



BEST'S COMPANY REPORT



HIGHMARK INC. GROUP

AMB #: 069155

NAIC #: N/A

FEIN #: N/A

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Website: N/A

HM LIFE INSURANCE COMPANY

A

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Best's Credit Rating Effective Date

September 22, 2023

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Information

- [Best's Credit Rating Methodology](#)
- [Guide to Best's Credit Ratings](#)
- [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](#).

Highmark Inc. Group

AMB #: 069155

Associated Ultimate Parent: AMB # 033398 - Highmark Health

Best's Credit Ratings - for the Rating Unit Members

Financial Strength Rating (FSR)

| |
|-------------------------|
| A |
| Excellent |
| Outlook: Stable |
| Action: Affirmed |

Issuer Credit Rating (ICR)

| |
|-------------------------|
| a+ |
| Excellent |
| Outlook: Stable |
| Action: Affirmed |

Assessment Descriptors

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

Rating Unit - Members

Rating Unit: Highmark Inc. Group | AMB #: 069155

| AMB # | Rating Unit Members |
|--------|--------------------------------|
| 006128 | HM Health Insurance Company |
| 060209 | HM Life Ins Co of New York |
| 009063 | HM Life Insurance Company |
| 010086 | Highmark Casualty Insurance Co |

| AMB # | Rating Unit Members |
|--------|----------------------------------|
| 068833 | Highmark Choice Company |
| 064010 | Highmark Inc. |
| 060570 | Highmark Select Resources Inc. * |
| 064415 | Highmark West Virginia Inc. |

* AMB# 060570 was deleted as a member of the Rating unit

Rating Rationale

Balance Sheet Strength: **Strongest**

- Highmark Inc. Group's (Highmark Inc.) risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR) is at the strongest confidence level at the 99.6% VaR.
- Highmark Inc. maintains a diversified and liquid investment portfolio held predominantly in investment-grade fixed-income securities and short-term investments.
- Highmark Inc. has good financial flexibility and moderate financial leverage despite the issuance of \$800 million (\$450 million net of refinancing) in debt in the second quarter of 2021 and high revolver utilization in 2021 and 2022.
- Highmark Inc. utilizes stress testing and economic capital modeling to manage capital deployment throughout the organization.

Operating Performance: **Adequate**

- Highmark Inc. has reported generally favorable profitability over the past five years driven, partially, by a series of one-time events. While net losses in 2022 were impacted by equity market volatility, operating profitability was generally favorable, a trend that is expected to continue in 2023.
- Strong premium growth in 2021 and 2022 reverse a trend of modest premium growth. Strong commercial enrollment growth, the affiliation with Highmark Western and Northeastern New York (fka HealthNow), and delays in Medicaid redeterminations drove the improvement.
- Operating and net results have shown considerable volatility over the past five years due to equity volatility in 2022 and a series of one-time favorable events through 2021.

Business Profile: **Favorable**

- Highmark Inc. has very strong brand recognition in its core markets with Blue Cross and/or Blue Shield trademarks in Pennsylvania, West Virginia, Delaware and New York.
- Highmark Inc. operates within an integrated healthcare model with its affiliated provider organization, Allegheny Health Network, supplemented by strategic relationships with other providers in their core health insurance markets.
- The organization has diversified businesses, which include dental, vision, stop-loss, managed care reinsurance, and IT platform services and administration.
- Reversed declining membership trend in commercial and Medicare Advantage business experienced through 2020 with new acquisitions and affiliations in 2021 as well as solid organic growth in 2022 and interim 2023.

Enterprise Risk Management: **Appropriate**

- Highmark Inc.'s enterprise risk management (ERM) program is a robust program that uses a layered framework to link its strategy, financial plan, and business risks together.
- Oversight and development are comprehensive and involve all levels of management to identify, manage, and mitigate newly identified risks as well as ongoing risks that are monitored.
- Highmark Inc. performs stress testing and economic capital modeling to quantify potential risk impacts to the organization. It utilizes advanced modeling to understand potential risk impacts and measure them against tolerance levels and appetite statements.

Outlook

- The stable outlooks reflect Highmark Inc.'s strongest level of balance sheet strength assessment, supported by its strongest level of risk-adjusted capitalization as measured by BCAR, trend of profitable earnings, and diversified business profile.

Rating Drivers

- Negative rating action may occur if there was a significant decline in balance sheet metrics.
- Negative rating action may occur if there is a trend of deterioration of operating performance.
- While unlikely, positive rating action may occur if there is a material improvement in operating performance.

Credit Analysis**Balance Sheet Strength**

Highmark Inc. Group's (Highmark Inc.) balance sheet strength assessment is strongest. This is primarily driven by its strongest level of risk-adjusted capitalization as measured by Best's Capital Adequacy Ratio (BCAR) of 52.7% at the 99.6% confidence level. This measure remains at the strongest level, however it showed a modest decline from 2021 where the score was 57.6%. The investment portfolio is conservatively managed through internal and external managers that follow investment policy guidelines to provide sound asset / liability management as well as preservation of capital. Liquidity metrics remain good, current liquidity was 111.0% in 2022, a slight decline year over year. The group does have operating leverage of 13%, a decline from 2021, as the company uses securities lending to seek a small amount of extra margin. An FHLB facility was added in 2022; the funds drawn under this facility were considered operating leverage. Furthermore, there is debt at Highmark Inc., financial leverage was roughly flat in 2022 at 24.7% of capital and surplus after increasing dramatically to 23.4% of capital and surplus in 2021 due debt raised to finance the Gateway Health Plan, Inc. (Gateway Health) acquisition. Highmark Inc. issued \$800 million in senior notes in May of 2021 and retired \$350 million of debt that matured at that time. Highmark is more active in drawing its revolver to manage cash flow after acquiring Gateway Health Holding Company and Highmark Western and Northeastern New York Inc (Highmark NY), which also contributes to higher leverage in 2021 and 2022.

Debt is mainly from senior notes and revolver borrowings. Debt is managed both at the group level and at the consolidated level, which after the affiliation with Highmark Western and Northeastern New York Inc. (formerly HealthNow New York Inc.) resulted in a much more modest increase in leverage, 19.12% compared to 16.84% in 2020. Leverage increased at the consolidated level in 2022 to 20.5% due to lower GAAP equity at the Highmark Health level. Interest coverage at the group deteriorated sharply to 0.48x due to a combination of investment losses and lower underwriting income. However, cash flow and available assets remain more than sufficient to make interest payments. Losses on investments are not structural and are unlikely to repeat in 2023. Financial leverage through the first half of 2023, which includes assets and earnings from declined as equity valuations recovered and underwriting income supported additional capital growth.

Capitalization

On a consolidated basis, Highmark Inc. has sufficient capital to support its insurance and investment risks. Highmark Inc.'s absolute capital and surplus was \$5.8 billion at year-end 2022, a slight decline compared to 2021 due to Net realized investment losses. Capital management at each of Highmark Inc.'s subsidiaries is sound. NAIC risk-based capital (RBC), authorized control level (ACL), are maintained at adequate to more than adequate levels. Highmark Inc.'s consolidated RBC at December 31, 2021 was 592%.

Highmark Inc. debt outstanding consists of \$250 million 6.125% senior unsecured notes due 2041 outstanding, \$400 million 1.450% due 2026, and \$400 million 2.550% due 2031. The \$800 million in debt issued in 2021, the 2026 and 2031 notes, was partially to refinance \$350 million in debt that matured in 2021. The net increase in notes from year-end 2020 to 2021 was therefore \$440 million. No additional notes were issued in 2022. Highmark also had \$234 million in revolver drawings at year-end 2022 which is a decrease from \$361 million drawn at year-end 2021. However, Highmark did add FHLB capacity in 2022 with year-end debt outstanding of \$159.5 million. The addition of FHLB drawings and reduced surplus in 2022 drove Highmark Inc.'s statutory debt to total capital and surplus ratio to 24.7% from 23.4% at year-end 2021, which was up significantly from 9.8% at year-end 2020. This is a higher level of financial leverage when compared to other organizations of Highmark Inc.'s size. Leverage is managed both at the stat entity and at the parent company. Highmark Health's (Highmark Inc's ultimate parent) debt level modestly in 2022 to 20.5% from 19.1% as GAAP equity declined in excess of total debt. A reduction in AHN revenue bonds and revolver drawings (excluding FHLB, which is considered operating leverage) drove the overall leverage reduction at Highmark Health.

Highmark Inc. Group's current liquidity remains good at over 100%, supported by reported cash flows from operations \$434.1 million in 2022 which is up from \$20.4 million in 2021. Highmark also maintains \$500 million in revolving credit facility capacity along with \$300 million of FHLB capacity added in 2022.

Asset Liability Management - Investments

Highmark Inc.'s combined investment portfolio, which totals \$10.2 billion, is mainly comprised of fixed income securities and cash & cash equivalents (64%); however, the allocation of invested assets includes a moderate level of unaffiliated equities (20.2%). On a consolidated basis, the fixed income securities are broadly distributed within the various maturity bands and mainly matched to the duration of liabilities. Approximately 90% of Highmark Inc. Group's fixed instruments were investment grade at year-end 2022. The total of investments categorized as below investment grade were in line with 2021 but above historical levels. The fixed income portfolio includes U.S. Government, state and municipal with the majority held in large corporate issues. Bond holdings also include foreign and hybrid securities; however, these comprise a small percentage of the total fixed asset portfolio.

Balance Sheet Strength (Continued...)

