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**July 7, 2020**

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

**Re: Solvency Impact of "2021 Vermont Individual and Small Group Rate Filing (SERFF # BCVT-132371410)" 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 and Blue Shield of Vermont ("BCBSVT" or the "Company") and its recent proposed rate filing: "**2021 Vermont Individual and Small Group Rate Filing**."[1]

The predominant theme of this year's solvency opinion is uncertainty. That theme is analyzed against the backdrop of the Department's long-held position that insurer solvency is the preeminent form of consumer protection.

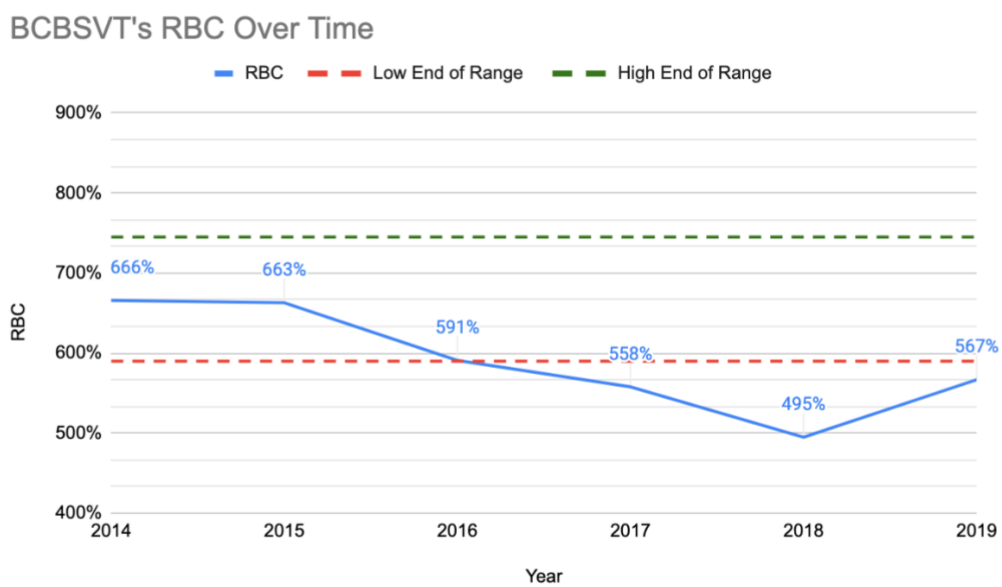
The COVID-19 pandemic – together with the resulting mitigation measures ordered by the State – has already had profound effects on Vermont's health-insurance marketplace. The more difficult task is understanding and quantifying both the short- and long-term impacts that COVID-19 will have in the months and years to come.

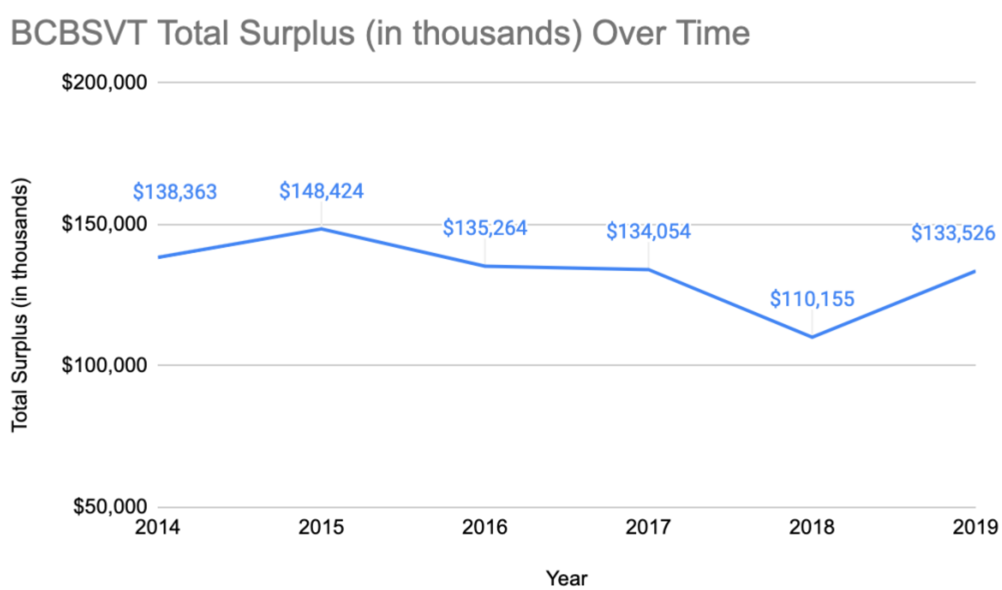
For example, the following areas of uncertainty are unresolved but will greatly impact BCBSVT's financial position: (1) the degree to which the medical services underutilized during the pandemic are deferred or permanently foregone; (2) how economic conditions brought on by the pandemic will impact Vermont citizens' and businesses' ability to afford health insurance premiums; and (3) ultimate direct and indirect costs of treating COVID-19 infected patients - including potential long-term health impacts.

