MOODY'S
RATINGS

CREDIT OPINION
7 May 2025

Update

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RATINGS

Highmark Inc.

Domicile	PITTSBURGH, Pennsylvania, United States
Long Term Rating	Baa1
Type	Insurance Financial Strength - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Highmark Inc.

Geographic expansion driving growth but higher medical costs weigh on results

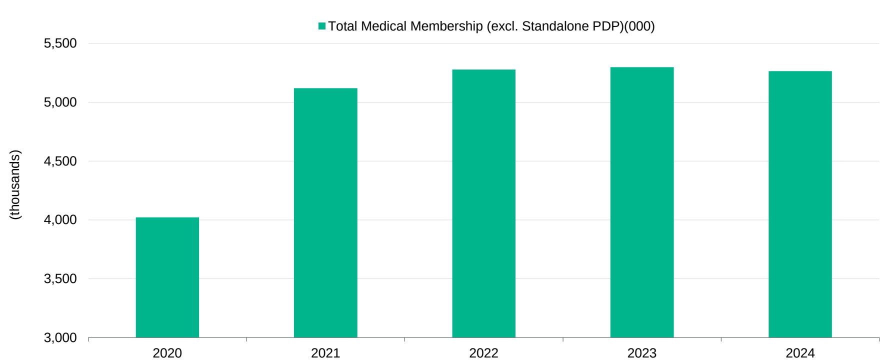
Summary

Our credit view of Highmark Inc. (senior debt Baa2 stable) reflects the company's success in integrating its affiliated and non-affiliated hospital networks within its expanding health insurance footprint. The rating also reflects Highmark's solid financial profile, supported by relatively consistent EBITDA margins, high capital levels, and a low amount of goodwill and intangibles relative to net assets.

Highmark's growing and deepening network of strategic partnerships and affiliations across health insurance plans and providers has proven beneficial over the past few years, including its expansion into the Southeastern Pennsylvania market. Highmark has partnered with technology solutions companies and implemented an artificial intelligence program to drive cost efficiencies and quality improvements in health care delivery. Moody's expects that enhancements currently being made by Highmark to its integrated model should lead to continued enrollment gains and drive non-insurance earnings diversification.

Balancing Highmark's credit strengths are its geographical concentration, especially in Western Pennsylvania, which is a highly competitive and challenged market from a demographic perspective, in addition to being highly regulated and politically sensitive; challenges in growing enrollment organically; and the potential for operational instability at the affiliated integrated delivery network, Allegheny Health Network (AHN), causing Highmark to provide financial support. Lastly, