Health Care Service Corporation Group

AMB #: 069154
Associated Ultimate Parent: AMB # 009193 -
Health Care Service Corporation, a Mutual Legal Reserve Company

Best's Credit Rating Effective Date
October 31, 2024

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Market Segment Outlooks

Financial Data Presented

Financial data in this report: (i) includes data of affiliated entities that are not rating unit members where analytics benefit from inclusion; and/or (ii) excludes data of rating unit member entities if they operate in different segments or geographic areas than the Rating Unit generally. See list of companies for details of rating unit members and any such included and/or excluded entities.

The financial data in this report reflects the most current data available to the Analytical Team at the time of the rating. Updates to the financial exhibits in this report are available here: Best's Financial Report.

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)	Issuer Credit Rating (ICR)
A+	**aa-**
Superior	**Superior**
Outlook: **Stable**	Outlook: **Stable**
Action: **Affirmed**	Action: **Affirmed**

Assessment Descriptors

Balance Sheet Strength	**Strongest**
Operating Performance	**Adequate**
Business Profile	**Favorable**
Enterprise Risk Management	**Appropriate**

Rating Unit - Members

Rating Unit: Health Care Service Corp Group | AMB #: 069154

AMB #	Rating Unit Members	AMB #	Rating Unit Members
007322	Dearborn Life Insurance Co	007048	HCSC Insurance Services Co
068158	Dearborn Natl Life Ins of NY	009193	Health Care Service Corp
068932	GHS Health Maintenance Org	068771	Health Care Service-IL LOB
011405	GHS Insurance Company	068718	Health Care Service-Texas LOB

Rating Rationale

Balance Sheet Strength: Strongest

- Health Care Service Corporation Group (HCSC Group) maintains the strongest level of risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR). In addition, capital and surplus growth is supported by solid underwriting and investment income through 2024.
- A prudent and highly diversified investment portfolio with good credit quality. Over four-fifths of invested assets are held in investment-grade fixed-income securities with an average maturity of seven years. Net cash flow from operations remains favorable.
- Favorable levels of financial flexibility give access to the debt markets. The organization has over $4 billion in senior unsecured notes, $1 billion line of credit with a consortium of banks and access to $1.75 billion of borrowing capacity under the Federal Home Loan Bank of Chicago (FHLBC). Financial leverage metrics are considered low, but they increased recently due to a new debt issuance. However, the ratio remained within an acceptable range at 15%.
- Liquidity measures remain adequate and are strengthened by access to the FHLBC at the lead entity, Health Care Service Corporation.

Operating Performance: Adequate

- Favorable net premium written growth driven primarily by membership growth across a majority of the lines of business. Premium growth is expected to continue for these lines and will be partially offset by declines in Medicaid membership due to the resumption of redeterminations following the end of the public health emergency.
- Profitability measures include a strong trend of return on equity, which exceeded 5% over the past five years as well as stable operating margins.
- Consolidated underwriting and net income trends have been favorable over the past five years. Underwriting performance has been driven primarily by strong results in the commercial segment, primarily driven by individual exchange segment and were tempered by a higher-than-expected medical cost trend across the majority of its lines of business.
- Investment income has been steady and has meaningfully contributed to net earnings through 2024.

Business Profile: Favorable

- HCSC Group has a nationwide presence supported by strong brand recognition. The organization is a market leader in all five states in which it operates.
- The business profile is further enhanced by the offering of diversified health insurance products. HCSC Group has exhibited consistent membership growth in its main markets driven by both government and commercial segments through 2024.
- While competition remains strong in all lines of business, the Blue Cross Blue Shield brand provides a significant competitive advantage for both network relationships and consumer outreach.

Enterprise Risk Management: Appropriate

- The ERM program is well developed with a comprehensive risk identification, monitoring, mitigation, and oversight process. The program is evolving to expand the risk assessment process by engaging employees at all levels of the organization.
- Governance includes oversight from the executive leadership team, ERM Steering Committee and the Board of Directors of Health Care Service Corporation.
- Group-wide stress testing designed to capture significant risk events and emerging risks is constantly monitored. Further, the organization performs multiple stress scenario testing to determine the impact on risk-adjusted capitalization.
- Risk appetite and tolerances extend to various areas of the organization, including operations, strategy, execution and financial condition.
- Stress and scenario testing is performed annually, and results are included in the Own Risk and Solvency Assessment (ORSA) report.

Outlook

- The stable outlooks reflect AM Best's expectation that the group will maintain the strongest level of balance sheet strength assessment, supported by its leading market position in its core markets and the scale and profitability of its total business.

Rating Drivers

- While it is thought to be unlikely in the near-term future, positive rating movement could occur with an upwards trajectory in operating performance.
- Negative rating movement could occur if there is a sustained decline in Health Care Service Corporation Group's operating performance.
- Negative rating movement could occur if there is deterioration of balance sheet metrics.

Key Financial Indicators

Best's Capital Adequacy Ratio (BCAR) Scores (%)

Confidence Level	95.0	99.0	99.5	99.6
BCAR Score	78.4	71.4	68.6	67.7

Source: Best's Capital Adequacy Ratio Model - Combined Life & Health, US

	Year End - December 31				
Key Financial Indicators USD (000)	**2023**	**2022**	**2021**	**2020**	**2019**
Total Assets	40,330,775	38,958,692	39,148,123	37,403,115	31,274,808
Policy and Claim Reserves:					
Life and Annuity	230,239	249,534	766,694	774,188	814,894
Accident & Health	369,765	351,247	325,422	293,929	269,605
Health	5,852,543	6,386,169	5,895,377	5,961,757	5,764,973
Capital and Surplus	24,304,359	23,320,142	23,128,941	21,834,189	18,524,171
Total Revenues	57,136,512	51,219,541	47,863,945	45,956,078	40,188,227
Net Income	1,399,164	1,303,316	1,133,972	3,887,979	2,186,256
Net Operating Cash Flow	1,413,627	846,568	-74,261	6,611,104	3,615,043
Net Premiums Written:					
Life and Annuity	377,482	-75,108	352,024	344,157	319,112
Accident & Health	296,802	268,538	216,030	192,657	172,282
Health	55,023,045	50,603,255	46,113,239	44,373,931	39,561,597
NPW Total	55,697,329	50,796,685	46,681,293	44,910,745	40,052,991

Source: BestLink® - Best's Financial Suite

	Year End - December 31					
Key Financial Ratios	**2023**	**2022**	**2021**	**2020**	**2019**	**Weighted Average**
Overall:						
Operating Return on Revenue (%)	2.7	3.1	2.6	8.8	5.7	4.4
Operating Return on Capital and Surplus (%)	6.5	6.9	5.6	20.0	12.9	10.0
Health Operations:						
Loss Ratio (%)	87.5	86.0	88.7	81.1	83.3	85.5
Administrative Expense Ratio (%)	10.6	11.3	10.2	12.5	12.6	11.4
Combined Ratio (%)	98.2	97.3	98.9	93.7	95.9	96.9
IBNR Coverage (Days)	25.1	30.8	31.3	28.9	28.6	...

Source: BestLink® - Best's Financial Suite

Credit Analysis

Balance Sheet Strength

Health Care Service Corporation Group (HCSC) has the strongest level of risk-adjusted capitalization as measured by Best's BCAR model, a diversified investment portfolio with a modest exposure to higher risk asset, as well as a high degree of liquidity and a strong financial flexibility.

Balance Sheet Strength (Continued...)

Capitalization

Health Care Service Corporation (HCSC) has a history of maintaining more than sufficient level of both absolute and risk-adjusted capitalization and its BCAR measured strongest with the score of over 60% at 99.6% VaR as of year-end 2023. In addition, absolute and risk-adjusted capital experienced growth through 2024 driven by net gains. Through the second quarter 2024, HCSC reported growth of capital and surplus driven by retained earnings. Consistent capital and surplus growth, driven by favorable net income accretion, has generally outpaced premium growth, driving increased risk-adjusted capitalization. AM Best expects that HCSC's capital growth will continue in the near term, although possibly at reduced levels. However, premium leverage increased slightly but remained lower than 3% through 2023 and into 2024. Five-year compound annual growth rate of net premium written remains strong at 8% through 2023 compared to capital growth of 7.6%.

Additionally, HCSC has a history of using its capital strength to support its subsidiaries. GHS Insurance Company received total capital infusions of $171 million over the last five years to offset operating losses. Over the past five years, HCSC has also contributed $300 million to HCSC Insurance Services Company to support premium growth through 2023.

HCSC has strong financial flexibility with $4.5 billion of privately placed notes, access to Federal Home Loan Bank (FHLB) of Chicago advances, bank lines of credit and its available cash position. Additionally, HCSC has ample contingent liquidity as it has a five-year, $1.0 billion senior unsecured revolving credit facility with a consortium of banks. Furthermore, its borrowing capacity under the FHLB remains over $1.7 billion and there were no borrowings outstanding through the first half of 2024. AM Best notes that HCSC's financial leverage increased recently to 15%, due to a new debt issuance in 2024, but remains within acceptable ranges for the ratings. In addition, HCSC's earnings before interest and taxes interest coverage ratio is expected to remain strong as well, at well over 20 times. Further, HCSC has reported strong operating cash flow through mid-2024.

	Year End - December 31				
Capital Generation Analysis USD (000)	**2023**	**2022**	**2021**	**2020**	**2019**
Beginning Capital and Surplus	23,320,142	23,128,941	21,834,189	18,524,171	16,859,199
Net Operating Gain	1,550,443	1,595,269	1,249,815	4,032,001	2,277,617
Net Realized Capital Gains (Losses)	-151,279	-291,954	-115,843	-144,022	-91,361
Net Unrealized Capital Gains (Losses)	384,667	-873,956	453,684	365,660	337,454
Other Changes	-799,615	-238,160	-292,904	-943,621	-858,739
Net Change in Capital and Surplus	984,217	191,201	1,294,752	3,310,018	1,664,972
Ending Capital and Surplus	24,304,359	23,320,142	23,128,941	21,834,189	18,524,171
Net Change in Capital and Surplus (%)	4.2	0.8	5.9	17.9	9.9
Net Change in Capital and Surplus (5-yr CAGR)	7.6	...	...	...	...

Source: BestLink® - Best's Financial Suite

	Year End - December 31				
Liquidity Analysis (%)	**2023**	**2022**	**2021**	**2020**	**2019**
Overall:					
Operating Cash Flow Margin (%)	2.5	1.7	-0.2	14.4	9.0
Current Liquidity (%)	147.9	156.3	161.2	162.4	135.7
Health Operations:					
Benefit and Loss Related Payments to Net Premiums Collected (%)	88.7	88.6	90.4	79.1	85.7
General Expenses and Taxes Paid to Net Premiums Collected (%)	10.5	11.4	11.6	7.7	6.6
Premium Receivable Turnover (months)	0.2	0.2	0.2	0.2	0.4

Source: BestLink® - Best's Financial Suite

Balance Sheet Strength (Continued...)

Leverage (%)	2023	2022	2021	2020	2019
	Year End - December 31				
Debt to Total Capital and Surplus	8.2	8.5	10.8	9.1	3.0
Net Premiums Written to Total Capital and Surplus	2.3	2.2	2.0	2.1	2.2
General Account Liabilities to Total Capital and Surplus	0.7	0.7	0.7	0.7	0.7

Source: BestLink® - Best's Financial Suite

Asset Liability Management - Investments

Invested assets are held predominantly in investment grade fixed income securities and cash/cash equivalents. There is no material exposure to equities, real estate or Schedule BA assets. The company’s investment portfolio is quite liquid and has relatively low risk. Fixed income securities comprise over 80% of invested assets with the remaining allocation mostly in equity and real estate with small amount of BA assets and mortgage loans holdings. The majority of fixed income securities are investment grade with an average duration of seven years. However, the quality of the fixed income portfolio improved in 2023. The volume of below investment grade bonds, which includes high yields, emerging market debt, private placements and lower rated corporate bonds, declined through 2023. Additionally, the exposure to NAIC Class 2 bonds has been fairly stable at just under 30% for the past five-year period. Furthermore, exposure to higher-risk assets has grown due to decreased allocation to NAIC Class 3 and 4 bonds and alternative assets. These changes are in line with the organization's strategy to increase investment yields in a low interest rate environment. This strategy, along with the growth of the asset base, resulted in a more stable investment income.

Common stock holdings include mutual funds, individual equities and affiliates. Vanguard Total Stock Mutual Fund accounts for a large portion of the common stock portfolio. Current investment strategy includes private investment initiatives. Real estate holdings are mainly company occupied buildings, including the company's headquarters in Chicago, IL. BA assets include a number of health related holdings owned by groups of various Blue Cross Blue Shield plans and utilized for core business. The largest of such assets is Prime Therapeutics (Prime) which provides Pharmacy Benefits Administration services to a number of Blue plans including HCSC. HCSC has close to 40% of share in Prime, which is owned by several other Blue plans. Commercial mortgage loans are utilized for matching longer duration liabilities at Dearborn Life Insurance Company and its New York subsidiary, Dearborn National Life Insurance Company of New York. HCSC does not issue mortgage loans directly, but participates in lending through a partnership with Securian Asset Management.

Some investment management functions are performed internally. The company also engages the services of multiple external advisers and consultants in the management of the company's invested assets.

