(0.9)	(0.9)	(18.7)	0.8
Net Income/Loss	**(9.7)**	**7.6**	**(6.7)**	**13.4**	**13.2**
Member Months (millions)	2.5	2.6	2.4	2.4	2.2
Total Adjusted Capital	$135.3	$134.1	$110.2	$133.5	$103.6
Authorized Control Level RBC	$22.9	$24.0	$22.2	$23.6	$21.6
RBC Ratio	**591%**	**558%**	**495%**	**567%**	**480%**

Benchmarking - BCBSVT's Current RBC Ratio and Capital Range Among Comparative Companies

Table 4 shows BCBSVT's RBC ratios from 2016 through 2020 along with comparative BCBSA licensees. The comparative companies are those that derive at least 35% of their ultimate parent revenue from BCBSA entities and have 2020 Accidental and Health Policy Experience Exhibit premium between $0.4 and $4.1 billion.

Table 4
Comparative Companies – 2016-2020 RBC Ratios[4]

Ultimate Parent Company	2016	2017	2018	2019	2020
BCBS of VT	591%	558%	495%	567%	480%
BCBS of WY	1142%	1162%	1201%	1224%	1249%
HealthyDakota Mutual Holdings (BCBS of ND)	793%	953%	801%	714%	782%
GoodLife Partners, Inc. (BCBS of NE)	811%	953%	1018%	1025%	1047%
BCBS of MS	1618%	1700%	1708%	1718%	1708%
BCBS of RI	459%	500%	520%	638%	709%

[3] 2016-2020 Statutory Annual Statements
[4] 2016-2020 Statutory Annual Statements

Ultimate Parent Company	**2016**	**2017**	**2018**	**2019**	**2020**
Blue Cross of Idaho	1013%	1321%	1167%	1053%	1089%
BCBS Of Kansas City (MO)	836%	968%	1057%	1029%	848%
Capital BlueCross (PA)	725%	651%	706%	672%	728%
BCBS of KS	867%	843%	968%	965%	823%
USAble Mutual Insurance Company (AR BCBS)	862%	838%	793%	738%	762%
BCBS of AZ	924%	1039%	1163%	749%	697%
Wellmark, Inc. (IA)	940%	1036%	1018%	1121%	1124%
Hawaii Medical Service Association (BCBS of HI)	421%	451%	504%	573%	650%
Louisiana Health Service & Indemnity Company (BCBS of LA)	888%	926%	986%	902%	982%
PREMERA (BCBS of WA)	887%	1177%	1293%	1175%	953%
Average with BCBSVT	**847%**	**929%**	**962%**	**898%**	**865%**
Average without BCBSVT	**851%**	**935%**	**968%**	**902%**	**871%**

BCBSVT's RBC ratio declined from 2016 to 2018, then increased 72 percentage points in 2019 before seeing an 87 percentage point decrease in 2020. BCBSVT's RBC ratio has been the lowest of all of the comparative companies since 2018. There were only two companies that had a lower RBC ratio in 2016, and their RBC ratios increased an average of 240 percentage points from 2016 to 2020. Overall, 11 of the comparative companies' RBC ratios increased from 2016 to 2020, while 5 companies' (including BCBSVT) RBC ratios decreased during the period. The average of the comparative companies' RBC ratios (excluding BCBSVT) has increased 20 percentage points since 2016, largely driven by a 117 percentage point increase in the average RBC ratio from 2016 to 2018.

Limited Modelling of Adjusted Capital and Surplus Scenarios with Negative Adjustments to the Proposed Premium Rates and COVID-19 Impacts

In BCBSVT's 2022 Individual and Small Group ACA-Compliant filings with the GMCB, it is requesting rates that, should the proposed rates be approved in full and realized experience matches the pricing assumptions, would be expected to have essentially no impact on its RBC ratio. The rates include a 1.5% contribution to surplus assumption, which is intended to maintain BCBSVT's RBC ratio and counteract the calculated ACL RBC increase that would occur due to normal trends resulting in expected increased premiums and claims.