The ownership interests in insurance subsidiaries and other affiliated organizations are material but remain sound and do not present any measurable long-term exposure to financial markets as these subsidiaries are adequately capitalized for their business risks. There is always a liquidity risk should events trigger operating cash needs; however, these events are remote and the liquidity of the investment portfolio, and access to debt markets mitigates this risk. Highmark Inc. and its subsidiaries' investment portfolios are managed by internal and external investment managers. Unaffiliated common equities are mainly held in corporate securities and mutual funds. Highmark Inc.'s real estate holdings are mainly company occupied.

Holding Company Assessment

The assessment of the holding company is neutral. The Highmark Health organization, which includes its subsidiaries, reported a total outstanding debt balance of approximately \$2.5 billion at year-end 2022. This includes debt held at both Highmark Inc. and its sister organization, Allegheny Health Network (AHN). Financial leverage, which excludes FHLB drawings, increased slightly to 20.5% at year-end 2022 from 19.1% at year-end 2021 as a reduction in capital and surplus more than offset a reduction in total debt. Interest coverage for 2022 was 0.48 times earnings before income taxes, down significantly from 2021. However, liquidity is more than sufficient to service debt over the near term and the investment volatility that drove reduced coverage in 2022 is not expected to repeat in 2023. The organization has shown equity growth through the favorable earnings and the affiliation of Highmark Western and Northeastern New York Inc. in 2021, though unrealized losses in the investment portfolio drove an equity decline in 2022. Equity has rebounded modestly in interim 2023 as the organization remains profitable on an operating basis and equity markets have rebounded driving unrealized gains.

Operating Performance

Highmark Inc. Group's operating performance is assessed as adequate. Highmark Inc. Group has reported favorable underwriting and net results for the past five years (2018-2022) after recording material losses in 2015. However, net results have been driven, largely, by a series of one-time events. The sale of Davis Vision and federal tax reform in 2017, sale of Visionworks in 2019, risk corridor payment and COVID-19 driven underwriting performance in 2020, and the gain on affiliation of Highmark Western and Northeastern New York Inc. (formerly HealthNow New York Inc.) in 2021, all contributed materially to results. Volatility in results continues in 2022 as large realized investment losses impacted what was otherwise a very profitable year. Operating results continued to be strong through the first half of 2023, but will likely be below 2022 as Medicaid redeterminations and increased utilization impact results. Better investment results will likely offset the decline in underwriting income to some degree.

Highmark Inc.'s operating income is primarily driven by its health insurance line of business; however Highmark Inc. has a portfolio of diversified subsidiaries that strengthen its business profile and operating footprint outside of its core market of western Pennsylvania. As controlled affiliates, Highmark West Virginia, Inc. and Highmark BCBS Inc. (Delaware) add geographic earnings diversification as the largest health insurers in those states. Highmark Inc. also added a new affiliate Highmark Western and Northeastern New York Inc. and a new fully owned subsidiary Gateway Health LLC. (Highmark Inc. owned 50% prior to 2021 transaction) to expand its geographic diversity and improve scale in government businesses. Highmark Choice Company provides coverage for seniors through its Medicare Advantage products and provides coverage for qualified low-income children through the Children's Health Insurance Program (CHIP). The company has a reinsurance agreement with Highmark Inc. to cede 100% of its business. Additionally, HM Health Insurance Company (HM Health) adds further geographic diversity with its licenses in 47 jurisdictions in the United States and earnings are derived from health product offerings that include Medicare Part D Prescription Drug coverage; it also has a reinsurance agreement with Highmark Inc. and cedes 100% of its business as well. Further increasing organizational scale and business and geographical diversification is Highmark Inc.'s dental business written through United Concordia Companies (United Concordia) and stop loss businesses, written through HM Insurance Group (HMIG). United Concordia is a strong dental brand with a large enrollment of more than 9 million members and a dental network of approximately 130,000 dentists. HMIG is a national stop loss carrier that adds about \$1 billion dollars in additional revenue to the overall organization. The earnings for these companies are reflected in Highmark Inc.'s results.

Highmark Inc. Group's statutory operating performance has been consistently profitable, if volatile over the past five of years. Results in 2022 followed a similar trend of overall profitability but were not impacted by unusual items such as in 2020 when the company received a risk corridor payment for the 2014-2016 ACA benefit years and benefited from pandemic driven utilization declines or 2017 when the Davis Vision business was sold. Underwriting results in 2022 period were very favorable due mostly to reduced utilization in Medicare Advantage (MA) and the continued extension of the Public Health Emergency pushing Medicaid redeterminations into 2023. Offsetting this favorability were lower investment income and realized investment losses taken as part of normal portfolio rebalancing during a period of capital market devaluation. Investment losses were unusually acute in 2022 as valuations for both fixed income and equity securities fell materially. These items resulted in lower operating income in 2022 versus 2021 despite the favorability in underwriting. Also contributing to lower operating income was a larger operating grant issued to Allegheny Health Network (AHN), an affiliated hospital network in the Western PA region, which was reported as a write in on the annual statutory statement. AM Best

Operating Performance (Continued...)

expects underwriting income to moderate over the near term as Medicaid redeterminations are completed in all of Highmark Inc. Group's core markets, and increased volume at AHN drives increased claims costs at the health plan. A recovery in investment income is likely to at least partially offset any deterioration in underwriting income.

