VERMONT

State of Vermont
Department of Financial Regulation
89 Main Street
Montpelier, VT 05620-3101

For consumer assistance:
[Banking] 888-568-4547
[Insurance] 800-964- 1784
[Securities] 877-550-3907
www.dfr.vermont.gov

July 12, 2024

Chair Owen Foster
Green Mountain Care Board
144 State Street
Montpelier, Vermont 05620

Re: Solvency Impact of "2025 Vermont QHP Market - Individual Rate Filing (SERFF # BCVT-134091560)" of Blue Cross Blue Shield of Vermont

Dear Chair Foster:

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: "**2025 Vermont QHP Market - Individual Rate Filing**."[1]

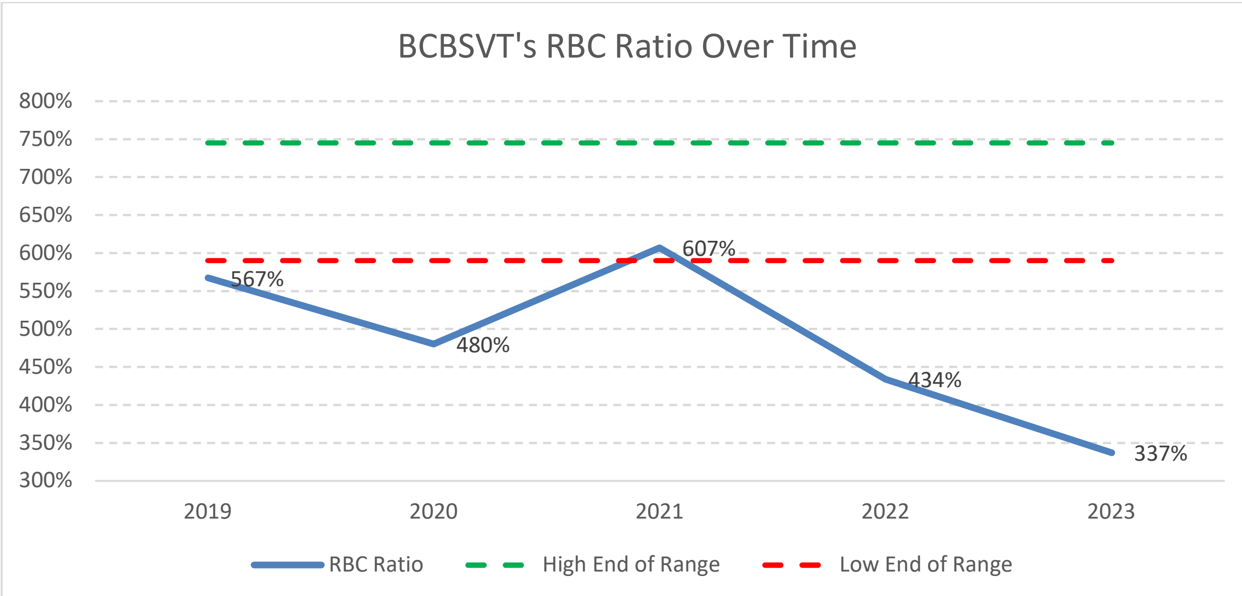
BCBSVT's capital and surplus continues to decline. At the end of 2023, the Company's Risk Based Capital ("RBC") ratio was 337%, the lowest in many years. As a result of several factors including escalating claim trends, membership growth, the COVID-19 pandemic, declining health of the Vermont population leading to higher claim utilization, as well as several other financial impacts outside of the Company's control, the RBC ratio has declined further in 2024.