BCBSVT has provided details of a number of "known" major potential impact items to its RBC ratio through December 31, 2021 and December 31, 2022. These impacts are "known" in the sense that it is known each of the items could have a meaningful impact on BCBSVT's capital position and RBC ratio, but the exact amount and timing of each item's impact is still an estimate. The details of these "known" impacts are shown in Tables 5 and 6. Please note that these items directly impact surplus, and we assume an estimated December 31, 2021 ACL RBC of $20.6 million and an estimated December 31, 2022 ACL RBC of $21.3 million, both based on BCBSVT's calculations. There may be some slight inconsistencies between the estimated RBC impacts and amounts listed in the comments of Tables 5 and 6 largely due to variability in the precision of the BCBSVT estimates.

Table 5
BCBSVT "Known" 2021 RBC Impacts

Item	Estimated RBC Impact	Comments
Reported December 31, 2020 RBC	**480%**	
[redacted]	[redacted]	[redacted]
AMT Tax Credit	+99%	$20.4 million expected to be received Q3 2021.
CSR Litigation Settlement	+31%	Anticipated $6.5 million from lawsuit related to the unpaid 2017 and 2018 Cost Share Reduction funding.
[redacted]	[redacted]	[redacted]
Expected Impact of Projected 2021 Results as of 05/31/2021	[redacted]	[redacted]
BCBSVT Projected RBC at December 31, 2021	[redacted]	**480% reported RBC at December 31, 2020 plus the sum of all of the projected impacts listed above.** [redacted]

Table 6 below shows the estimated RBC ratio as of December 31, 2022 accounting for all "known" items including the anticipated 2022 Individual and Small Group financial results.

Table 6
BCBSVT "Known" 2022 RBC Impacts

Item	Estimated RBC Impact	Comments
December 31, 2021 Estimated RBC	[redacted]	
Projected COVID costs not included in premiums	-23%	BCBSVT assumes that COVID-19 will continue to impact claims costs in 2022. It has been an organizational belief that BCBSVT will bear COVID-19 costs from surplus, at least through 2022.
Other 2022 "Known" Impacts	-49%	Includes projected statutory impact of change in admin allocation basis.
December 31, 2022 Estimated RBC Excluding COVID-19 Impacts on Medical Claims and 2022 VISG Results	[redacted]	[redacted]

[redacted] Overall, due to the relatively large number of "known" impact items, but uncertainty as to the actual surplus impact and timing of each item, BCBSVT's projected December 31, 2022 RBC position is also somewhat uncertain.

Tables 7 and 8 show the potential impact on BCBSVT's RBC ratio with various negative adjustments to the proposed Individual and Small Group premium rates, with no offsetting decrease to projected claims, other non-benefit expenses, and no changes in legislation or rate filing requirements, [redacted]

Table 7
Projected Impact on BCBSVT RBC Ratio Excluding Incremental COVID-19 Claims Impacts
Individual

Adjustment to Overall Requested Premium (%)	**0%**	**-1%**	**-2%**	**-3%**	**-4%**	**-5%**	**-6%**
Resulting Average Increase on 2021 Rates (%)	7.9%	6.8%	5.7%	4.7%	3.6%	2.5%	1.4%
Contribution to Surplus (%)	1.5%	0.5%	-0.5%	-1.5%	-2.5%	-3.5%	-4.5%
Contribution to Surplus ($ millions)	2.0	0.7	(0.7)	(2.0)	(3.4)	(4.7)	(6.1)
Impact on 2022 RBC Ratio	0%	-6%	-13%	-19%	-25%	-32%	-38%
RBC Ratio at 12/31/2022	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Table 8
Projected Impact on BCBSVT RBC Ratio Excluding Incremental COVID-19 Claims Impacts
Small Group

Adjustment to Overall Requested Premium (%)	**0%**	**-1%**	**-2%**	**-3%**	**-4%**	**-5%**	**-6%**
Resulting Average Increase on 2021 Rates (%)	-7.8%	-8.7%	-9.6%	-10.6%	-11.5%	-12.4%	-13.3%
Contribution to Surplus (%)	1.5%	0.5%	-0.5%	-1.5%	-2.5%	-3.5%	-4.5%
Contribution to Surplus ($ millions)	2.0	0.7	(0.7)	(2.0)	(3.4)	(4.7)	(6.1)
Impact on 2022 RBC Ratio	0%	-6%	-13%	-19%	-25%	-32%	-38%
RBC Ratio at 12/31/2022	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

As shown in Tables 7 and 8, BCBSVT expects to have a December 31, 2022 RBC ratio within the target range assuming no additional significant COVID-19 or other impacts. The projected RBC ratio is at a level that does not appear to provide a rationale for reducing the filed Individual or Small Group rates.