Highmark Inc. continues to make significant investments to its systems infrastructure and the company makes contributions to its community initiatives. Expenses relating to partner platform integration and enhanced IT platform capabilities have continued; however the investments are expected to translate into improvements in processes and capabilities. Highmark Inc. invested in its capabilities to further its mission to diversify earnings by expanding upon its service options to customers inside and outside of its core marketplace. Its platform services are sold to other health insurers and provide scale.

Highmark Inc. Group's revenue growth trend, on a net premium written basis, was under pressure prior to the pandemic. That trend has reversed over the last three years. Total enrollment fell slightly in 2020 as commercial groups suffered member attrition due to the economic impact of COVID-19. Despite this, premium increased in 2020 due, primarily, to the \$571.5 million risk corridor payment received from the federal government recorded as premium revenue. Enrollment growth and premium growth were both substantial in 2021 with the addition of Highmark Western and Northeastern New York Inc. and the 50% of Gateway Health Highmark did not already own. A full year of revenue contribution from those acquired and affiliated entities, further delays in Medicaid redeterminations, and strong organic sales efforts in individual and MA business resulted in very favorable premium growth in 2022. Growth over the near term will face headwinds as Medicaid redeterminations will reduce membership in that line of business. However, continued growth in MA and commercial may maintain overall premium growth over the near to intermediate term.

Business Profile

Highmark Inc. is a wholly-owned subsidiary of Highmark Health, a Pennsylvania non-profit corporation and a tax-exempt organization. In addition to offering a diversified portfolio of health insurance products, Highmark Health also operates a hospital plan and a professional health service plan. Through its subsidiary, Highmark Choice Company (f/k/a Keystone Health Plan West, Inc.), a licensed health maintenance organization (HMO), Highmark offers managed care products and services that complement Highmark's Blue Cross and Blue Shield product portfolio in Pennsylvania. Highmark also offers insured health products to individuals and small employers in Pennsylvania written by HM Health Insurance Company (d/b/a Highmark Health Insurance Company). In addition, Highmark has significant health operations in West Virginia and Delaware, through its controlled affiliates Highmark West Virginia (d/b/a Highmark Blue Cross Blue Shield of West Virginia) and Highmark BCBSD Inc.

Highmark utilizes its Highmark Blue Shield license to provide products and services in the southeastern regions of Pennsylvania through joint agreements with Independence Blue Cross. In 2015, Highmark Inc. completed its statutory merger with Hospital Services Association of Northeastern Pennsylvania, d/b/a Blue Cross of Northeastern Pennsylvania (NEPA). As a result of this merger, First Priority Life Insurance company, Inc., a for-profit wholly owned life, accident and health insurance company, HMO of Northeastern Pennsylvania, Inc. d/b/a/ First Priority Health management services, became wholly owned subsidiaries of Highmark Inc. In March of 2021 Highmark Inc. expanded into New York through an affiliation with HealthNow NY, Inc., which was subsequently renamed Highmark Western and Northeastern New York Inc., which serves the western and northeastern parts of the state of New York. In September of 2021 Highmark completed the acquisition of the remaining 50% of Gateway Health Plan, Inc., a leading managed care organization based in Pennsylvania. Highmark Inc. had previously held a 50% ownership interest in Gateway Health, which was created in 1992 through a partnership between Highmark Inc. and Mercy Health.

Highmark Inc.'s (including its subsidiaries and affiliates) core business is health insurance and managed health care products and services and operates as Highmark Blue Cross Blue Shield throughout the 29 county service areas of western Pennsylvania, as Highmark Blue Shield in the 21 counties of central Pennsylvania and 13 counties in northeast Pennsylvania as Blue Cross Blue Shield of Northeastern Pennsylvania. Highmark Inc. offers a comprehensive portfolio of healthcare, dental, vision, and medical stop-loss insurance products. Employer groups purchase coverage on a fully-insured or self-insured funding arrangement and individual coverage is purchased through its participation in health exchanges and off-exchange through agent distribution.

Highmark Inc. markets its core health insurance products in the western, central, and northeastern regions of Pennsylvania, West Virginia, Delaware, and Western and Northeastern New York in the individual, commercial, and senior markets. Highmark has announced that beginning in 2024 it will begin selling certain medical products in South Eastern Pennsylvania, the regions including Philadelphia and its surrounding counties. The health plan's ultimate parent, Highmark Health, owns Allegheny Health Network (AHN) hospital systems, which allows for an introduction of products tailored to its strategic alignment with its affiliated integrated delivery health system.

