S&P Global
Ratings

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Highmark Inc.

May 7, 2025

This report does not constitute a rating action.

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CRISIL Global Analytical Center,
an S&P Global Ratings affiliate
Gurgaon Haryana

Business risk: **Strong**

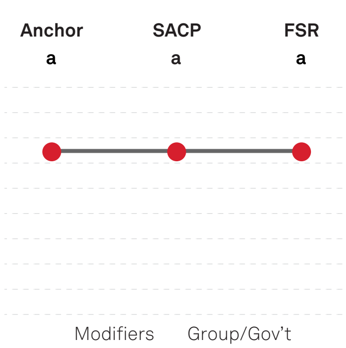
Excellent Vulnerable

Competitive position: Strong
IICRA: Low risk

Financial risk: **Very strong**

Excellent Vulnerable

Capital and earnings: Excellent
Risk exposure: Moderately high
Funding structure: Neutral



Financial strength rating
A/Stable/--

FSR--Financial strength rating. ICR--Issuer credit rating. IICRA--Insurance industry and country risk assessment. SACP--Stand-alone credit profile.

Credit Highlights

Overview

Key strengths	Key risks
One of the largest Blue Cross Blue Shield health plans in the nation.	Geographic concentration in Pennsylvania.
Leading commercial market shares in multiple states.	Near-term operational challenges owing to higher medical utilization.
Very strong capitalization based on regulatory measures and our capital model.	Moderate financial leverage (20%-25%).

Highmark Inc. is one of the largest Blue Cross Blue Shield plans in the nation. Highmark, headquartered in Pittsburgh, is a multistate health insurance provider operating under the Blue Cross Blue Shield (BCBS) license. Highmark Inc. is the largest subsidiary of the Highmark Health group, and it benefits from a strong financial position, with $25.2 billion in total revenue (including net investment income) in 2024.

The company serves nearly 5 million medical members in Pennsylvania, Delaware, West Virginia, and New York (excluding Medicare Part D, Blue Card, and third-party administrator membership).

Beyond its health insurance business, Highmark has a diversified business segment--Alloyed Works--that includes:

- United Concordia Dental, a national dental insurance provider and the eighth-largest dental company in the U.S.;
- HM Insurance Group, its medical stop-loss business;
- enGen, a health care technology company that serves over 20 million members nationwide;
- Helion, a post-acute care company; and
- HealthNow Administrative Services, a third-party administrator.

Highmark Health, a $29.6 billion nonprofit diversified health care organization, also owns Allegheny Health Network (AHN), a hospital system in western Pennsylvania. The ‘A’ long-term rating on AHN is based on the application of our group rating methodology, including our view of Highmark Health's group credit profile and AHN's core status to the group's financial strength and issuer credit ratings.

Both Highmark Inc. and AHN are considered core to the group, and therefore the ratings are aligned.

Highmark Inc. has a strong competitive position in its markets. Its position in its core markets is supported by the strength of its BCBS (Blue) brand, which enjoys high recognition among consumers, employers, and health care providers. Highmark holds leading positions in the commercial market within its BCBS-licensed markets, and it has a significant presence in government-sponsored programs, including in the subsidized individual plans, Medicare, and Medicaid segments.

Highmark’s strong market standing enables it to maintain an extensive provider network, which often helps it to secure competitive unit costs; this enhances its competitive advantage.

However, the company's geographic concentration remains a key risk, with 70%-75% of its membership being based in Pennsylvania.

Industry headwinds and utilization pressures have dampened Highmark's operating performance. Highmark Inc. has historically generated the bulk of Highmark Health's group earnings, with the health plan typically being the major contributor to the company's overall profitability.

While Highmark continues to remain profitable, its 2024 operating margins were weak, driven by a significant spike in medical utilization, rate inadequacy in Medicaid, and elevated drug costs at the health plan. As a result, Highmark Inc.'s adjusted EBIT return on revenue (ROR) dropped to 0.3%, from 2.3% in 2023. Its 2.6% average return on revenue for 2020-2024 is on the lower end of what we consider as average (2%-5%) for the industry (on a long-term basis).

At the Highmark Health level, the group's revenue increased 7.6% to $29.6 billion in 2024, but adjusted EBIT tumbled 89%--to $45 million in 2024 from $399 million in 2023, with an adjusted EBIT ROR of 0.2%. The favorable operating results across United Concordia Dental, HM Insurance Group, and enGen only modestly offset the ongoing challenges at AHN due to the patient mix and elevated operating costs, in addition to the stress at the health plan.

Highmark's entrance into southeastern Pennsylvania represents a long-term growth opportunity. In 2024, Highmark entered the commercial insurance market in southeastern Pennsylvania, and in 2025, it entered the region's Medicare Advantage market, under the Blue Shield license.

While this entrance represents intra-Blue Cross Blue Shield competition with a peer (Independence Blue Cross), Highmark is no stranger to this. Blue-on-Blue competition also exists in central Pennsylvania with Capital Blue Cross and in western New York with Excellus (operating as Univera Healthcare).

We think Highmark's entrance into southeastern Pennsylvania is a positive for its competitive position, with its membership projected to grow to 70,000 members by January 2026. It also allows the company to gain access to all counties across Pennsylvania, though it involves execution risk given the very challenging operating environment across the state.

Highmark has very strong capitalization based on regulatory criteria and S&P Global Ratings' capital model criteria. Highmark had a regulatory risk-based capital (RBC) ratio of 631% at year-end 2024 (based on the authorized control level), higher than the 605% ratio at year-end 2023. We expect that Highmark will keep its RBC ratio at 625%-675% in 2025, in line with Pennsylvania Insurance Department regulations.

Per our model, Highmark consistently maintains a 99.99% capital redundancy, which is a key rating strength that adds to the stability of the rating. We expect that Highmark will maintain a 99.99% capital redundancy through 2026 with capital growth driven by improving earnings.

Outlook

The stable outlook on the Highmark group reflects our expectation that, despite a very challenging operating environment in 2024, Highmark will maintain its leading commercial-market positions and improve its profitability in line with expectations for its similarly rated peers.

In 2025, we expect the company to report 10%-12% revenue growth, driven by its growth initiatives in select core markets, including southeastern Pennsylvania. We think utilization trends will show improvement, with a decline in the medical loss ratio (MLR) to 87%-88% from 88.7% in 2024.

We forecast a modest rebound in GAAP-adjusted EBIT ROR from these improvements--to 1.0%-2.0% in 2025. Additionally, we expect that Highmark's capital and earnings will remain excellent (99.99%) during this period, per our RBC model, and we expect that financial leverage will remain at 20%-25%.

Downside scenario

We could lower our ratings by one notch in the next 12-24 months if Highmark's ROR remains below 2% on a sustained basis, reflecting a weakened competitive position, cost control issues, or substantial investments. Additionally, we could lower our ratings if capital and earnings deteriorate below the 99.99% level (extreme stress) or if it sustains financial leverage at a higher level.

Upside scenario

We could raise our ratings or revise our outlook to positive in the next 12-24 months if Highmark's competitive position significantly improves based on revenue growth, business diversity, and a higher sustained ROR. An upgrade would also require a continuation of its excellent capital and earnings, as well as financial leverage at current levels or lower.

Assumptions

- Real U.S. GDP growth of 1.5% in 2025 and 1.7% in 2026
- Core Consumer Price Index (CPI) inflation rate of 3.6% in 2025 and 4.0% in 2026
- U.S. unemployment rate of 4.4% in 2025 and 4.6% in 2026
- 10-year Treasury note yield of 4.3% in 2025 and 3.6% in 2026

Highmark Health--Key metrics

		--Year ended Dec. 31--				
(Mil. $)	**2025f**	**2024**	**2023**	**2022**	**2021**	**2020**
Medical membership, excluding Medicare Part D ('000s)	5,300-5,500	5,264	5,297	5,278	5,121	4,022
Total revenue	32,500-33,500	29,559.6	27,483.0	25,832.0	22,091.8	18,252.7
Total premiums	26,500-27,500	23,263.9	21,574.7	20,517.0	16,935.9	13,731.2
Medical loss ratio (%)	87.0-88.0	88.7	86.3	85.4	85.4	76.7
EBIT	450-550	199.1	565.1	(344.1)	1,639.7	1,058.0
Adjusted EBIT	450-550	45.4	399.1	335.2	460.1	761.8
Adjusted EBITDA	950-1,050	486.7	842.3	733.4	811.4	1059.2
Net income	250-350	49.7	533.2	(346.3)	1,448.2	1,016.2
Adjusted EBIT return on revenue (%)	1-2	0.2	1.5	1.3	2.1	4.2
Financial leverage (%)	<25	24.6	23.6	24.2	21.5	19.3
Fixed-charge coverage (x)	8-10	4.7	8.6	8.8	9.3	11.9
S&P Global Ratings' capital adequacy/redundancy (%)	99.99	99.99	99.99	99.99	99.99	99.99