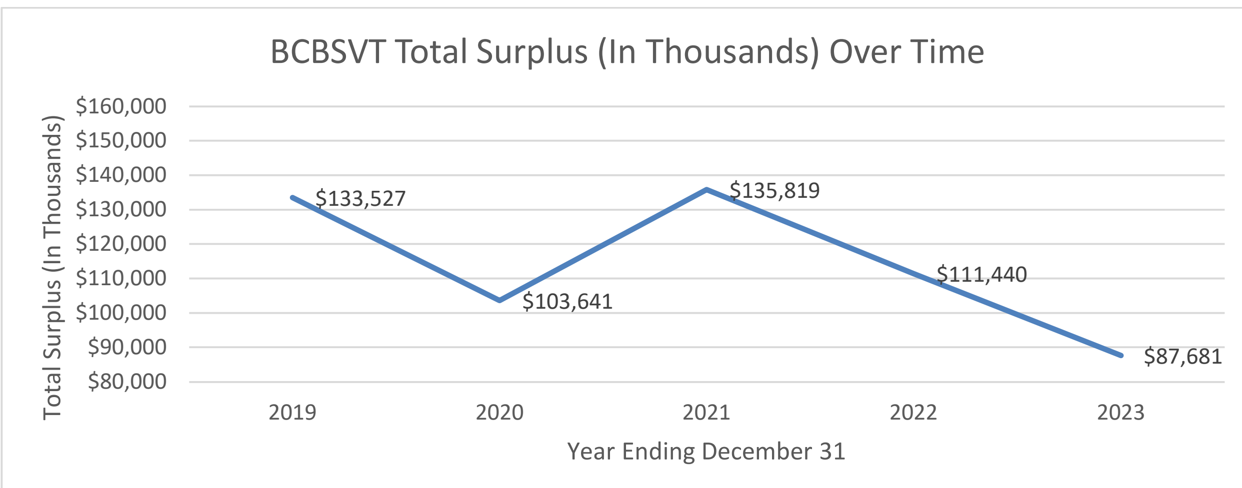
Along with its RBC ratio, BCBSVT's surplus continues to trend negatively. Preliminary results through May show unexpected high claim costs further deteriorated RBC and caused BCBSVT to fall into an RBC range that triggers a company action level event under 8 V.S.A. § 8303.[2]

The RBC action level means that BCBSVT must develop and provide DFR with a risk-based capital plan to identify corrective actions to improve the Company's risk-based capital level. If BCBSVT's RBC ratio were to decrease further, it would risk triggering more severe regulatory actions.[3]

[1] Under 8 V.S.A. § 4062, the DFR must provide to the Green Mountain Care Board an analysis and opinion on the filing's impact on BCBSVT's solvency.
[2] Section 8303 identifies the mandatory steps that an insurer, and then the DFR, must take to stabilize the insurer.
[3] *See* 8 V.S.A. Chapter 159.

The five-year histories of the Company's RBC ratio and total surplus are charted below:





DFR is actively monitoring BCBSVT's surplus and its solvency using all available tools. The filed contribution to reserve ("CTR") rate of 3% is inadequate based on the current trends and surplus levels. As a result of the inadequacy, an increase to the contribution to reserves is necessary to increase the Company's surplus toward acceptable levels for the protection of policyholders.

In addition, the Company's RBC ratio continues to be well below its targeted range[4] as of December 31, 2023, and any downward adjustments to the filing's rate components that are not actuarially supported will further erode BCBSVT's surplus and RBC ratio, triggering additional actionable events that will require DFR's intervention.

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[4] 590%-745% RBC ratio per Department of Financial Regulation Order 19-007-I

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 regulatory oversight.[6] BCBSVT insures more Vermonters than any other health insurance company. 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, since it directly relates to an insurer's ability to pay policyholder claims. 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, 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. 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. Over the long term, charging inadequate premium rates will result in assets that are too low and liabilities that are too high. This presents a material and direct threat to the solvency of the insurer and its ability to pay policyholder claims.

Over the past five years, BCBSVT has cumulatively collected inadequate premium rates to cover expected claims and expenses. This has resulted in a deterioration and immediate threat to the insurer's solvency:

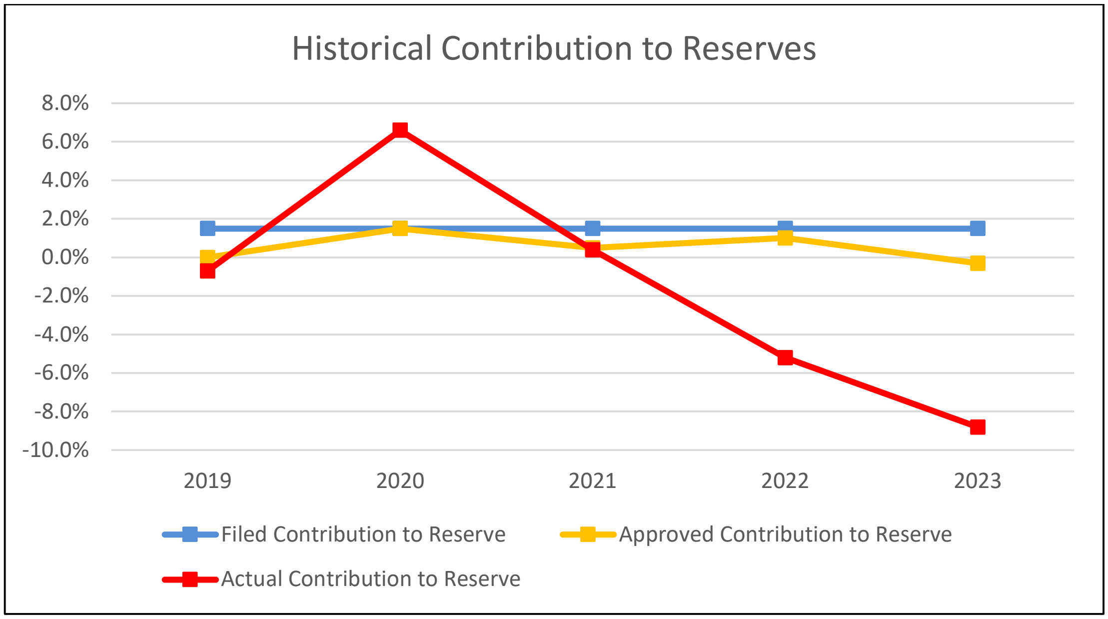
	2019	2020	2021	2022	2023
QHP Gains/(Losses) including Risk Corridor Payments	($2,120,848)	$20,506,228	$1,099,320	($15,379,786)	($32,994,834)

To protect against inadequate rates, whether due to unexpectedly high claims or other factors, 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. Therefore, a sufficient surplus is critical to an insurer's solvency.

An insurer includes a CTR factor which is part of the overall premium, and the primary method by which an insurer is able to build up and maintain surplus. An adequate CTR enables BCBSVT to remain stable in the ongoing uncertain environment of elevated claim trends – driven by both healthcare costs and utilization – as well as market volatility and recent capital demands.

[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).

Due to the inadequate premium rates, BCBSVT's actual CTR has been negative over the last five years in the aggregate as illustrated in the chart below. For BCBSVT, 1% of CTR for 2025 is equivalent to approximately $5 million dollars.



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 review of the quarterly financial statements that are filed by a company, 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. As of December 31, 2023, BCBSVT's surplus was $87,681,386, down from $111,440,027 on December 31, 2022. This decrease in surplus, as well as higher than expected claims experienced in 2024, has contributed to the Company's current RBC ratio triggering a company action level event, and therefore it is DFR's recommendation the Company increase the filed contribution to reserve to increase surplus.

Recommendation

In its filing BCBSVT has requested that the Green Mountain Care Board approve an overall average rate increase of 16.35%. DFR's overall solvency assessment of BCBSVT finds that the original proposed CTR, and therefore the rate, is insufficient and must be significantly adjusted upward. BCBSVT has indicated to the Department the company will be adjusting the CTR factor from 3.0% to 7.0%. The Department supports this increased CTR and finds it necessary to increase and stabilize reserves of BCBSVT. Any downward adjustments to the filing's other rate components that are not actuarially supported may prevent BCBSVT from meeting the necessary CTR and will further reduce BCBSVT's surplus and negatively impact its solvency.

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

Sincerely,

Kevin Gaffney
Commissioner of Insurance