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July 10, 2024

(Note: Redactions revised July 25, 2024 in light of Blue Cross VT's public hearing testimony)

Green Mountain Care Board  
144 State Street  
Montpelier, VT 05602

Office of the Health Care Advocate  
Vermont Legal Aid  
56 College Street  
Montpelier, VT 05602

**Subject: Blue Cross and Blue Shield of Vermont Update**

Dear Members of the Green Mountain Care Board and of the Office of the Health Care Advocate,

I am writing to you to provide a brief update in advance of the prefiled testimony, answers to Board and HCA questions, and other reports to be filed on Friday, July 12, 2024, relating to the individual and small group rate filings.<sup>1</sup> We have recently completed a prospective assessment of Blue Cross and Blue Shield of Vermont's (Blue Cross VT) solvency position and are sharing it with DFR in advance of Friday. We believe it is important that the Board and the Health Care Advocate receive this information at the same time. The full context and additional details of Blue Cross VT's financial position will be included in Ruth Greene's pre-filed testimony and in responses to some of the outstanding questions to us, which we will submit on July 12.

Very recently, Blue Cross VT's financial status has significantly deteriorated due to unfavorable underwriting results. Since late June, Blue Cross VT has been in weekly contact with the Department of Financial Regulation (DFR) regarding the status of our RBC and solvency protection plans.

Because of this development, especially in light of Blue Cross VT's extremely low level of RBC to start the year, we must act now to protect solvency. As one necessary action, Blue Cross VT must now request a higher contribution to reserve (CTR) than the filed 3% CTR to sustain the Company's solvency in the near-term and ensure movement towards the bottom end of the DFR ordered RBC range in the longer term.

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<sup>1</sup> GMCB-003-24rr and GMCB-004-24rr

**CONFIDENTIAL COMMUNICATION**

While we will explain the basis for our updated CTR request more fully in prefiled testimony on July 12, below is a summary of the prospective solvency assessment and revision to target CTR that we are also sharing with DFR in advance of Friday’s deadline.

Prospective Assessment of RBC

Blue Cross VT takes a rigorous approach to prospectively assessing its solvency and RBC levels. While we employ projections, we also recognize that RBC is influenced by many factors and at its core is a measurement of solvency at a given point in time. Projecting future RBC levels is challenging and difficult because of the relatively small size of our member reserves compared to the risks those reserves are intended to protect against, including volatility in medical and pharmacy claims; membership growth; and external factors such as performance of equity markets.

When we assess our outlook for future RBC levels, we begin by preparing an annual financial forecast for the coming fiscal year. That forecast incorporates known actual variances to the latest current year forecast. Then we create a multi-year deterministic model, based on the annual financial forecast, which projects financial performance and membership growth expectations for each business segment. This forecast includes approved premium rates and other assumptions aligned with our rate development, along with adjustment for emerging experience. This multi-year view shows the trajectory of member reserves and RBC based on these deterministic assumptions.

Although a useful first step, the deterministic approach gives a false sense of certainty. This is because actual results will vary, often significantly, from projections due to the highly variable nature of factors that impact RBC. Therefore, we expand our modeling to include statistical (stochastic) modeling. The purpose of this step is to identify the probabilities of certain future RBC results using a range of potential future outcomes for certain key assumptions and a statistically significant number of scenarios.

Using the most recent series of modeling updates, the following table outlines the median estimates of RBC for the end of 2024 and 2025 (based on the deterministic model), and the statistical probabilities (based on the stochastic modeling) of RBC being above the bottom of our ordered range, below the benchmark reference point for BlueCross BlueShield monitoring level of 375%, and the DFR action level of 200%.

	2024	2025
Median RBC	████	████
Probability greater than 590%	████	████
Probability less than 375%	████	████
Probability less than 200%	████	████

**CONFIDENTIAL COMMUNICATION**

Implications to CTR and Blue Cross VT’s Plan to Move toward Ordered Range

As noted above, Blue Cross VT has suffered recent and extreme deterioration in 2024 financial results. Given the current financial position with RBC of [REDACTED] as of May 31, 2024, and the imperative to protect Blue Cross VT’s solvency in the near-term and the need to move towards the DFR ordered range in the longer-term, management believes the 2025 QHP premium rates needs to include a higher CTR than the 3% we requested in the original rate filings.

Using the same deterministic and stochastic modeling noted above, management has considered the impact of increasing CTR in 2025 to 5% and 7%. The impact to the RBC outlook for 2024 and 2025 at these increased CTR levels is outlined in the following table.

	With 3% CTR		With 5% CTR		With 7% CTR	
	2024	2025	2024	2025	2024	2025
Median RBC <sup>2</sup>	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Probability greater than 590%	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Probability less than 375%	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Probability less than 200%	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Given Blue Cross VT’s current dire financial position [REDACTED] management is revising its target CTR for the individual and small group rate filings to 7% until such time that the financial position is well within the ordered RBC range. A CTR of 7% significantly reduces the probability that RBC will be below 375% at the end of 2025 while the probability of RBC being above the bottom end of the ordered range is less than 1.3% over the same timeframe.

It is important to note that CTR is fully funded only if all other rate components are also fully funded and actuarially supported when taken as a whole. Please let us know if you have any questions regarding the foregoing information.

Sincerely,

/s/ Ruth Greene  
Ruth Greene  
Vice President, Treasurer and CFO

<sup>2</sup> The slight difference in 2024 median RBC shown is a result of rounding.

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cc: Don George - Blue Cross VT  
Martine Lemieux - Blue Cross VT  
Rebecca Heintz - Blue Cross VT