VERMONT

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July 19, 2022

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

Re: Solvency Impact of "Q4 2022 TVHP Large Group Unit Cost Trend Filing" (SERFF # BCVT-133270485) of The Vermont Health Plan of Vermont

Dear Chair Mullin:

The Department of Financial Regulation ("DFR") respectfully submits the following solvency opinion regarding The Vermont Health Plan, LLC ("TVHP" or the "Company") and its recent proposed rate filing: "**Q4 2022 TVHP Large Group Unit Cost Trend Filing**."[1] TVHP is a wholly owned subsidiary of Blue Cross and Blue Shield of Vermont Inc. ("BCBSVT"). TVHP and BCBSVT are two insurers within an Insurance Holding Company System as defined by 8 V.S.A. § 3681(4). Under these circumstances, the solvency analysis of TVHP and BCBSVT concentrates on the financial position of the parent, BCBSVT. This opinion focuses on a discussion of BCBSVT and all references to the financial position, surplus, or solvency of BCBSVT are applicable to TVHP.

As the Board is well aware, the COVID-19 pandemic has brought a great deal of uncertainty to Vermont's health insurance marketplace. Although the uncertainty surrounding COVID-19 has lessened due to development of an effective vaccine, treatment guidelines, and other factors, the long-term impact of COVID-19 is not fully known at this time and, therefore, neither is the impact on insurer solvency.

Two important indicia of solvency, BCBSVT's surplus and its Risk Based Capital ("RBC") ratio, have improved when compared to the prior year end. The Company's RBC Ratio is currently within its targeted range as of December 31, 2021. Any downward adjustments to the filing's rate components that are not actuarially supported would likely erode BCBSVT's surplus and RBC ratio.

[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 background, DFR does not expect the proposed rate will 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 within this range.[2]

Background

Vermont law requires DFR to protect consumers by supervising insurance companies to ensure their solvency, liquidity, stability, and efficiency.[3] DFR has a special responsibility with respect to BCBSVT, which was created by statute and is subject to comprehensive DFR regulation.[4] 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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[2] The Department in early 2019 approved an updated RBC ratio range target 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.
[3] 8 V.S.A. § 10.
[4] 8 V.S.A. Chapters 123, 125.

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.

Impact on Solvency of Proposed Rate

In its filing TVHP has requested that the Board approve an overall indicated rate change of 2.9%. DFR does not expect the proposed rate will have a significant impact on our overall solvency assessment of TVHP.

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

Sincerely,

Kevin Gaffney
Commissioner of Insurance