[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.

DFR, with the assistance of Oliver Wyman[2], has done its best 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 improved as of December 31, 2019, ending negative trends over the previous four years. It is important to note that this improvement predated the solvency-positive effects of the pandemic to date (i.e. the cancellation of most elective surgeries and non-emergency care between mid-March and May).




[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).

DFR has approved an RBC range between 590% and 745% for BCBSVT, and although the Company was slightly below this range as of December 31, 2019, its RBC has continued to increase in 2020 and hovered around the high 600s as of July 1, 2020. The primary drivers of these increases were a reduction of medical services and claims brought on by the pandemic and a reduction in covered lives year-over-year.

The dramatic reduction in medical services and claims raises the natural question: "have Vermonters overpaid for their health insurance in 2020?" In other areas of insurance including auto, dental, commercial liability, and workers' compensation, DFR determined the answer to this question was yes and worked with the respective carriers to provide over $25 million in premium relief to Vermonters to date. DFR continues to monitor all regulated markets for opportunities to ensure that rates are not excessive but are adequate to ensure solvency.

Due to the current uncertainty around COVID-19 it is too early to answer this question with confidence regarding health insurance. Simply put, some effects of COVID-19 are clearly positive in the short term for company solvency, while some of the longer-term effects are likely negative. The scope of these effects cannot be known at this time. However, it is likely at some point in the first half of 2021 these effects will be felt, and if conditions are appropriate, DFR would fully support and work to effect a partial return of premium to members.

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

**<u>BCBSVT Solvency Opinion</u>**

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 this range, although its position has improved year-over-year.[3]

**<u>Background</u>**

Vermont law requires DFR to protect consumers by supervising insurance companies to ensure their solvency, liquidity, stability, and efficiency.[4] DFR has a special responsibility with respect to BCBSVT, which was created by statute and is subject to comprehensive DFR regulation.[5] BCBSVT insures more Vermonters than any other health insurance company and DFR is BCBSVT's primary regulator and, for many purposes, its sole regulator.

**<u>Analysis of Solvency</u>**

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

[3] The Department recently approved an updated 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.
[4] 8 V.S.A. § 10.
[5] 8 V.S.A. Chapters 123, 125; *see also In re Vt. Health Svc. Corp.*, 144 Vt. 617, 624 (1984).

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.

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.

## Analysis of Solvency

At the end of last year, prior to any COVID-19 related impacts, BCBSVT's total surplus stood at $133,526,751. This represented an increase of approximately $23 million to total surplus compared to the same period during the prior year, due largely to receipt of the 2019 AMT tax credit payment. But for that payment, total surplus would have been nearly flat year-over-year.

Now, midway through 2020, COVID-19 has directly impacted BCBSVT's financial position and will most certainly continue to impact the company for the remainder of the year and into 2021 (and likely beyond). Quantifying the precise impact of all direct and indirect COVID-19 costs is impossible at this time, however, below is an overview of the major open items and an estimate based on relative impact and the degree of uncertainty.

- **Reduction and Return of Medical Claims**. *Positive Financial Impact of Unknown Magnitude.* Due to mandatory closures of medical facilities and cancellation of non-emergency procedures, total medical claim volume has been about $20-25 million lower than normal since mid-March 2020. Claim volume remains depressed as of June. However, as long as Vermont medical providers are allowed to remain open and operate reasonably close to capacity, some of the deferred care will be obtained and claims incurred and paid. What is highly uncertain, however, is what percentage of care that will be.

- **COVID-19's Impact for the Remainder of 2020**. *Unknown Financial Impact.* If COVID-19 numbers in Vermont or elsewhere in northern New England rise again, it is possible that medical procedures and appointments will once again be limited by the State. If that should occur it would once again have a relatively large net positive impact on BCBSVT's surplus, likely of the same monthly magnitude as March – May 2020. It appears unlikely at this time that COVID-19 testing and treatment in this scenario would fully counterbalance the impact of patients forgoing other care.