Highmark Inc. utilizes multiple distribution channels to sell its products, which are distributed through an internal sales force and independent agents and brokers, as well as through partnership arrangements with other carriers. Primarily, partnership arrangements leverage other not-for-profit Blue Cross Blue Shield plans' distribution capabilities to sell Highmark Inc.'s specialty products outside of its core market, such as employer medical stop-loss, dental, and vision. Highmark Inc. offers its individual members Patient Protection

Business Profile (Continued...)

and Affordable Care Act (ACA) compliant products on and off the health exchanges in the states of Pennsylvania, West Virginia, Delaware, and New York. Enrollment on and off-exchange through existing traditional distribution remains very active; and Highmark Inc.'s exchange membership has shown a modest increase over the past two years.

Highmark Inc.'s senior market product offerings include Medicare Advantage Preferred Provider Organizations (PPO), Medicare Advantage Health Maintenance Organization (HMO), and Medicare Prescription Drug Part D (PDP) plans in Pennsylvania, West Virginia, Delaware, and New York. Medicare supplemental coverage from Part A and Part B is offered to seniors seeking additional hospital and physician care, outpatient care, preventive care services, lab testing, and screening. Highmark Inc. is also one of the nation's largest Medicare Advantage program participants based on enrollment. Highmark Inc. has maintained 4+ Star ratings for the last nine years for its HMO and PPO in the State of Pennsylvania.

Highmark Inc. also provides health products on a national basis through its participation in the Blue Cross and Blue Shield Association BlueCard program. Highmark's national health business includes administrative service only contracts (ASO), third party administration (TPA), network access arrangements, and other services on behalf of other Blue Cross and Blue Shield plans. Highmark Inc. participates in the BlueCard program, which offers in network benefits to plan members through the networks of other Blue Cross and Blue Shield plans in other states and regions. National account business continues to generate good operating results for the organization and it contributes a large revenue source to spread against a large portion of the general operating expenses.

Highmark Inc. is a market leader for commercial health insurance business in Western Pennsylvania. Despite the market presence of a competing Blue plan, Highmark Inc. also has a leading market share in Central Pennsylvania's commercial market. Highmark Inc. Group has gained strong market share in western and northeastern New York through its affiliation with Highmark Western and Northeastern New York Inc. in 2021. Highmark also holds leading market shares in West Virginia and Delaware. A competing Blue plan is currently the dominant market leader in the Southeastern PA market, making Highmark's entrance into the region highly ambitious.

Business diversification is an attribute of strong organizations and Highmark Inc. has made in-roads in achieving this through its diversified business services offering. Highmark has partnerships with both Blue and non-Blue brands offering technology services for claims processing. Its HM Health Solutions business (d/b/a enGen) provides platform services to Independence Blue Cross and the Blue Cross Blue Shield health plans of Minnesota, Wyoming, and North Dakota. Including Highmark Inc. the number of members served is approximately 11 million. Further contributing to business diversification is Highmark Inc.'s national dental subsidiaries which operate under the United Concordia brand name. United Concordia is a strong brand in the dental market with enrollment of more than 9 million members and a dental network of approximately 130,000 dentists. The added business brings scale to Highmark Inc. and an additional revenue component further deepening the organizations earnings diversification.

Highmark Inc.'s Western PA commercial and senior medical membership had been pressured based on market conditions due to the expectation of the UPMC contract expiration in June of 2019 and general competitive pressures. Highmark Health's integrated delivery system which includes Highmark Inc. and AHN mitigated some of the disruption from the expectation of the UPMC contract would expire. However, senior enrollment has stabilized and there has been growth seen in commercial membership as UPMC and Highmark Inc. were able to reach a new ten year contract effective through 2029. A.M. Best expects Highmark to maintain its market position in the western and northeastern regions of Pennsylvania. Highmark competes with another Blue plan in the central Pennsylvania region for enrollment growth, which also places challenges on the health plan to price and retain business. Despite this pressure Highmark managed to grow both senior and commercial membership in both 2021 and 2022, indicating capable execution of its growth strategy in a challenging market environment.

Enterprise Risk Management

Enterprise Risk Management (ERM) for Highmark Inc. is appropriate. The program is managed at both the ultimate parent, Highmark Health and at Highmark Inc.. The ERM program is mature and measures risks both on a qualitative and quantitative basis. The Chief Risk Officer has overall accountability for the process and reports to the CEO. All levels of management and the Board are involved in the ERM process and roles and responsibilities are clearly defined. The Board-level Risk Committee has responsibility for ERM and members have been fully educated on risk management.