Composition of Cash and Invested Assets	2023	2022	2021	2020	2019
	Year End - December 31				
Total Cash and Invested Assets USD (000)	26,924,074	25,717,439	27,158,412	26,481,311	18,471,856
Composition Percentages (%)					
Cash and Short Term Investments	1.7	-1.9	-0.1	7.2	-1.9
Bonds	80.2	85.7	85.3	80.3	87.0
Preferred and Common Stock	10.9	10.7	9.3	7.5	7.9
Mortgage Loans	0.7	0.8	0.8	0.7	1.0
Other Invested Assets	6.4	4.8	4.8	4.3	6.0
Total	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Balance Sheet Strength (Continued...)

Bonds and Short Term Investments - Distribution by Maturity (%)	Years 0-1	1-5	5-10	10-20	20+	Average (Years)
Government Bonds	0.7	6.2	2.6	0.8	2.1	8.4
Government Agencies and Municipal Bonds	1.4	5.8	6.7	5.9	2.1	9.6
Industrial and Miscellaneous Bonds	6.5	27.5	20.3	2.5	4.4	6.3
Bank Loans	...	3.1	0.9	...	...	3.9
Hybrid Securities	...	...	0.1	...	0.3	17.8
Total Bonds	8.6	42.6	30.6	9.2	8.9	7.2

Source: BestLink® - Best's Financial Suite

Bonds - Distribution by Issuer	Year End - December 31 2023	2022	2021	2020	2019
Bonds USD (000)	21,606,383	22,027,828	23,166,291	21,260,482	16,076,200
US Government (%)	10.1	8.7	9.6	8.2	8.7
Foreign Government (%)	1.7	1.4	1.7	1.7	1.4
State, Municipal & Special Revenue (%)	21.5	18.5	16.5	19.5	16.1
Industrial & Miscellaneous (%)	63.5	64.3	64.9	63.3	65.8
Hybrid Securities and Other (%)	3.3	7.0	7.3	7.3	8.0
Total (%)	100.0	100.0	100.0	100.0	100.0

Source: BestLink® - Best's Financial Suite

Operating Performance

HCSC's has reported volatile, but consistently solid underwriting and net income over the past five-years. Overall earnings, although solid, have been impacted by higher-than-expected acuity and a shift in the mix in Medicaid membership base, related to eligibility redetermination and the change in this membership population. In more-recent years, the organization’s underwriting performance has been driven primarily by strong results in the commercial segment, predominantly in the individual exchange segment, although a higher-than-expected medical cost trend across the majority of its lines of business has tempered results. Further, the Medicaid segment was negatively impacted by members’ acuity as well as members’ behavior driving an increase in utilization following the end of the public health emergency and establishment of eligibility redetermination. In addition, the organization reported an increase in claim utilization for both its group commercial and Medicare lines of business through 2024. AM Best expects challenges in the government programs lines of business and will continue to monitor the impact this has on the Medicare Advantage and Medicaid business leading into 2025.

HCSC’s overall investment portfolio has generated moderate levels of realized investment losses in recent periods and through the first half of 2024.

Furthermore, HCSC has reported fairly consistent revenue growth and reported double-digit revenue growth through the first six months of 2024. Operating revenue growth has been driven by a combination of new business expansion, membership growth and premium rate increases. Significant group commercial and individual and family enrollment gains more than offset attrition in the Medicaid segment through the redetermination process. Five-year compound annual growth rate of net premium written remains strong at over 8% through 2023. The group segment represents the largest portion of HCSC revenue and premium growth has been reported for the line of business and across other lines of business. Reported in the 2020 results, the risk corridor payment of $1.4 billion contributed to operating performance metrics.

Operating Performance (Continued...)

Net Operating Gain by LOB - Life Operations USD (000)	Year End - December 31				
	2023	2022	2021	2020	2019
Individual Life	2,623	860	3,878	1,834	4,493
Group Life	23,695	-15,798	-70,129	-7,271	2,739
Individual Annuities	3,774	29,891	9,977	3,420	9,225
Group Annuities	321	1,950	2,769	444	1,527
Accident & Health	30,426	16,646	7,780	4,291	4,376
Total	60,839	33,548	-45,726	2,718	22,361

Source: BestLink® - Best's Financial Suite

Net Underwriting Gain - Health Operations USD (000)	Year End - December 31				
	2023	2022	2021	2020	2019
Comprehensive	...	600,444	-376,462	2,323,145	880,050
Dental	36,594	45,226	44,642	60,422	42,379
Vision	-209	-312	-84	-49	...
Federal Employee Health Benefit Plan	-979	22,539	15,954	41,681	-24,658
Medicare	-161,164	-142,755	-19,154	1,643	16,079
Medicare Supplement	-35,273	26,296	172,392	247,753	81,404
Medicaid	136,196	109,866	170,317	95,550	-168,495
Other Health	612,258	118,348	396,596	48,735	-95,754
Other Non-Health	-104	-140	-114	-51	-204
Total	899,278	779,513	404,087	2,818,830	730,801

Source: BestLink® - Best's Financial Suite

Business Profile

Health Care Service Corporation (HCSC) (d/b/a Blue Cross Blue Shield of Illinois/Texas/New Mexico/Oklahoma/Montana) has a well-established geographic diversity, as the company operates Blue Cross Blue Shield plans in five states. HCSC has benefited from its strong brand name recognition and a leading market share - as measured by membership - in the majority of its states.

The Blue branded managed care products offered includes preferred provider option (PPO), point of service (POS), health maintenance organization (HMO) and Consumer Directed Health Plan (CDHP) products to individuals and employer groups. Additional network based products are available to employer groups. Group business is provided on both a fully insured or on administrative service only (ASO) basis. For large multi-state employer groups, HCSC also provides access to the national Blue Cross and Blue Shield network through its BlueCard program participation. Health subsidiaries include GHS Health Maintenance Organization (OK), HCSC Insurance Services Company, Illinois Blue Cross Blue Shield Insurance Company and GHS Insurance Company. Lines of business are the HCSC - Illinois HMO Line of Business and HCSC - Texas HMO Line of Business. The company also offers Blue Cross and Blue Shield branded Medicaid, Medicare Supplemental, Medicare Advantage, Medicare Part D prescription drug and dental coverage directly or through its wholly owned health subsidiaries.

Furthermore, the organization continues to benefit from the growth of ancillary products offered through Dearborn Life Insurance Company which are Blue-branded in HCSC’s home states. Along with its subsidiary Dearborn National Life Insurance Company of New York, as well as its non-insurance service entities the companies operate as Dearborn Group in the market. The Dearborn Group companies provide the HCSC organization a means to offer multiple products to its customers and provide both product and geographic diversification. Supplemental health and ancillary products offered by Dearborn Group are also available to HCSC members and employer groups. Additionally, HCSC’s portfolio includes owned and affiliated companies that provide the organization with added diversified capabilities. Among HCSC’s non-insurance businesses is Luminare Health, which offers additional flexible health benefit solutions, allowing HCSC to serve a broader customer base. Through its investment in Collective Health, HCSC delivers a digital platform to help employers navigate the evolving health care ecosystem. Through its affiliation with Prime Therapeutics LLC, HCSC is able to provide pharmacy benefit management services, as well as a comprehensive suite of solutions for complex and chronic conditions to drive down the cost of care.

Business Profile (Continued...)

On January 31, 2024, HCSC announced that it had signed a definitive agreement with The Cigna Group to acquire its Medicare Advantage, Medicare Supplemental Benefits, Medicare Part D and CareAllies businesses. This acquisition aligns to HCSC strategic priorities and offers a highly attractive opportunity to acquire a scaled Medicare-focused health plan. The transaction is expected to expand HCSC's geographic diversification footprint, with the addition of business outside of HCSC's core Blue-branded states. Additionally, the new membership and revenues will provide additional scale and capabilities to HCSC's Medicare Advantage and related businesses. AM Best expects this transaction to have a limited impact on HCSC's overall balance sheet strength metrics, and financial leverage is expected to remain within AM Best's tolerances with interest coverage remaining strong.

AM Best notes that HCSC has exhibited a relatively stable strategy and the ability to meet its forecasts over the past few years. The commercial group business remains an important market segment for HCSC, driving a large portion of premiums and enrollment volume. Its government business, including Medicare Advantage and related senior products, as well as Medicaid managed care offerings, have exhibited solid growth over the past year. Additionally, the government business comprises an increasing portion of the overall enrollment and premiums for the group.

Furthermore, HCSC has reported consistent enrollment gains the past few years, driven by the group, retail and government sector of business. The group's total membership in the five states accounts for a solid size of the US GDP. The Illinois division has 8.8 million members, who comprise of one half of HCSC's total enrollment. The Texas division has 8 million members and primarily serves the large local market segment. The New Mexico division has 600,000 members, the Oklahoma division has 900,000 members, and the Montana division covers around 300,000 members. The vast majority of membership is enrolled in a managed care plan (PPO/POS/HMO). Group business accounts for over four-fifths of HCSC's business. HCSC group accounts include about one half of Fortune 500 employers located in HCSC home states. HCSC also participates with the Blue Cross Blue Shield Association National BlueCard program which accounts for approximately 3.7 million additional members. The individual business comprises of 1.9 million members, this segment exhibited strong enrollment gains with the ACA subsidy expansion and special enrollment period.

