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Ratings

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Research Update:

Health Care Service Corp. And Subsidiaries Downgraded On Weakening Health Plan Operating Performance; Outlook Stable

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Overview

- Health Care Service Corp.'s (HCSC) operating performance and capital has weakened, and we expect this to persist through 2026.
- As a result, we lowered our long-term financial strength and issuer credit ratings on HCSC to 'A+' from 'AA-'.
- The stable outlook reflects our expectation that HCSC will generate solid revenue growth, offset by a weaker adjusted EBIT return on revenue (ROR), which is forecast to be exacerbated by its recent acquisition of Cigna's Medicare business.

Rating Action

On March 20, 2025, S&P Global Ratings lowered its long-term financial strength and issuer credit ratings on Health Care Service Corp. (HCSC) to 'A+' from 'AA-'. The outlook is stable.

At the same time, we lowered our long-term financial strength and issuer credit ratings on HCSC's subsidiaries, Dearborn Life Insurance Co. and Dearborn National Life Insurance Co. of New York to 'A' from 'A+'. The outlook is stable.

Rationale

The downgrade reflects HCSC's pressured operating performance in 2024, mainly driven by challenges within its government business, and the likelihood for further earnings deterioration in 2025-2026 following its acquisition of Cigna's Medicare business. Additionally, we believe the company will face integration and execution risks given HCSC's limited acquisition track record, as well as its historically small (although expanding) government presence.

The rating action on Dearborn reflects our updated view of HCSC. We continue to view Dearborn entities as strategically important subsidiaries of the HCSC group. Therefore, our ratings on the entities receive one notch of ratings uplift from their stand-alone credit profile of 'a-' to the final 'A' ratings (one notch below HCSC).

In 2024, HCSC saw strong topline growth of 15% year over year, with total statutory revenue of approximately $65 billion. However, margin strain, mostly driven by government business, resulted in an adjusted EBIT ROR of 0.8%.

In line with industry trends, the Medicare Advantage (MA) business is facing ongoing elevated utilization along with lower MA rates, while the Medicaid segment is struggling with rate inadequacy and a higher acuity population post-redeterminations.

In 2025-2026, these pressures should modestly improve through changes in MA benefit design and Medicaid rate adjustments. We expect 25%-30% revenue growth and 15% total membership growth (including Medicare Part D, supplemental life and health, and BlueCard) in 2025 driven by the close of the company's Medicare acquisition. The acquisition is likely to exacerbate the company's existing pressures in MA, especially since Cigna's government business has been underperforming financially. Additionally, HCSC will contend with ongoing industrywide strains in MA, including lower MA rates, Star rating volatility, and utilization pressures, resulting in an overall ROR of 0%-2% in 2025-2026. We think HCSC will prioritize investments in this segment to achieve profitability and deliver consolidated results in line with the company's long-term expectations.

Our ratings continue to reflect the underlying strength of HCSC's market position in health insurance within its five core states, its material size and scale, and well-known Blue Cross Blue Shield brand. HCSC operates as the fifth-largest health plan nationally in terms of membership, with 18.6 million medical members (23 million members including Luminare, HCSC's third-party administrator [TPA] and Blue Card), and sixth-largest based on premiums of $64 billion at year-end 2024. The company also provides life, dental, disability, and ancillary insurance products through its Dearborn Group subsidiary business. We view Dearborn as a strategically important subsidiary of the HCSC group. Additionally, Luminare Health Benefits enhances HCSC's ability to tailor its offerings to meet employer preferences while expanding beyond its core five states.

While we highlight the associated risks post-acquisition, we think the transaction supports HCSC's commitment to government segment expansion and improves its scale and lessens its commercial concentration. HCSC will become a top-10 player in the MA market and expand its presence to 33 states. We think the acquisition will also help to make HCSC more competitive with both public and not-for-profit peers.

HCSC's capitalization is a rating strength, with a statutory surplus of nearly $25 billion and a regulatory risk-based capital (RBC) ratio exceeding 1,000% (based on the authorized control level) in 2024. Weaker earnings combined with the expansion into more capital-intensive government business will result in a weaker, though still excellent capital redundancy at the 99.99% stress level (extreme stress) at year-end 2024. We think capital redundancy will further decline in 2025 given earnings remain pressured due to the newly acquired business. We forecast HCSC's RBC ratio will decline below 900% because the subsidiaries acquired operate with lower RBC levels. Our current expectation is for capital to be thinly redundant at the 99.99% stress level (extreme stress) post-acquisition, but if earnings are worse than expected this would strain our view of HCSC's financial risk.

Ahead of the close of the Cigna Medicare acquisition, in June 2024 HCSC issued $2.5 billion in senior unsecured notes across three tranches due 2029, 2034, and 2054. Financial leverage (which includes the net present value of operating leases and unfunded pension deficit adjustments) increased to 16% in 2024 and we expect it to be 15%-20% in 2025. We embed into our forecast the expectation for an additional $1 billion in investments in 2025 for working capital and needed system upgrades to help manage the acquired business appropriately. In our view, this level of leverage is manageable but is elevated from 8.5% in 2023.

Outlook

The stable outlook on HCSC reflects our expectation that the company will generate strong revenue growth of 25%-30% in 2025 to $80 billion-$85 billion and favorable total membership growth of 15%, driven by the acquisition of Cigna's Medicare business. A larger government presence will result in HCSC's operating performance, as measured by ROR, falling to 0%-2% over the next two years. While HCSC's capital is likely to also be pressured, we think the company could sustain excellent capital and earnings. Additionally, we expect HCSC's financial leverage to be manageable at 15%-20% in 2025-2026.

Downside scenario

We could lower our ratings in the next 12-24 months if we believe HCSC faces material execution and integration risks related to its newly acquired Medicare business such that its competitive position deteriorates, or if earnings substantially weaken or are expected to be sustained below a 2% ROR in the longer term. Additionally, we could lower our ratings if HCSC's capital adequacy falls below the 99.99% redundancy level (extreme stress) or if HCSC increases and maintains financial leverage above 25%.

Upside scenario

We are unlikely to raise our ratings on HCSC in the next two years. However, we could raise the ratings over the long term based on continued revenue growth and a sustainably higher ROR. An upgrade would also require the company to be comfortably redundant at the 99.99% level (extreme stress) and display financial leverage at current levels or better.

Ratings Score Snapshot

Health Care Service Corp.

	To	From
Financial strength rating	A+/Stable/--	AA-/Negative/--
Anchor	a+	aa-
Business risk	Strong	Strong
IICRA	Low	Low
Competitive position	Strong	Strong
Financial risk	Excellent	Excellent
Capital and earnings	Excellent	Excellent
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral

Health Care Service Corp. (cont.)

	To	From
Liquidity	Adequate	Adequate
Comparable ratings analysis	0	0
Support		
Group support	0	0
Government support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Dearborn Life Insurance Co.

	To	From
Financial strength rating	A/Stable/--	A+/Negative/--
Anchor	a-	a-
Business risk	Satisfactory	Satisfactory
IICRA	Low	Low
Competitive position	Satisfactory	Satisfactory
Financial risk	Very strong	Very strong
Capital and earnings	Very strong	Very strong
Risk exposure	Moderately low	Moderately low
Funding structure	Neutral	Neutral
Modifiers		
Governance	Neutral	Neutral
Liquidity	Exceptional	Exceptional
Comparable ratings analysis	0	0
Stand-alone credit profile	a-	a-
Support	1	2
Group support	1	2
Government support	0	0

IICRA--Insurance Industry And Country Risk Assessment.

Related Criteria

- Criteria | Insurance | General: Insurer Risk-Based Capital Adequacy--Methodology And Assumptions, Nov. 15, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- U.S. Health Insurance Sector View 2025, Jan. 29, 2025

Ratings List

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Downgraded		
	To	**From**
Health Care Service Corp. d/b/a Blue Cross and Blue Shield of Illinois, New Mexico, Oklahoma, Texas and Montana		
Senior Unsecured	A	A+
Downgraded; CreditWatch/Outlook Action		
	To	**From**
Dearborn Life Insurance Co.		
Dearborn National Life Insurance Co. of New York		
Issuer Credit Rating		
Local Currency	A/Stable/--	A+/Negative/--
Financial Strength Rating		
Local Currency	A/Stable/--	A+/Negative/--
Health Care Service Corp. d/b/a Blue Cross and Blue Shield of Illinois, New Mexico, Oklahoma, Texas and Montana		
Issuer Credit Rating		
Local Currency	A+/Stable/--	AA-/Negative/--
Financial Strength Rating		
Local Currency	A+/Stable/--	AA-/Negative/--

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