The ERM program uses a layered framework to link its strategy, financial plan, and business risks together. The process includes risk and threat identification across the entire enterprise with scoring of likelihood (of occurrence) and impact of a risk on the enterprise. Tactical risk identification is completed for all market/business segments and operational areas. Risk assessments are done annually and reported through senior management and the Board.

Oversight and development are comprehensive and involve all levels of management to identify, manage, and mitigate newly identified and ongoing risks that are monitored. Management and the Board align its corporate strategy along with the risk assessment. The company has developed a risk appetite statement intended to provide a high level view of the organizations willingness to accept risk in pursuit of business and strategic objectives.

Enterprise Risk Management (Continued...)

Highmark Health measures capital adequacy over a three-year forecasting horizon, using an internal economic capital measure, as measured by the economic capital model (ECap). This model is used to evaluate and compare the amount of available economic capital ("AEC") to the amount of required economic capital ("REC") needed to protect the Enterprise from economic insolvency, at a given confidence interval. Highmark Health defines the difference between AEC and REC as the "capital buffer". With an established risk appetite and a management committee charged with evaluating capital needs and priorities ("Capital Committee"), the outputs from the ECap Model have been utilized in evaluating enterprise strategic decisions from a capital perspective and is utilized as the basis of solvency assessment in the annual Own Risk and Solvency Assessment (ORSA) Summary. The ECap Model utilizes several techniques to create relationships between risks to quantify the degree to which risks occur simultaneously and establishes the total level of diversification across the Enterprise.

Environmental, Social & Governance

Highmark Inc. has exposure to ESG risks through its collection and maintenance of sensitive health data, its investment portfolio, and potential branding, tax and regulatory risks related to an inability to implement mission goals implicit in its non-profit structure. Highmark continues to pursue best practices cyber security and data maintenance practices, and complies with all relevant privacy regulations. However, health payers and providers are at increased risk to cyber-crime due to the sensitive data they maintain. Highmark Inc. has not been fully immune to such action as a phishing attack caused a limited data breach at its affiliated provider partner Allegheny Health Network in 2022. ESG risks intrinsic to the asset portfolio are not explicitly reported at the portfolio level but are considered, when appropriate, at the individual security selection level. Highmark holds a diversified portfolio which will, by design, limit its exposure to any concentrations in risk, ESG included. Branding, tax, and regulatory risks that arise due to Highmark's stated commitment to community health and non-profit status are managed at all levels of the organization. Highmark management's strategic objectives continue to be in line with its publicly stated goal of community health which, along with effective operational management, mitigates financial risks that would arise from failure to pursue its stated mission. Currently these risks are not evaluated in the context of ESG but are managed as a collection of individual risks that aggregate into the formal ERM program. However, the organization is in the process of developing a formal ESG evaluation and management program that would incorporate an ESG lens to corporate objectives and would add ESG specific risk factors to the ERM program. The program is expected to better identify, evaluate, and manage risks with a specific ESG element.

Financial Statements

Year End - December 31

| Balance Sheet | 2022 | | 2021 | |
|---|------------------|----------|------------------|----------|
| | USD (000) | % | USD (000) | % |
| Cash and Short Term Investments | 426,575 | 3.1 | 447,677 | 3.3 |
| Bonds | 6,082,175 | 44.8 | 6,288,177 | 45.8 |
| Preferred and Common Stock | 2,039,554 | 15.0 | 2,413,906 | 17.6 |
| Other Invested Assets | 1,603,493 | 11.8 | 1,533,482 | 11.2 |
| Total Cash and Invested Assets | 10,151,797 | 74.8 | 10,683,242 | 77.8 |
| Premium Balances | 1,060,269 | 6.7 | 1,104,616 | 7.4 |
| Healthcare and Other Receivables | 626,311 | 4.6 | 489,545 | 3.6 |
| Other General Account Assets | 1,735,735 | 12.8 | 1,462,563 | 10.6 |
| Total General Account Assets | 13,574,113 | 100.0 | 13,739,966 | 100.0 |
| Total Assets | 13,574,113 | 100.0 | 13,739,966 | 100.0 |
| Policy and Claim Reserves | 2,629,191 | 19.4 | 2,532,343 | 18.4 |
| Funds Held Under Reinsurance and Coinsurance Agreements | 1,168 | 999.9 | 1,426 | 999.9 |
| Asset Valuation Reserve | 8,610 | 0.1 | 30,298 | 0.2 |
| Accrued Expenses and Other General Account Liabilities | 5,107,054 | 37.6 | 5,175,000 | 37.7 |
| Total General Account Liabilities | 7,746,022 | 57.1 | 7,739,067 | 56.3 |
| Total Liabilities | 7,746,022 | 57.1 | 7,739,067 | 56.3 |
| Unassigned Surplus | 5,442,383 | 40.1 | 5,616,073 | 40.9 |
| Other Surplus | 385,707 | 2.8 | 384,827 | 2.8 |
| Total Capital and Surplus | 5,828,090 | 42.9 | 6,000,900 | 43.7 |
| Total Liabilities, Capital and Surplus | 13,574,113 | 100.0 | 13,739,966 | 100.0 |

Source: BestLink® - Best's Financial Suite

Last Update

November 02, 2023

Identifiers

AMB #: 069155

This company is a data record that AM Best utilizes to represent the AM Best Consolidated financials for the Multi-Line business of AMB#: [033398 Highmark Health](#).