The company's health operations are defined by three market segments: Group, Government and Individual and Family Markets (IFM/Retail). The Group market segment includes Small Group, Large Group, National Accounts and Student Health. Small Group represents employer groups with 50 or less employees. The small group market has a higher level of regulation by the state Department of Insurance than other group market segments. Policyholders in this market are more price sensitive than other markets and may change carriers frequently due to price. Large Group represents employer groups with 51-1,999 employees. Major and Special Accounts include large companies with more than 2,000 employees domiciled in one of HCSC's home states and group accounts that do not fall into the traditional group segment definition such as the Federal Employee Health Benefits Program (FEP), Illinois Labor Accounts and Illinois Municipal Accounts and Texas Public Markets. National Accounts primarily represents very large multi-state employer groups as well as the processing of BlueCard claims for members covered under other Blue Cross and Blue Shield plans. HCSC has more than 500 national accounts with over 2,000 employees and has been a source of solid enrollment growth for the company. The majority of the national accounts covered by HCSC are self-funded. Similar to national trends the growth in the group segment had been stagnant for number of years. Higher enrollment is supported by both in-group growth and winning of new accounts. In addition, record retention level contributes to growing enrollment base.

HCSC currently participates in Medicaid programs in Illinois, New Mexico and Texas. HCSC increased its participation in Medicaid programs primarily by winning contracts in several states to cover new membership under Medicaid expansion of the ACA. To provide appropriate service to Medicaid members and improve profitability of that segment, HCSC began to implement various programs to address the social determinants of care. In addition, HCSC continues to optimize the networks and provider contracts better suited to serve the members with chronic conditions and limited means to maintain the needed level of care.

HCSC's Medicare line of business offers Medicare Supplemental plans as well as Medicare Advantage and Medicare Part D prescription drug coverage administered by HCSC and its wholly owned subsidiaries, HCSC Insurance Services Company (HISC), GHS Managed Health Plans, GHS Health Maintenance Organization and GHS Insurance Company. The membership in the Medicare Advantage program has experienced strong growth over the last five years. To support this growth, HCSC has invested in the infrastructure to improve Stars performance through expertise, care management, and data ingestion and analysis. As a result, HCSC maintained or improved Star ratings across all contracts for service year 2025. HCSC continues to focus on developing and maintaining a balanced portfolio of financially sustainable products to meet the needs of all Medicare beneficiaries within its five states.

The IFM Markets segment is divided into three sub-segments: ACA qualified health plans (QHP) sold to those under age 65, grandfathered non-ACA individual plans and dental/visions stand-alone. In the ACA sub-segment, the company offers a variety of individual and family plans in all core states, both on and off health insurance exchanges. The non-ACA sub-segment continues to provide coverage under applicable guidelines to those who had plans prior to the Affordable Care Act in both Illinois and Texas. Dental/vision stand-alone is sold in all core HCSC states. HCSC has seen growth in this line of business through 2024.

Business Profile (Continued...)

Health insurance products are sold through several distribution channels. They include general agents, brokers and consultants. Brokers and general agents mostly sell in the individual market and local small and mid-size group employers' markets. General agents also support the over 65 market. All market segments can work directly with HCSC although it is mostly seen in the individual under and over 65 markets. In all states, consultants market to the national accounts.

HCSC's historic growth was due to both organic growth as well as business combinations. HCSC was formed in 1975 through the merger of Hospital Service Corporation and Illinois Medical Service. The company began operating as Blue Cross and Blue Shield of Illinois in 1982 following a merger with Rockford Blue Cross Plan. Then in 1998, the company merged with Blue Cross and Blue Shield of Texas. In 2001, HCSC acquired the assets of Blue Cross and Blue Shield of New Mexico. HCSC completed the merger with Blue Cross and Blue Shield of Oklahoma in 2005. And then in 2013, HCSC completed the asset purchase of Blue Cross and Blue Shield of Montana. The company has maintained a strong local presence in sales, marketing, provider relations and contracting offices. Administrative functions are centrally integrated. Other past transactions include: a membership transition agreement with WellPoint, Inc., and its UniCare subsidiaries for commercial membership in Illinois and Texas, under which HCSC achieved membership transfers of over 200,000; acquisition of Lovelace Health Plan, a provider owned health plan in New Mexico adding approximately 110,000 commercial and government program members. HCSC acquired about 20,000 Medicare Advantage and commercial group members in Texas from Allegian Health Plans, a subsidiary of Tenet Healthcare in 2017.