- **COVID-19 Program Response, Diagnosis and Treatment** – *Negative Financial Impact.* BCBSVT has incurred direct costs associated with testing and treating COVID-19 patients, and although the virus is currently being suppressed in Vermont, BCBSVT will continue to incur direct COVID-19 costs until a vaccine is widely available. Due to mandates by DFR and the Vermont legislature – additional cost have been incurred by BCBSVT due to requirements that testing, treatment and certain medications all be provided at zero cost share.

- **Pension Valuation** – *Negative Financial Impact.* BCBSVT's pension assets took a significant hit to their valuation during the first quarter of 2020. The value of the assets fell by 58.6%, representing a $40.6 million loss. What is unknown is whether any of that loss is recoverable. This pension loss is not reflected in the current rate filing as it need not be accounted for until year-end. However, it does figure into DFR's holistic view of company solvency.

- **Outcome of Ongoing Litigation** – *Positive Financial Impact*. BCBSVT has been engaged in separate litigation associated with the federal government's elimination the Federal Risk Corridor and the Cost-Sharing Reduction payments. The Supreme Court's recent decision in *Maine Community Health Options v. United States* significantly increases the likelihood of success in both of the matters BCBSVT's is currently litigating. The cumulative recoveries in these matters would total approximately $16.2 million. The litigation is expected to be successfully concluded and the recoveries are quantifiable. The timing of these recoveries is not fixed but is expected within 18 months.

- **AMT Tax Credit** – *Positive Financial Impact*. Under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act all outstanding tax credits still owed pursuant to the elimination of the corporate alternative minimum tax could be claimed during the current tax year. Accordingly, in addition to the estimated 2020 payment, BCBSVT can also file and receive all remaining payments this year. The total of all payments will equal approximately $17.8 million.

- **Payment for COVID-19 Vaccinations** – *Negative Financial Impact*. Under the CARES Act commercial insurers are responsible for covering the cost of the COVID-19 vaccine if and when it is developed. The timing of vaccine's development is uncertain, as is the unit cost of the vaccine, and how often individuals will require the vaccine to maintain immunity. It is hard to quantify the complete financial impact of the vaccine at this time, but it is not expected to be significant.

- **Uncollectible Premiums** – *Negative.* Estimated to total approximately $3,000,000.

- **Uncollectible Provider Advances** – *Negative.* As the Board is likely aware, BCBSVT provided payment advances to providers and some of these advances will be uncollectible. Not possible to quantify at this time.

- **Required Waiver of Certain Prescription Cost Sharing** – *Negative*. The Department has ordered BCBSVT and other insurers to waive all cost sharing for generic and certain other prescription medications, in order to lessen financial burdens on Vermonters. Ongoing, not possible to quantify at this time.

As noted previously, the COVID-19 pandemic has brought a great deal of uncertainty to Vermont's health insurance marketplace. The amounts above related to COVID-19 are current estimates but could change drastically in the event of a severe "second-wave" of the disease or a prolonged time period before a vaccine is produced.

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

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

*     *     *

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

Sincerely,

Michael S. Pieciak
Commissioner

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July 7, 2020

**Analysis of Blue Cross Blue Shield of Vermont's Current Capital Position and Implications on Their 2021 VISG Filing**

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 2021 VISG filing 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 6.3% over their 2020 VISG premium rates in their 2021 VISG filing to the GMCB. The rate increase varies between -0.7% and 13.3% by plan. The rate increases by plan are shown in Table 1 on the following page. The Department is required to provide a solvency opinion to the GMCB with regard to BCBSVT's rate increase request. To support the Department's solvency opinion, Oliver Wyman is providing an update to some of the analyses performed from the report titled "Evaluation of BCBSVT Optimal Surplus Range Recommendation," (the Report) which was provided to the Department on January 25, 2019. The Report provided support for BCBSVT's proposed surplus range of a 590% to 745% RBC ratio, which was memorialized in the Department's February 7, 2019 order.