AMB#: [064010 Highmark Inc.](#) has been assigned as the AMB Group Lead for this consolidation and should be used to access name, address, or other contact information for this AM Best Consolidated Group.

Financial Data Presented

See [LINK](#) for details of the entities represented by the data presented in this report.

Highmark Inc. Group

Operations

Domiciled: Pennsylvania, United States

Business Type: Multi-Line

Organization Type: Non-Profit

Marketing Type: Direct Response

Best's Credit Ratings

Rating Relationship

This group represents an AM Best Rating Unit. In our opinion, companies under this Rating Unit have an Excellent ability to meet their ongoing insurance obligations and an Excellent ability to meet their ongoing senior financial obligations.

Best's Credit Rating Effective Date: September 22, 2023

Rating rationale and credit analysis can be found in the [Best's Credit Report for AMB# 069155 - Highmark Inc. Group](#).

| AMB# | Rating Unit Members | Best's Credit Ratings | |
|--------|--------------------------------|---------------------------|--------------------------------|
| | | Financial Strength Rating | Long-Term Issuer Credit Rating |
| 006128 | HM Health Insurance Company | A | a+ |
| 060209 | HM Life Ins Co of New York | A | a+ |
| 009063 | HM Life Insurance Company | A | a+ |
| 010086 | Highmark Casualty Insurance Co | A | a+ |
| 068833 | Highmark Choice Company | A | a+ |
| 064010 | Highmark Inc. | A | a+ |
| 064415 | Highmark West Virginia Inc. | A | a+ |

HM Life Insurance Company

Last Update

September 22, 2023

Identifiers

AMB #: 009063

NAIC #: 93440

FEIN #: 06-1041332

Contact Information

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Financial Data Presented

The financial data in this report reflects the most current data available at the time the report was printed.

Operations

Date Incorporated: May 12, 1981 | **Date Commenced:** May 12, 1981

Domiciled: Pennsylvania, United States

Licensed: (Current since 11/29/2001). The company is licensed in the District of Columbia, AL, AK, AZ, AR, CA, CO, CT, DE, FL, GA, HI, ID, IL, IN, IA, KS, KY, LA, ME, MD, MA, MI, MN, MS, MO, MT, NE, NV, NH, NJ, NM, NC, ND, OH, OK, OR, PA, RI, SC, SD, TN, TX, UT, VT, VA, WA, WV, WI and WY.

Business Type: Health - Medical Non-HMO

Organization Type: Stock

Marketing Type: Broker

Best's Financial Size Category: XV (Greater than or Equal to USD 2.00 Billion)

Best's Credit Ratings

Best's Credit Rating History

AM Best has assigned ratings on this company since 1991. In our opinion, the company has an Excellent ability to meet their ongoing insurance obligations and an Excellent ability to meet their ongoing senior financial obligations.

The following are the most recent rating events, for longer history refer to [Rating History](#) in BestLink:

| Effective Date | Best's Financial Strength Ratings | | | | Best's Long-Term Issuer Credit Ratings | | |
|------------------|-----------------------------------|------------------|---------|----------|--|---------|----------|
| | Rating | Affiliation | Outlook | Action | Rating | Outlook | Action |
| Current - | | | | | | | |
| Sep 22, 2023 | A | g (Group Rating) | Stable | Affirmed | a+ | Stable | Affirmed |
| Aug 31, 2022 | A | g (Group Rating) | Stable | Affirmed | a+ | Stable | Affirmed |
| Sep 17, 2021 | A | g (Group Rating) | Stable | Affirmed | a+ | Stable | Upgraded |
| Sep 3, 2020 | A | g (Group Rating) | Stable | Affirmed | a | Stable | Affirmed |
| Jul 9, 2019 | A | g (Group Rating) | Stable | Affirmed | a | Stable | Affirmed |

Management

Officers

CEO: Deborah Rice-Johnson

Officers (Continued...)

President: Kevin Mark Lawrence

Corporate Secretary: Edward A. Bittner, Jr.