The largest uncertain item that will impact BCBSVT's 2022 RBC ratio is the COVID-19 pandemic, which has made experience analysis challenging, and will continue to impact premiums and claims costs even after the pandemic is contained. Even with the administration of vaccines in early 2021, there still remains a degree of uncertainty related to the impact of ongoing infections, the continued cost of annual vaccine administration, and possible changes in morbidity due to deferred or foregone care. There also is some associated uncertainty in the actual margin that would result from the 2022 rates since the low rate increases filed assume that the favorable 2020 and projected 2021 experience is assumed to be due to the underlying morbidity improvement of the Individual and Small Group populations that is also assumed to persist through 2022. If the favorable claims experience was caused by something that is temporary in nature and not sustainable through 2022, the 2022 filed premium rates may not be sufficient to achieve a 1.5% profit margin.

BCBSVT used a stochastic model to produce internal estimates of the impacts of COVID-19 on their projected RBC under a number of scenarios. The impact of COVID-19 is assumed to strictly impact medical claims for their Individual, Small Group, Large Group, and Medicare Supplement business; no premium or membership impacts were modeled. The net claims impact due to COVID-19 is assumed to be the direct costs associated with treating the virus, less delayed care as consumers are pushing back non-urgent procedures, plus returning care which reflects that a portion, but not all, of those delayed procedures will return at a later date, plus vaccine costs, plus changes in demand, plus a deferred care morbidity impact reflecting slightly adverse morbidity due to the delayed or cancelled care.

BCBSVT's median modeled estimate of the impact of COVID-19 on 2022 claims costs and the December 31, 2022 RBC shows a 23% decrease in the RBC ratio as shown in Table 6 due to direct COVID-19 costs in 2022 that are not covered by the filed 2022 premium rates. We reviewed BCBSVT's model and find it to be generally reasonable.

In the following Tables 9 through 12, we present December 31, 2022 RBC projections with a number of 2022 reductions to proposed premium rates on the horizontal axis and different potential net COVID-19 impacts on the vertical axis. Because BCBSVT's RBC modeling reflects an expected COVID-19 cost for 2022, the COVID-19 impacts presented in Tables 9 through 12 reflect an incremental impact to BCBSVT's expectations. For simplicity, the 2021-2022 incremental COVID-19 impacts are assumed as a percentage of 2019 reported incurred claims of $140.9 million for Individual and $152.0 million for Small Group as reported in BCBSVT's 2019 Supplemental Health Care Exhibit. These amounts have been adjusted to $127.2 million and $137.3 million, respectively to reflect the decrease in ACL RBC from $23.6 million as of December 31, 2019 to a projected ACL RBC of $21.3 million as of December 31, 2022.

Table 9
Individual
BCBSVT Projected Impact of Incremental COVID-19 Impacts and Rate Actions on December 31, 2022 Surplus

Aggregate Incremental 2021-2022 COVID-19 Claims Impact as a Percentage of Adjusted 2019 Incurred Claims	Adjustment to Overall Requested Premium (%) →	0%	-1%	-2%	-3%	-4%	-5%	-6%
	-2%	$4.6	$3.2	$1.9	$0.5	($0.8)	($2.2)	($3.5)
	-1%	$3.3	$1.9	$0.6	($0.8)	($2.1)	($3.3)	($4.8)
	0%	$2.0	$0.7	($0.7)	($2.0)	($3.4)	($4.7)	($6.1)
	1%	$0.8	($0.6)	($1.9)	($3.3)	($4.6)	($6.0)	($7.3)
	2%	($0.5)	($1.9)	($3.2)	($4.6)	($5.9)	($7.3)	($8.6)

Table 10
Individual
BCBSVT Projected December 31, 2022 Surplus Including Rate Actions and Incremental COVID-19 Impacts