**Table 1**
**BCBSVT Proposed 2021 Rate Increases Over 2020 Rates**

| Product | Plan | Proposed Rate Increase[1] |
|---|---|---|
| BCBSVT EPO | BCBSVT Blue Rewards Catastrophic Plan | -0.66% |
| BCBSVT EPO | BCBSVT Platinum Plan | 6.60% |
| BCBSVT EPO | BCBSVT Gold Plan | 4.56% |
| BCBSVT EPO | BCBSVT Silver Plan | 4.89% |
| BCBSVT EPO | BCBSVT Silver Reflective Plan | 4.41% |
| BCBSVT EPO | BCBSVT Bronze Plan | 4.11% |
| BCBSVT EPO | BCBSVT Bronze Plan Integrated | 3.44% |
| BCBSVT EPO CDHP | BCBSVT Silver CDHP Plan | 6.16% |
| BCBSVT EPO CDHP | BCBSVT Silver Reflective CDHP Plan | 5.50% |
| BCBSVT EPO CDHP | BCBSVT Bronze CDHP Plan | 4.69% |
| BCBSVT EPO Vermont Preferred | BCBSVT Vermont Preferred Gold Plan | New in 2021 |
| BCBSVT EPO Vermont Preferred | BCBSVT Vermont Preferred Silver Plan | New in 2021 |
| BCBSVT EPO Vermont Preferred | BCBSVT Vermont Preferred Silver Reflective Plan | New in 2021 |
| BCBSVT EPO Vermont Preferred | Blue Vermont Preferred Plan | New in 2021 |
| BCBSVT Vermont Select CDHP | BCBSVT Blue Rewards Gold CDHP Plan | 13.27% |
| BCBSVT Vermont Select CDHP | BCBSVT Blue Rewards Silver CDHP Plan | 6.01% |
| BCBSVT Vermont Select CDHP | BCBSVT Blue Rewards Silver CDHP Reflective Plan | 5.26% |
| BCBSVT Vermont Select CDHP | BCBSVT Blue Rewards Bronze CDHP Plan | 4.22% |

# ANALYSIS

Our analysis focuses on three aspects:

1. Analysis of BCBSVT's Current Financial Position as of December 31, 2019
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, 2019

BCBSVT reported statutory net income of $13.4 million for the year-ended December 31, 2019, driven by an $18.7 million federal income tax rebate as a result of the 2017 Tax Cut and Jobs Act. Excluding this extraordinary event, BCBSVT would have recorded a pre-tax loss of $5.3 million, driven by a $13.8

[1] 2021 BCBSVT QHP URRT Worksheet 2

million net underwriting loss. As of December 31, 2019, BCBSVT's total adjusted capital was $133.5 million, a $23.3 million increase on the total adjusted capital as of December 31, 2018. The $10.0 increase in total adjusted capital at December 31, 2019 excluding the $13.4 million net income is due to increases in unrealized capital gains, increases in non-admitted assets, and an increase in aggregate write-in gains in surplus. BCBSVT's RBC ratio increased from 495% to 567%. BCBSVT's 2015 through 2019 reported statutory results are shown in Table 2.

**Table 2**
**BCBSVT Statutory Financials (in Millions)[2]**

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Total Revenue | $539.9 | $547.3 | $578.3 | $517.4 | $537.7 |
| Total Claims Expense | 478.0 | 509.5 | 533.6 | 477.7 | 496.9 |
| Administrative Expenses | 53.0 | 56.0 | 46.1 | 55.3 | 54.6 |
| **Net Underwriting Gain/Loss** | **8.8** | **(18.2)** | **(1.5)** | **(15.5)** | **(13.8)** |
| Change in Value of Affiliates | 0.9 | 5.1 | 3.7 | (0.9) | 7.0 |
| Other Investment Income | 3.3 | (0.9) | 1.7 | 6.9 | (1.1) |
| **Total Investment Income Gain/(Loss)** | **4.2** | **4.2** | **5.4** | **6.0** | **5.9** |
| **Other Income** | **2.6** | **2.6** | **2.7** | **1.9** | **2.6** |
| **Pre-Tax Income** | **15.6** | **(11.4)** | **6.7** | **(7.6)** | **(5.3)** |
| Federal Income Tax | 3.4 | (1.7) | (0.9) | (0.9) | (18.7) |
| **Net Income/Loss** | **12.2** | **(9.7)** | **7.6** | **(6.7)** | **13.4** |
| | | | | | |
| Member Months (millions) | 2.5 | 2.5 | 2.6 | 2.4 | 2.4 |
| Total Adjusted Capital | $148.4 | $135.3 | $134.1 | $110.2 | $133.5 |
| Authorized Control Level RBC | $22.4 | $22.9 | $24.0 | $22.2 | $23.6 |
| **RBC Ratio** | **663%** | **591%** | **558%** | **495%** | **567%** |

BCBSVT's member months remained relatively flat since 2015, but its RBC ratio has declined from 663% in 2015 to 567% in 2019, driven by both a reduction in their total adjusted capital and an increase in their authorized control level RBC. The 72 basis point increase in RBC ratio from 2018 to 2019 was driven by the increase to BCBSVT's total adjusted capital, which was largely due to the aforementioned tax rebate. As of December 31, 2019, BCBSVT's RBC ratio of 567% is 23 basis points below the low end of the approved surplus range of 590% to 745%.