Treasurer and CFO: Caleb L. Knier

Directors

John R. Baum

Anthony N. Benevento

William A. Brothers

William D. Cronin

Thomas A. Doran

Michael W. Fry

Kevin M. Lawrence

David M. Matter

Frederick G. Merkel

William J. Stallkamp

History

Originally incorporated as CML Pension and Life Insurance Company, the name was changed to GroupAmerica Insurance Company in 1985. The company was acquired in 1994 from Connecticut Mutual Insurance Company by Trans-General Life and Casualty Group, a down-stream subsidiary of Highmark Inc. The company adopted the title of Trans-General Life Insurance Company in 1995 when business of the former Trans-General Life Insurance Company, a Maryland-domiciled company, was merged into GroupAmerica. During 1999, the name was changed to Highmark Life Insurance Company. The company redomesticated from Connecticut to Pennsylvania during 2003. In 2006, the present title was adopted.

Financial Statements

Financial Statements reflected were compiled from the most recent company-filed statement available in BestLink - Best's Statement File – L/H, US.

Currency: US Dollars

| | 6-Months | | Year End - December 31 | | | |
|---|----------------|--------------|------------------------|--------------|----------------|--------------|
| | 2023 | | 2022 | | 2021 | |
| Balance Sheet | USD (000) | % | USD (000) | % | USD (000) | % |
| Cash and Short Term Investments | 76,207 | 8.9 | 23,157 | 2.9 | 7,520 | 0.9 |
| Bonds | 526,380 | 61.4 | 532,148 | 67.0 | 546,193 | 62.0 |
| Preferred and Common Stock | 146,786 | 17.1 | 131,773 | 16.6 | 160,328 | 18.2 |
| Other Invested Assets | 59,405 | 6.9 | 59,109 | 7.4 | 115,625 | 13.1 |
| Total Cash and Invested Assets | 808,778 | 94.3 | 746,186 | 93.9 | 829,666 | 94.1 |
| Premium Balances | 21,543 | 2.5 | 16,605 | 2.1 | 6,573 | 0.7 |
| Net Deferred Tax Asset | 2,712 | 0.3 | 2,952 | 0.4 | ... | ... |
| Other Assets | 24,477 | 2.9 | 28,712 | 3.6 | 45,099 | 5.1 |
| Total General Account Assets | 857,510 | 100.0 | 794,456 | 100.0 | 881,339 | 100.0 |
| Total Assets | 857,510 | 100.0 | 794,456 | 100.0 | 881,339 | 100.0 |
| Net Life Reserves | 134 | ... | 134 | ... | 278 | ... |
| Net Accident & Health Reserves | 237,662 | 27.7 | 175,742 | 22.1 | 163,047 | 18.5 |
| Asset Valuation Reserve | 19,626 | 2.3 | 8,393 | 1.1 | 30,104 | 3.4 |
| Other Liabilities | 113,654 | 13.3 | 131,360 | 16.5 | 189,797 | 21.5 |
| Total General Account Liabilities | 371,077 | 43.3 | 315,630 | 39.7 | 383,226 | 43.5 |
| Total Liabilities | 371,077 | 43.3 | 315,630 | 39.7 | 383,226 | 43.5 |
| Capital Stock | 3,000 | 0.3 | 3,000 | 0.4 | 3,000 | 0.3 |
| Paid-In and Contributed Surplus | 174,338 | 20.3 | 174,338 | 21.9 | 174,338 | 19.8 |
| Unassigned Surplus | 309,096 | 36.0 | 301,487 | 37.9 | 320,775 | 36.4 |
| Total Capital and Surplus | 486,434 | 56.7 | 478,825 | 60.3 | 498,113 | 56.5 |
| Total Liabilities, Capital and Surplus | 857,510 | 100.0 | 794,456 | 100.0 | 881,339 | 100.0 |

Source: BestLink® - Best's Financial Suite

A Best's Financial Strength Rating opinion addresses the relative ability of an insurer to meet its ongoing insurance obligations. The ratings are not assigned to specific insurance policies or contracts and do not address any other risk, including, but not limited to, an insurer's claims-payment policies or procedures; the ability of the insurer to dispute or deny claims payment on grounds of misrepresentation or fraud; or any specific liability contractually borne by the policy or contract holder. A Financial Strength Rating is not a recommendation to purchase, hold or terminate any insurance policy, contract or any other financial obligation issued by an insurer, nor does it address the suitability of any particular policy or contract for a specific purpose or purchaser.

A Best's Issue/Issuer Credit Rating is an opinion regarding the relative future credit risk of an entity, a credit commitment or a debt or debt-like security.

Credit risk is the risk that an entity may not meet its contractual, financial obligations as they come due. These credit ratings do not address any other risk, including but not limited to liquidity risk, market value risk or price volatility of rated securities. The rating is not a recommendation to buy, sell or hold any securities, insurance policies, contracts or any other financial obligations, nor does it address the suitability of any particular financial obligation for a specific purpose or purchaser.

In arriving at a rating decision, AM Best relies on third-party audited financial data and/or other information provided to it. While this information is believed to be reliable, AM Best does not independently verify the accuracy or reliability of the information. Any and all ratings, opinions and information contained herein are provided "as is," without any express or implied warranty.

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