HCSC acquired full ownership in 2023 of our joint venture formed in 2019 between Sanitas USA and HCSC to provide value-based care exclusively to over 34,000 BCBSTX members in the Dallas and Houston markets in 10 clinics. In 2024 these clinics were rebranded as Innovista Medical Center of Texas and are now operated under Innovista. HCSC continues to focus on its value-based care strategy that provides flexibility to implement strategies, optimize the performance of the clinics, and provide primary care services that are accessible, differentiated and member-focused.

In addition to acquisitions of health insurance companies, HCSC has investments in non-insurance business as well. HCSC acquired Medecision, a provider of healthcare information technology for case, disease and utilization management, and has developed secure health information access and exchange capabilities. HCSC also has an ownership interest in Prime Therapeutics, a pharmacy benefit management company and Availity, LLC, an advanced Internet-based e-health exchange. Additionally, HCSC maintains strategic business relationships with its former subsidiary, TMG Health.

In 2022, HCSC acquired Trustmark Health Benefit, a TPA of health benefits from Trustco Holdings, Inc. The addition of Trustmark Health Benefit (renamed, Luminare Health) is expected to expand HCSC's capabilities to serve a broader customer base looking for flexible health benefit solutions. Luminare Health enables organizations to customize health benefits they offer and allows HCSC to curate health benefits solutions that align with client needs and deliver greater value to them and their members.

In 2021, HCSC and Collective Health entered into a strategic relationship to deliver a digital platform to help employers and members identify, navigate, understand and pay for the diverse services that meet their evolving health care needs. In connection with this strategic relationship, the company, made a capital equity investment in Collective Health and does have an ownership interest.

Dearborn Group compliments and diversifies HCSC's product portfolio with a variety of employer paid and voluntary products. Group products include group term life, accidental death and dismemberment, dental, short-term disability, long-term disability, critical illness, vision hospital indemnity, and accident. Dearborn Group also administers one of the largest dental networks in the U.S. in conjunction with its affiliates. In addition, Dearborn Group manages the TPA that is responsible for the administration of all dental claims, customer service, strategy, underwriting, pricing, and sales support for HCSC’s BlueCare Dental product. In the past, Dearborn Group's products included individual life and fixed deferred annuity products, however the company exited this line of business over ten years ago, but continues to administer the run-off business attributable to this block. In 2022, Dearborn Group completed a transaction to reinsure its entire deferred annuity block of business to Reinsurance Group of America, Inc. (RGA), with an effective date of July 1, 2022. As part of this transaction, Dearborn Group ceded $458.9 million of statutory annuity reserves and $16.6 million of Interest Maintenance Reserves (IMR) to RGA for a cash premium of $442.4 million. The transaction resulted in a positive impact to pre-tax earnings of $25.8 million in 2022, which includes an asset adequacy reserve release of $17.5 million. The net ceding commission of $24.2 million will be amortized over 20 years commencing July 1, 2022. Dearborn Group's strategic focus has remained consistent over the past five years, as the organization continues focusing on delivering an exceptional customer experience while providing value to HCSC through earnings, increased sales, and persistency. Dearborn Group’s growth initiatives, which include package pricing and integrated client services with HCSC, are driving new sales and greater product penetration with existing clients. Dearborn Group’s competitive position has benefited from the rebranding of its products using the BCBS brand in HCSC’s five BCBS-licensed states (Illinois, Montana, New Mexico, Oklahoma, and Texas). Dearborn Group’s continued alignment with HCSC is expected to result in sustained growth and profitability.

Business Profile (Continued...)

Net Premiums Written by Line of Business USD (000)	Year End - December 31				
	2023	**2022**	**2021**	**2020**	**2019**
Individual Life	6,336	7,595	8,287	8,332	8,750
Group Life	371,146	359,353	342,443	334,044	308,363
Individual Annuities	...	-392,825	1,287	1,775	1,983
Group Annuities	...	-49,231	7	7	16
Accident & Health	296,802	268,538	216,030	192,657	172,282
Comprehensive	32,784,522	29,434,322	27,273,279	27,321,671	24,846,624
Dental	595,522	505,315	450,586	384,989	344,859
Federal Employee Health Benefit Plan	6,158,942	6,640,270	5,925,225	5,735,405	5,320,903
Medicare	2,792,691	2,006,717	1,672,974	1,561,716	1,526,348
Medicare Supplement	1,645,276	1,649,279	1,635,768	1,636,939	1,646,345
Medicaid	9,263,285	8,733,122	7,635,453	6,306,512	4,590,279
Other	1,782,806	1,634,231	1,519,954	1,426,699	1,286,239
Total	55,697,329	50,796,685	46,681,293	44,910,745	40,052,991