[2] 2015-2019 Statutory Annual Statements

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

As discussed in the Report, because BCBSVT is a single-state Blue Cross and Blue Shield Association (BCBSA) licensee they are operating under unique circumstances compared to their competitors. Table 3 shows BCBSVT's RBC ratios from 2015 through 2019 along with comparative BCBSA licensees, as defined in the Report to be companies who derive at least 35% of their ultimate parent revenue from BCBSA entities and have 2019 Accidental and Health Policy Experience Exhibit premium between $0.3 and $4.0 billion.

**Table 3**
**Comparative Companies – 2015-2019 RBC Ratios[3]**

| Ultimate Parent Company | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| BCBS of VT | 663% | 591% | 558% | 495% | 567% |
| BCBS of WY | 1426% | 1142% | 1162% | 1201% | 1224% |
| HealthyDakota Mutual Holdings (BCBS of ND) | 549% | 793% | 953% | 801% | 714% |
| GoodLife Partners, Inc. (BCBS of NE) | 1080% | 811% | 953% | 1018% | 1025% |
| BCBS of MS | 1687% | 1618% | 1700% | 1708% | 1718% |
| BCBS of RI | 540% | 459% | 500% | 520% | 638% |
| Blue Cross of Idaho | 886% | 1013% | 1321% | 1167% | 1053% |
| BCBS Of Kansas City (MO) | 828% | 836% | 968% | 1057% | 1029% |
| Capital BlueCross (PA) | 775% | 725% | 651% | 704% | 672% |
| BCBS of KS | 848% | 867% | 843% | 968% | 965% |
| USAble Mutual Insurance Company (AR BCBS) | 931% | 862% | 838% | 793% | 738% |
| BCBS of AZ | 1028% | 1047% | 1226% | 1251% | 779% |
| California Physicians' Service, Inc. (Blue Shield of CA) | 625% | 902% | 887% | 889% | 694% |
| HealthNow Systems, Inc. (BCBS of Western NY) | 719% | 678% | 743% | 727% | 759% |
| Wellmark, Inc. (IA) | 942% | 940% | 1036% | 1018% | 1121% |
| Hawaii Medical Service Association (BCBS of HI) | 376% | 421% | 451% | 504% | 573% |
| Louisiana Health Service & Indemnity Company (BCBS of LA) | 893% | 888% | 926% | 986% | 854% |
| PREMERA (BCBS of WA) | 915% | 887% | 1177% | 1293% | 1175% |
| **Average with BCBSVT** | **835%** | **847%** | **929%** | **962%** | **898%** |
| **Average without BCBSVT** | **837%** | **851%** | **935%** | **968%** | **902%** |

BCBSVT's RBC ratio declined from 2015 to 2018, then increased by 72 basis points in 2019. Still, their 2019 RBC ratio is the lowest of all of the comparative companies. There were three companies who had a lower RBC ratio in 2015, and their RBC ratios increased an average of 154 basis points from 2015 to 2019. Overall, 11 of the comparative companies' RBC ratios increased from 2015 to 2019, while 7 companies' (including BCBSVT) RBC ratios decreased during the period. The average of the comparative

[3] 2015-2019 Statutory Annual Statements

companies' RBC ratios (excluding BCBSVT) has increased 65 basis points since 2015, largely driven by a 117 basis point increase in the average RBC ratio from 2016 to 2018. In the 2016 to 2018 period, BCBSVT's RBC ratio declined by 96 basis points.

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

In BCBSVT's 2021 VISG filing with the GMCB, it is requesting rates that, should the proposed rates be approved in full and realized experience matches the 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 expected increased premiums and claims.

BCBSVT has provided details of a number of "known" major potential impact items to their RBC ratio through December 31, 2020, which exclude the impact of COVID-19 on premium, claims, or administrative expenses. These impacts are "known" in the sense that it is known they could have a major impact on BCBSVT's capital position and RBC ratio, but the exact amounts and timing are largely estimated. The details of these "known" impacts are shown in Table 4. Please note that these items directly impact surplus except for the Decreased 2020 Insured Volume item and we assume an estimated December 31, 2020 ACL RBC of $21.4 million based on BCBSVT's calculations. There may be some slight inconsistencies between the estimated RBC impacts and amounts listed in the comments of Tables 4 and 5 largely due to variability in the precision of the BCBSVT estimates.