Aggregate Incremental 2021-2022 COVID-19 Claims Impact as a Percentage of Adjusted 2019 Incurred Claims	Adjustment to Overall Requested Premium (%) →	0%	-1%	-2%	-3%	-4%	-5%	-6%
	-2%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	-1%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	0%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	1%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	2%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Table 11
Small Group
BCBSVT Projected Impact of Incremental COVID-19 Impacts and Rate Actions on December 31, 2022 Surplus

Aggregate Incremental 2021-2022 COVID-19 Claims Impact as a Percentage of Adjusted 2019 Incurred Claims	Adjustment to Overall Requested Premium (%) →	0%	-1%	-2%	-3%	-4%	-5%	-6%
	-2%	$4.8	$3.4	$2.1	$0.7	($0.6)	($2.0)	($3.3)
	-1%	$3.4	$2.0	$0.7	($0.7)	($2.0)	($3.4)	($4.7)
	0%	$2.0	$0.7	($0.7)	($2.0)	($3.4)	($4.7)	($6.1)
	1%	$0.7	($0.7)	($2.0)	($3.4)	($4.8)	($6.1)	($7.5)
	2%	($0.7)	($2.1)	($3.4)	($4.8)	($6.1)	($7.5)	($8.8)

Table 12
Small Group
BCBSVT Projected December 31, 2022 Surplus Including Rate Actions and Incremental COVID-19 Impacts

Aggregate Incremental 2021-2022 COVID-19 Claims Impact as a Percentage of Adjusted 2019 Incurred Claims	Adjustment to Overall Requested Premium (%)	0%	-1%	-2%	-3%	-4%	-5%	-6%
	-2%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	-1%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	0%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	1%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	2%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

The above Tables 10 and 12 shows that under the product specific scenarios, BCBSVT's RBC percentage is not expected to exceed the 745% high-end of their RBC range as of December 31, 2022, nor is it expected to go below the 590% low-end of the RBC range. However, if the approved rates are significantly lower than those filed, and COVID-19 or other adverse impacts reduce 2022 profitability more significantly for one or both lines there is some risk that the RBC ratio could fall below the low-end of the RBC range. [redacted]

CONCLUSION

BCBSVT is projecting that their proposed 2022 Individual and Small Group ACA-Compliant premium rates, including a 1.5% contribution to surplus assumption, will be RBC neutral assuming all their assumptions are experienced. Considering "known" items that will impact future reported surplus levels and the uncertainty around COVID-19, it is unlikely that BCBSVT will remain under the 590% low-end of the target surplus range by December 31, 2022 if the overall impact of COVID-19 on medical claims is relatively modest, as BCBSVT estimates. If the incremental impact of COVID-19 on medical claims results in reduced 2022 underwriting profits, BCBSVT should still be expected to report a RBC ratio above the low-end of the 590% to 745% target surplus range at December 31, 2022 unless the incremental COVID-19 impact is more significant than currently contemplated by BCBS VT's modelling, significantly impacts the profitability of multiple lines of business, or is exacerbated by other significant unanticipated adverse factors. Based on our analysis, it also appears highly unlikely that the filed 2022 rates will result in a scenario where the RBC ratio exceeds the 745% high-end of the RBC ratio target range.

LIMITATIONS

The purpose of this letter is to document the work we completed while assisting the Vermont Department of Financial Regulation in developing a solvency opinion related to BCBSVT's Individual and Small Group ACA-Compliant filings. Any other use of this report is inappropriate.

Our estimates are based on generally accepted actuarial practices and are consistent with the American Academy of Actuaries' *Actuarial Standards of Practice*. We are members of the American Academy of Actuaries and meet that body's qualification standards for providing this opinion. While we have used our best professional judgment during the course of this review, the estimates presented are inherently uncertain. This uncertainty is greater than usual due to COVID-19 and the impact that will continue to have on BCBSVT's business. We therefore cannot warrant that actual results will not vary from our estimates, perhaps significantly.

RELIANCE

We have relied on information provided in publicly available financial statements, BCBSVT's 2022 Individual and Small Group ACA-Compliant rate filings, BCBSVT's COVID-19 reports and information, including its resulting surplus projections, and other documents provided by BCBSVT without independent investigation or verification. If this information is inaccurate, incomplete, or out of date, our findings and conclusions may need to be revised.

If you have any questions regarding this analysis, please feel free to contact either one of us.

Sincerely,

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Senior Principal

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