Highmark Health--Key metrics

		--Year ended Dec. 31--				
(Mil. $)	2025f	2024	2023	2022	2021	2020

Data is based on consolidated GAAP financials. f--S&P Global Ratings' forecast. GAAP--Generally accepted accounting principles.

Business Risk Profile

Highmark's strong business risk profile reflects the group's leading market shares in its core insurance markets, its extensive provider networks, its good product diversification in government-sponsored health plans, and the positive earnings contribution from its diversified business segment. However, these strengths are offset by its geographic concentration in the four-state commercial market (Pennsylvania, Delaware, New York, and West Virginia), with a majority of its membership coming from Pennsylvania.

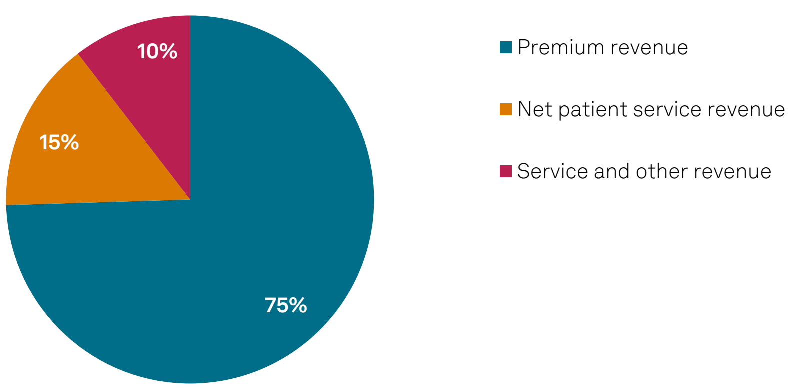
The company is an independent licensee of the Blue Cross Blue Shield Assn., and it has benefited from the brand equity of the Blue brand across the U.S. Among consumers, there continues to be more brand recognition for BCBS entities than for publicly traded organizations because of their broad provider networks and the perception that they're more subscriber-friendly than other insurance providers.

Highmark has leading commercial group market positions in its BCBS-licensed markets, which is important since employer-sponsored coverage remains the dominant form of coverage for consumers. Highmark's large commercial-market presence bodes well for it in delivering contracting leverage and better unit costs with providers amid difficult rate negotiations.

Its market positions in the Medicare and Medicaid segments are solid but less strong. It's the second-largest Medicare Advantage (MA) health plan in Pennsylvania, with 21% market share (behind only CVS Health Corp.).

Highmark Health has good business diversity

Insurance premium and service revenue in 2024, before elimination



Source: S&P Global Ratings.

Highmark's scale and business diversity are competitive strengths. With $23.3 billion in premium revenue in 2024 and 5 million medical members, Highmark is the fifth-largest health plan in the BCBS system.

Additionally, its dental and stop-loss insurance subsidiaries are meaningful revenue and earnings contributors. United Concordia Dental is a top-10 dental insurance carrier nationally, according to the company, with 10.4 million members as of January 2025. Combined with Highmark's enGen business and Helion, Alloyed Works delivered approximately $246 million in operating earnings for the company in 2024, helping to offset losses within the health plan and its provider business.

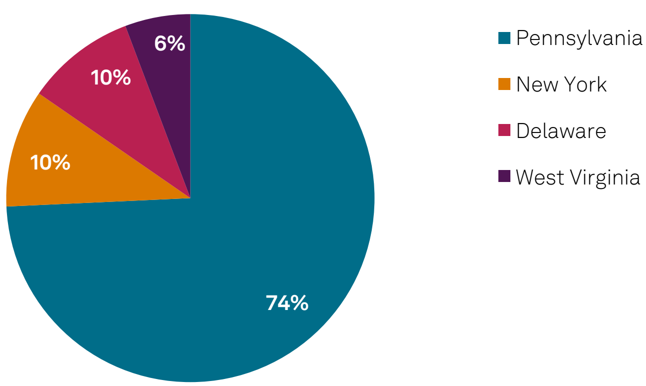
Highmark has been one of the most active BCBS health plans in terms of forming BCBS-based joint ventures and partnerships. While no new affiliations or acquisitions are imminent, Highmark's BCBS relationships provide it with an edge in future consolidation opportunities. Especially given the challenging operating environment, this may result in smaller BCBS companies seeking partnerships with larger, more diversified Blue companies.

Additionally, outside of the health plan, Highmark's dental business has partnerships with 15 unaffiliated BCBS health plans, and its stop-loss and health care technology businesses each have partnerships with seven unaffiliated BCBS health plans.

Independence Blue Cross' transition off the enGen platform presents some near-term volatility to one of Highmark's diversified revenue streams. But we think Highmark will be able to withstand this headwind through its offerings of more tailored, modularized solutions and its focus on operating efficiencies.

Highmark is a multistate Blue Cross Blue Shield health plan

Medical membership as of Dec. 31, 2024



Data excludes Medicare Part D. Sources: Company information and S&P Global Ratings.

While it's improving, Highmark's geographic diversity is limited by its business concentration in Pennsylvania, which represented 70% of total membership (including Pennsylvania-based national accounts) at year-end 2024. Somewhat offsetting this, in our view, are its significant national account business (representing 2.6 million members at year-end 2024) and its national dental business (representing 10.4 million members as of January 2025).

In 2024, Highmark's operating performance didn't meet expectations, owing to industrywide headwinds. But at the Highmark Health level, revenue of $29.6 billion in 2024 compared favorably with $18.3 billion in 2020--a 13% compound annual growth rate.

While adjusted EBIT has been volatile because of post-pandemic headwinds, investment income has been a steady earnings contributor, and it continues to drive the positive (though declining) margin. The company reported investment income (excluding realized and unrealized capital gains) of $400 million in 2024.

Highmark Health's financial results partially benefited from favorable operating performance within Alloyed Works. Overall, United Concordia Dental, HM Insurance Group, and enGen reported a $246 million operating gain in 2024, versus Highmark Health Plan and AHN reporting operating losses.

The tough operating environment in 2024 affected both Highmark's insurance and provider businesses, though the insurance business has more weight owing to its larger size. We see a natural hedge, to some extent, between these health services businesses: When AHN reported its weakest operating loss in 2023, the health plan remained positive, but as AHN showed signs of recovery in 2024, the health plan faced its most difficult year yet.

Reflecting these trends, Highmark's consolidated MLR jumped to 88.7% in 2024 from 86.3% in 2023. Higher medical utilization and increased drug costs drove MLR higher, resulting in adjusted EBIT ROR nearing break-even.

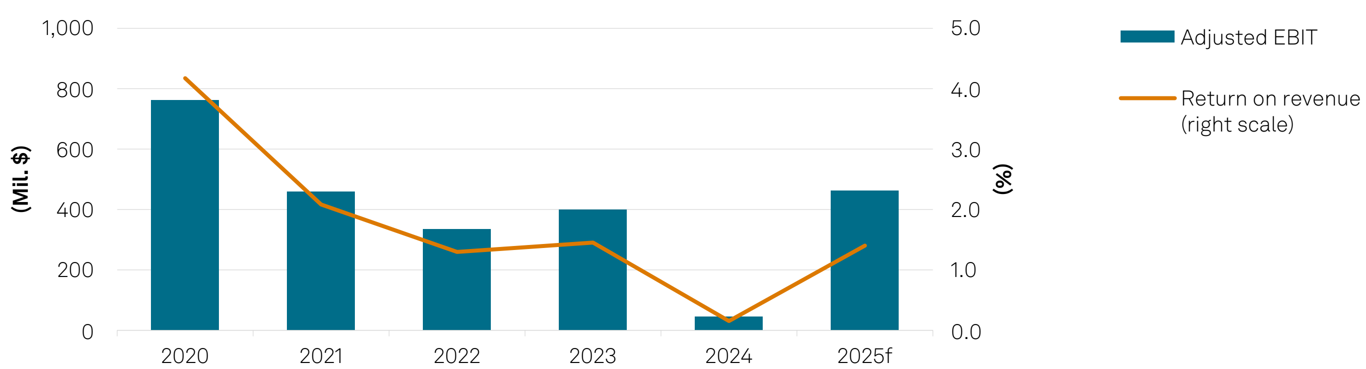
In 2025, we anticipate a moderate earnings recovery, which is supportive of our stable view on the company. At the Highmark Health level, we expect an ROR of 1%-2% in 2025-2026, slightly below our long-term expectation of at least 2%.

We think competitive pressures and elevated medical utilization will continue to weigh on margins in the near term. At the same time, pricing initiatives in the commercial segment, improved Medicaid rates, market growth in southeastern Pennsylvania, and operating efficiencies should result in margin improvement beyond 2% by 2027. Highmark Health's long-term margins could improve, in our view, if it successfully improves AHN's operating performance and executes on its Living Health corporate strategy. (Our projection sees AHN's operating performance reaching break-even in 2026, supported by rising patient volumes and improved operational efficiencies.)

While the Living Health strategy encompasses broader strategic goals--beyond earnings--it does have the potential to enhance Highmark Health's membership and revenue growth, medical costs, and operating efficiency.

Highmark Health's operating margin is moderating

Adjusted EBIT return on revenue



f--Forecast. Source: S&P Global Ratings.

Financial Risk Profile

Highmark has a very strong financial risk profile because of its excellent capital and earnings (as reflected by the 99.99% level of capital redundancy at year-end 2024), its moderately high risk exposure, and its neutral funding structure (which is supported by Highmark Health's moderate financial leverage, currently below 25%).

Its 631% regulatory RBC ratio at year-end 2024 was well above the minimum regulatory requirement (200%) and the BCBS licensing requirement (375%), and it also complies with Pennsylvania Insurance Department regulations. Pennsylvania is unique in that the state Insurance Department has specified target RBC ratios for BCBS health plans operating there. The department specifies that Highmark's "appropriate sufficient operating surplus range" is a consolidated RBC ratio of 550%-750%.

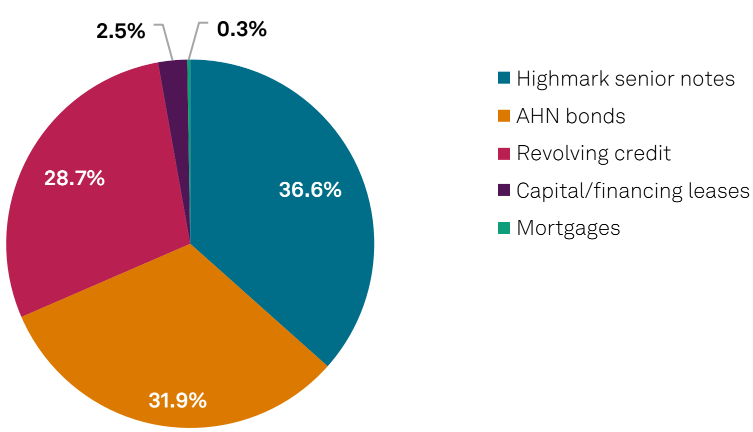
Highmark's capital redundancy at year-end 2024 is a key strength of the rating, and we expect Highmark to maintain it at the 99.99% level in 2025-2026 with capital growth driven by improved earnings. Its capitalization is slightly weakened by geographic concentration risks, which our capital model doesn't directly capture. These risks include local competitive, economic, regulatory, and morbidity-related factors that could affect earnings and capital growth.

The company's diversified investment portfolio supports its very strong capitalization. At year-end 2024, Highmark had total invested assets of $11.7 billion; it maintains a high-quality fixed-income portfolio, the average credit quality of which was 'AA-' at the time.

Highmark also maintains a moderately sized equity investment portfolio, which is manageable given the company's strong capitalization overall. Unaffiliated equity investments made up 19% of total invested assets at year-end 2024. The total investment portfolio is well diversified, with no major single-name concentrations in the fixed-income and equity asset classes.