**Table 4**
**BCBSVT "Known" 2020 RBC Impacts Excluding COVID-19**

| Item | Estimated RBC Impact | Comments |
|---|---|---|
| **Reported December 31, 2019 RBC** | **567%** | |
| AMT Tax Credit | +84% | $17.4 million in aggregate, half of which was due to be paid in 2021 but was accelerated to 2020 due to the CARES Act. |
| Decreased 2020 Insured Volume | +75% | Fewer members and lower claims/premium volume leads to a lower ACL RBC. |
| 2020 Operating and Investment Results | -1% | Projected 2020 results before considering COVID-19 is essentially break-even, consistent with 1.5% contribution to surplus philosophy. |
| Strategic Investments | -26% | BCBSVT is investing roughly $4.7 million in strategic initiatives aimed at generating cost savings and improving access. |
| Pension Obligation | -180% | For the reasons set forth in BCBSVT's June 29, 2020 letter to the Board, BCBSVT is expecting that its pension obligation as of December 31, 2020 will require a significant contribution from its surplus, approximately $40 million. |

| Item | Estimated RBC Impact | Comments |
|---|---|---|
| Equity Losses Through May 31, 2020 | -14% | Roughly $3 million in losses through May 31, 2020. |
| 2019 Final & 2020 Projected Risk Adjustment True-Up | +2% | Slight aggregate difference in accruals for 2019 Actual and 2020 Projected Risk Adjustment. |
| Recovery of Unpaid Risk Corridor Payments | +46% | BCBSVT expects to receive approximately $11.0 million due to unpaid risk corridor payments with a high probability due to the recent US Supreme Court decision confirming the federal government's responsibility to make these payments to insurers. |
| **BCBSVT Projected RBC at December 31, 2020 Excluding Any COVID-19 Impacts** | **553%** | **567% reported RBC at December 31, 2019 plus the sum of all of the impacts listed above. This results in an estimated surplus of $118.3 million divided by $21.4 million ACL RBC.** |

BCBSVT identified the items shown in Table 4 that are expected to impact their RBC ratio through December 31, 2020. These items do not consider the impact of COVID-19. Table 5 below shows the estimated RBC ratio as of December 31, 2021 accounting for all items other than the impact of COVID-19 medical claims for both 2020 and 2021 and the 2021 VISG results.

**Table 5**
**BCBSVT "Known" 2021 RBC Impacts Excluding COVID-19 Impacts on Medical Claims Costs and 2021 VISG Operating Results**

| Item | Estimated RBC Impact | Comments |
|---|---|---|
| **December 31, 2020 Estimated RBC Excluding COVID-19** | **553%** | |
| Non-Modeled COVID-19 Impacts | -71% | This includes uncollectable premiums, cancelled recoupment of provider advances, waived cost sharing, suspension of claims audit activity, and increased pharmacy utilization. |
| Other 2021 "Known" Impacts | +20% | This includes $7.0 million BCBSVT expects to receive with a relatively high probability from the federal government for unpaid cost-sharing reduction payments and a small amount to support BCBSVT's Group Medicare Advantage business. |
| **December 31, 2021 Estimated RBC Excluding COVID-19 Impacts on Medical Claims and 2021 VISG Results** | **503%** | **553% estimated RBC at December 31, 2020 excluding any COVID-19 impacts plus the sum of the two impacts listed above. This results in an estimated surplus of $107.6 million divided by $21.4 million ACL RBC.** |

The major "known" impacts decrease BCBSVT's baseline surplus capital as of December 31, 2020 to roughly $107.6 million, which results in an RBC ratio of 503% assuming $21.4 million ACL RBC at December 31, 2020. Overall, due to the relatively high number of "known" impact items, but uncertainty to the actual surplus impact of each item, BCBSVT's expected RBC position is uncertain at December 31, 2021, prior to the unknown impact of COVID-19 on 2020-2021 claims.

Table 6 shows the potential impact on BCBSVT's RBC ratio with various negative adjustments to their proposed premium rates, with no offsetting decrease to projected claims, other non-benefit expenses, and no changes in legislation or rate filing requirements, based on the estimated December 31, 2020 capital and surplus of $107.6 million and the estimated ACL RBC as of December 31, 2020 of $21.4 million shown in BCBSVT's calculations, adjusted for the expectation that a 1.5% contribution to reserves will have a 0% RBC impact. This increases the estimated December 31, 2021 ACL RBC used in the following tables to $22.3 million.

