

### **Key Messaging**

- Health plans cannot sustain continual losses while medical spending grows by 4-8% annually and prescription drug spending grows by over 10% annually, while premiums are below trend.
- Massachusetts cannot maintain a stable insurance market if plans are forced to draw down reserves year after year to cover systemwide cost growth they cannot control.
- Protecting health plans solvency is vital to ensuring stable, affordable coverage for millions of Massachusetts residents and stable, predictable claims payments for hospitals and providers.
- Should a health plan become insolvent, the impact will reverberate across the health care system. Hospitals, physicians, and community providers will see major payment disruptions, putting additional pressure on hospital and provider stability.

### **What is RBC and Why Does It Matter?**

- Risk-based capital (RBC) is the regulatory framework used by insurance regulators to ensure that health plans have sufficient financial reserves relative to the level of risk in their operations.
- RBC is an important tool that protects consumers, employers, and providers by ensuring health plans remain financially stable even during periods of volatility, such as unexpected surges in medical spending, public health emergencies, or federal policy changes.
- Robust RBC levels are a sign of a healthy, solvent insurance market capable of paying claims.
- Strong reserves prevent market disruption; plan insolvencies lead to consumer disruption, smaller carrier exits, and reduce competition, which ultimately drives up premiums.

### **How Does the Division of Insurance Regulate RBC?**

<https://www.mass.gov/regulations/211-CMR-2000-risk-based-capital-rbc-for-insurers>

- The DOI is responsible for overseeing RBC for all licensed carriers operating in the fully-insured market.
- The DOI uses standardized formulas set by the National Association of Insurance Commissioners (NAIC) to measure plan solvency and ensure companies maintain adequate capital relative to their size and risk profile.
- The DOI reviews RBC results annually and has the authority to intervene if a health plan's RBC level drops below regulatory thresholds, which would trigger staggered regulatory actions ranging from enhanced monitoring to corrective active plans to receivership.
- Massachusetts has conservatively managed oversight – the DOI maintains early warning systems and frequently communicates with plans to ensure reserves remain strong enough to withstand market shocks.

### **What are the Latest RBC Trends in Massachusetts?**

- Historically, Massachusetts health plans maintained strong RBC levels, reflecting a stable but tightly regulated market.
- However, several recent pressures have had a dramatic impact on health plan reserves:
  - Rapid growth in medical spending, especially from pharmacy costs and hospital utilization (ex. GLP-1)
  - Large benefit expansions and state mandates that increase claims costs (59 mandates costing ~24% of the premium / \$4.17 billion annually)

- Downward pressure on premium rates from increased DOI
- Member churn resulting from Medicaid redeterminations impacting membership mix and financial performance

**What are the Latest Health Plan Financial Trends in Massachusetts?**

- Health plans have faced a consistent steep decline in financial performance over the past five years, culminating in a negative median total margin of -1.06% in CY2024.
- This reflects ongoing financial challenges driven by rising provider prices, inflationary pressures, and elevated prescription drug prices, resulting in losses that outpace revenues.

**What are the Consequences of Persistent Negative Margins and Eroding RBC Levels?**

- When health plans operate at a negative margin year over year, they are effectively losing money on every member they cover.
- Persistent losses mean plans cannot sustainably keep pace with rising medical claims, which are being driven by hospital and provider prices, prescription drug costs, and continued benefit expansions.
- Negative margins erode a plan's ability to invest in care management, prior authorization modernization, member experience, innovative benefit design or payment arrangements – areas that policymakers and consumers expect plans to invest.
- Continued operating losses directly drain RBC; when RBC falls, plans have less financial cushion to absorb unexpected cost shocks without passing immediate costs onto families and employers.
- If RBC continues to decline, health plans may be forced to raise premiums simply to maintain solvency – not because they are profitable, but because they are required to maintain capital and claims-paying ability.
- Low RBC can trigger market exits, creating consumer disruption, fewer coverage choices and reduced competition. These conditions will push premiums even higher.
- As Massachusetts confronts an affordability crisis, maintaining adequate RBC ensures plans can continue to offer stable, affordable coverage, while absorbing cost pressures from hospitals, providers, prescription drugs, and benefit expansions.