Financial leverage is moderate at both the Highmark and Highmark Health levels. At the end of last year, it was 22% at Highmark and 24.6% at Highmark Health (including AHN debt). Highmark Health's adjusted EBITDA fixed-charge coverage has weakened (to 4.7x in 2024 from 8.6x in 2023), but we expect it to remain adequate for the rating--between 9x and 12x--in 2025-2026.

Highmark Health--Debt structure



AHN--Allegheny Health Network. Source: S&P Global Ratings.

Other Credit Considerations

Governance

We believe Highmark's governance supports its overall financial strength. The company has standard enterprise risk management governance structures in place, along with a formal strategic planning process. It has a strategic plan for each of its three core business segments, which include the health plans, the diversified business unit, and its care delivery.

The management has been in place for many years, and it has considerable experience across business verticals.

Liquidity

We expect that Highmark's liquidity ratio will remain above 100%. The insurance business's substantial cash and investment holdings and its sound operating cash flow bolster its liquidity.

AHN's liquidity is also adequate. In addition, the group's liquidity benefits from its various revolving credit facilities, which include Highmark's $500 million revolver due 2027, Highmark New York's $150 million revolver, and AHN's $50 million revolver.

Group support

We base our rating on Highmark Inc. on a consolidated analysis of Highmark Health (unrated), whose financials include both Highmark Inc. and AHN. We view Highmark Inc. and AHN as core entities of the group. Therefore, our ratings on Highmark Inc. and AHN are aligned with Highmark Health's 'a' group credit profile.

Allegheny Health Network. While AHN accounts for a relatively small portion of Highmark Health's total revenue (18% in the fiscal year that ended December 2024), it has been an integral part of Highmark's integrated delivery and financing strategy (IDFS) since 2013. Highmark has invested significant funds in AHN through equity transfers, grants, debt forgiveness, and other support totaling over $3 billion (with over $1 billion of that amount being provided since 2021).

This support, combined with Highmark's broad network of provider affiliations and partnerships, is itself an integral part of the clinical network serving Highmark enrollees. Driven largely by these growth investments in AHN, volume trends have generally been positive--they are above the prior year's volume trends and the budgeted expectations.

AHN's earnings remain negative and were below budget in 2024, although performance is on an upward trajectory, with management reporting a $99 million underlying run-rate improvement in operating income between 2023 and 2024. Labor and cost inflation--along with a deterioration of the payer mix--remain headwinds even as increases in volume yielded over an 8% increase in net patient service revenue.

AHN leadership has an operational improvement plan underway--which, along with continued volume growth, is expected to yield a lower operating loss of $25 million in fiscal 2025 (budgeted), with an improvement to break-even thereafter.

While AHN's stand-alone balance sheet is weak, with high leverage and limited unrestricted reserves, we think Highmark's willingness and ability to assist with capital financing and cash flow needs offset this risk. Management anticipates that, after a period of high capital spending, future spending will be slightly above depreciation expense.

Over a longer period, spending could ramp up. AHN is considering improvement opportunities on its Allegheny General Hospital, but the timing, scope, and costs of any improvements aren't yet certain.

Highmark Inc.--Rating component scores

Business Risk Profile	**Strong**
Competitive position	Strong
IICRA	Low risk
Financial Risk Profile	**Very Strong**
Capital and earnings	Excellent
Risk exposure	Moderately high
Funding structure	Neutral
Anchor	**a**
Modifiers	
Governance	Neutral
Liquidity	Adequate
Comparable rating analysis	0
Current Credit Rating	
Local currency financial strength rating	A/Stable/--
Foreign currency financial strength rating	--
Local currency issuer credit rating	A/Stable/--
Foreign currency issuer credit rating	--

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
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Allegheny County Hospital Development Authority, Pennsylvania Allegheny Health Network; System; System, May 7, 2025
- Economic Research: U.S. Economic Outlook Update: Higher Tariffs And Policy Uncertainty To Weaken Growth, May 1, 2025
- U.S. Health Insurance Sector View 2025: Elevated Earnings Risks And Health Policy Uncertainty, Jan. 29, 2025

Ratings Detail (as of May 07, 2025)*	
Highmark Inc.	
Financial Strength Rating	
Local Currency	A/Stable/--
Issuer Credit Rating	
Local Currency	A/Stable/--
Senior Unsecured	A-
Holding Company	Highmark Health
Domicile	Pennsylvania

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.