Source: BestLink® - Best's Financial Suite

Enterprise Risk Management

The Enterprise Risk Management (ERM) program involves all levels of the organization including the Board of Directors and senior management establishing clearly defined accountability roles for risks and mitigation/controls. The program is managed by the Enterprise Risk Officer (ERO) with the support of dedicated staff and the ERM Steering Committee. There is regular reporting to the Board of Directors and its various committees, as well as the ERM Steering Committee, which comprises of senior staff. HCSC's Enterprise Risk Management Framework utilizes five broad risk categories which include: Macro, Strategic, Financial, Operational and Outcomes. The program identifies inherent risks within each risks category and documents corresponding risk mitigations. Identified risks are prioritized based on impact to the business, timing and mitigation readiness. Formal risk appetite and tolerance level statements are maintained by the ERM Steering Committee and reported to the Board. The ERO has direct communication channels to senior management and the Board, as well as, linkages with corporate goal development and strategic planning.

Environmental, Social & Governance

AM Best believes that there is low risk to ESG factors at this time and that HCSC has limited exposure to ESG factors. Credit quality, investment risk, and underwriting activities are also viewed as having limited ESG risk.

Financial Statements

Balance Sheet	Year End - December 31 2023 USD (000)	2023 %	2022 USD (000)	2022 %
Cash and Short Term Investments	468,212	1.2	-496,283	-1.3
Bonds	21,606,383	53.6	22,027,828	56.5
Preferred and Common Stock	2,942,166	7.3	2,751,474	7.1
Other Invested Assets	1,907,314	4.7	1,434,419	3.7
Total Cash and Invested Assets	26,924,074	66.8	25,717,439	66.0
Premium Balances	3,557,098	1.9	3,755,271	2.3
Healthcare and Other Receivables	2,180,835	5.4	1,708,975	4.4
Other General Account Assets	7,668,768	19.0	7,777,007	20.0
Total General Account Assets	40,330,775	100.0	38,958,692	100.0
Total Assets	40,330,775	100.0	38,958,692	100.0
Policy and Claim Reserves	6,452,547	16.0	6,986,950	17.9
Liability for Deposit Contracts	33,937	0.1	31,932	0.1
Funds Held Under Reinsurance and Coinsurance Agreements	23	999.9	27	999.9
Asset Valuation Reserve	16,018	...	19,110	...
Accrued Expenses and Other General Account Liabilities	9,523,891	23.6	8,600,530	22.1
Total General Account Liabilities	16,026,417	39.7	15,638,550	40.1
Total Liabilities	16,026,417	39.7	15,638,550	40.1
Unassigned Surplus	24,303,399	60.3	23,319,229	59.9
Other Surplus	960	...	913	...
Total Capital and Surplus	24,304,359	60.3	23,320,142	59.9
Total Liabilities, Capital and Surplus	40,330,775	100.0	38,958,692	100.0

Source: BestLink® - Best's Financial Suite

Income Statement USD (000)	Year End - December 31 2023	2022
Net Premiums Earned	56,170,288	50,372,775
Other Revenues	4,883	8,947
Net Investment Income	961,341	837,820
Total Revenues	57,136,512	51,219,541
Net Incurred Benefits	49,208,462	43,715,848
Commissions and Expense Allowances	66,292	65,160
Insurance and Other Expense	5,996,493	5,797,355
Pre-Tax Net Operating Gain	1,865,265	1,641,177
Income Taxes Incurred	314,821	45,908
Net Operating Gain	1,550,443	1,595,269
Net Realized Capital Gains (Losses)	-151,279	-291,954
Net Income	1,399,164	1,303,316

Source: BestLink® - Best's Financial Suite

Statement of Operating Cash Flows USD (000)	Year End - December 31 2023	2022
Net Premiums Collected	56,308,808	50,367,565
Other Revenue Received	8,390	8,409
Net Investment Income	958,053	841,312
Total Income Collected	57,275,252	51,217,285
Net Benefits and Loss Related Payments	49,958,029	44,638,383
Underwriting and Other Expenses Paid	5,905,416	5,771,267
Income Taxes Paid (Recovered)	-1,821	-38,933
Net Operating Cash Flow	1,413,627	846,568

Source: BestLink® - Best's Financial Suite

Related Methodology and Criteria

Best's Credit Rating Methodology, 08/29/2024

Available Capital and Insurance Holding Company Analysis, 08/15/2024

Scoring and Assessing Innovation, 02/27/2023

Understanding BCAR for US and Canadian Life/Health Insurers, 06/27/2024