**Table 6**
**Projected Impact on BCBSVT RBC Ratio Excluding COVID-19 Claims Impacts**

| **Adjustment to Overall Requested Premium (%)** | **0%** | **-1%** | **-2%** | **-3%** | **-4%** | **-5%** | **-6%** |
|---|---|---|---|---|---|---|---|
| Resulting Average Increase on 2020 Rates (%) | 6.3% | 5.2% | 4.2% | 3.1% | 2.0% | 1.0% | -0.1% |
| Contribution to Surplus (%) | 1.5% | 0.5% | -0.5% | -1.5% | -2.5% | -3.5% | -4.5% |
| Contribution to Surplus ($ millions) | $4.7 | $1.6 | ($1.6) | ($4.7) | ($7.8) | ($10.9) | ($14.0) |
| Impact on 2021 RBC Ratio | 0% | -14% | -28% | -42% | -56% | -70% | -84% |
| RBC Ratio at 12/31/2021 | 503% | 489% | 475% | 461% | 447% | 433% | 419% |

As shown in Table 6, BCBSVT could have a December 31, 2021 RBC ratio below the target range before considering COVID-19 impacts, even at no reduction to BCBSVT's proposed premium level, with no offsetting decrease to projected claims or other non-benefit expenses.

The largest uncertain item that will impact BCBSVT's 2021 RBC ratio is the COVID-19 pandemic, which is and will continue to impact premium and claims costs until after the pandemic is contained. Fortunately, confirmed Vermont COVID-19 infections have been low through June 2020, but future infection levels could increase as restrictions are lifted and consumers return to pre-COVID routines. So far, the measures taken by authorities and the public intended to limit the spread of COVID-19 has resulted in a significant short-term decrease in utilization and claims, which has been positive for BCBSVT from a capital perspective. However, a portion of this utilization is expected to come back, but the amount and timing of any future returning utilization is uncertain. Further uncertainty arises around medical demand due to sustained shifts in patient behavior, utilization shifts to telehealth, regulatory actions to increase access to medical care, the cost of a potential vaccine and who will bear that cost, the current recession, the overall length of the pandemic, how CARES Act funds are distributed, and any provider actions taken to recover losses.

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, and large group business; no premium or membership impacts were modeled. The claims impact due to COVID-19 is assumed to be the direct costs to treat 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; less changes in demand; and plus a deferred care morbidity impact reflecting slightly adverse morbidity due to the delayed or cancelled care. The model also considers a number of virus spread scenarios that include a constant level of infection that ends at various times over the next two years, and a second wave of infections with varying severity and timing.

Under the average virus spread scenario, BCBSVT's estimate of COVID-19's impact on the December 31, 2021 RBC varies between -84% under the most adverse scenario to +42% under the most favorable scenario, which is incremental to the -71% reduction in RBC for COVID-19 related items not included in BCBSVT's stochastic model. BCBSVT also assumes a moderate level of cost due to COVID-19 in 2022, leading to relatively minor negative RBC impacts. We reviewed BCBSVT's model at a high-level and find the structure of their model and individual assumptions to generally be in line with other approaches we have seen in the industry; however, we believe there is, overall, some conservatism in the COVID-19 claims modelling. Specifically, we note:

- Assumptions for returning claims are set at 100% for certain types of services. This seems unlikely as some of these services will presumably not return.
- We would anticipate some level of reduced utilization due to patient behaviors during the period of time that COVID infections are occurring in Vermont due to general risk aversion, especially for at-risk individuals.
- Similar to the prior comment, based on the appendix materials, it appears that net utilization (Delayed and Returning impact) will be above pre-COVID-19 levels beginning in July 2020 which seems inconsistent with what is actually happening in Vermont as of the date of this letter.
- Generally, carriers are showing some overall favorable COVID-19 financial impact, while the BCBSVT "known" COVID-19 costs (71% reduction in RBC ratio) and range of stochastically modeled claims impacts (84% reduction to 42% increase in RBC ratio) reflect mean adverse results under all scenarios.

In the following Tables 7 and 8, we present ending December 31, 2021 RBC projections with a number of 2021 reductions to proposed premium rates on the horizontal axis and a number COVID-19 impacts on the vertical axis. For simplicity, the 2020-2021 overall COVID-19 impacts are assumed as a percentage of 2019 reported incurred claims of $496.9 million, adjusted to $470.9 million to reflect the decrease in ACL RBC from $23.6 million to $22.3 million. BCBSVT's COVID-19 claims scenario results generally fall within the shaded -2% to +1% range of values in Tables 7 and 8. We note that BCBSVT's "No Second

Wave" projected RBC ratio as of December 31, 2021 of 522% is close to the 524% yellow highlighted number reflecting no premium adjustment and a -1% Net COVID-19 claims impact. As noted, we think the modelling is generally conservative and think that the overall COVID-19 claims impact is more likely to be between the -1% and -5% range shown in the boxes in Tables 7 and 8.

**Table 7**
**BCBSVT Projected Impact of COVID-19 and Rate Actions on December 31, 2021 Surplus**

| Aggregate 2020-2021 COVID-19 Claims Impact as a Percentage of Adjusted 2019 Incurred Claims | Adjustment to Overall Requested Premium (%) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 0% | -1% | -2% | -3% | -4% | -5% | -6% |
| | -10% | $51.8 | $48.6 | $45.5 | $42.4 | $39.3 | $36.2 | $33.1 |
| | -5% | $28.2 | $25.1 | $22.0 | $18.9 | $15.8 | $12.7 | $9.5 |
| | -3% | $18.8 | $15.7 | $12.6 | $9.5 | $6.3 | $3.2 | $0.1 |
| | -2% | $14.1 | $11.0 | $7.9 | $4.7 | $1.6 | ($1.5) | ($4.6) |
| | -1% | $9.4 | $6.3 | $3.2 | $0.0 | ($3.1) | ($6.2) | ($9.3) |
| | 0% | $4.7 | $1.6 | ($1.6) | ($4.7) | ($7.8) | ($10.9) | ($14.0) |
| | 1% | ($0.0) | ($3.2) | ($6.3) | ($9.4) | ($12.5) | ($15.6) | ($18.7) |
| | 2% | ($4.7) | ($7.9) | ($11.0) | ($14.1) | ($17.2) | ($20.3) | ($23.4) |
| | 3% | ($9.5) | ($12.6) | ($15.7) | ($18.8) | ($21.9) | ($25.0) | ($28.1) |
| | 5% | ($18.9) | ($22.0) | ($25.1) | ($28.2) | ($31.3) | ($34.4) | ($37.6) |
| | 10% | ($42.4) | ($45.5) | ($48.6) | ($51.8) | ($54.9) | ($58.0) | ($61.1) |

**Table 8**
**BCBSVT Projected December 31, 2021 Surplus Including Rate Actions and COVID-19 Impacts**

| Aggregate 2020-2021 COVID-19 Claims Impact as a Percentage of Adjusted 2019 Incurred Claims | Adjustment to Overall Requested Premium (%) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | 0% | -1% | -2% | -3% | -4% | -5% | -6% |
| | -10% | 714% | 700% | 686% | 672% | 658% | 644% | 630% |
| | -5% | 608% | 595% | 581% | 567% | 553% | 539% | 525% |
| | -3% | 566% | 552% | 538% | 524% | 511% | 497% | 483% |
| | -2% | 545% | 531% | 517% | 503% | 489% | 475% | 462% |
| | -1% | 524% | 510% | 496% | 482% | 468% | 454% | 440% |
| | 0% | 503% | 489% | 475% | 461% | 447% | 433% | 419% |
| | 1% | 482% | 468% | 454% | 440% | 426% | 412% | 398% |
| | 2% | 461% | 447% | 433% | 419% | 405% | 391% | 377% |
| | 3% | 440% | 426% | 412% | 398% | 384% | 370% | 356% |
| | 5% | 398% | 384% | 370% | 356% | 342% | 328% | 314% |
| | 10% | 292% | 278% | 264% | 250% | 236% | 222% | 208% |

The above Table 8 shows that under all scenarios, BCBSVT is not expected to exceed the 745% upper-end of their RBC range as of December 31, 2021. In most scenarios, BCBSVT is expected to remain under the 590% lower-end limit of their RBC range. Lastly, under the most adverse scenarios, BCBSVT could fall under the 375% Blue Cross and Blue Shield Association monitoring limit, or lower.

# CONCLUSION

BCBSVT is projecting that their proposed 2021 VISG rates, including a 1.5% contribution to surplus assumption, will be RBC neutral assuming all their assumptions are experienced. However, considering "known" items that will impact future reported surpluses and the uncertainty around COVID-19, there is a strong likelihood that BCBSVT will remain under the 590% low end of the target surplus range at December 31, 2021 if the overall impact of COVID-19 on medical claims is relatively modest, as BCBSVT estimates. However, if the impact of COVID-19 on medical claims results in a more significant reduction than reflected in BCBSVT's current modelling, which we believe is somewhat conservative, BCBSVT could have resulting surplus near the lower end of the 590% to 745% target surplus range at December 31, 2021.

Additionally, BCBSVT's RBC ratios have declined from 663% at December 31, 2015 to 567% at December 31, 2019, and the 567% 2019 RBC ratio is the lowest of all the comparative companies shown in our benchmarking. Lastly, any negative adjustment to the proposed premium levels will increase the likelihood that the December 31, 2021 RBC ratio falls below the target RBC 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 VISG filing. 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 2021 VISG rate filing, BCBSVT's COVID-19 modelling report 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 filing, please feel free to contact us.

Sincerely,

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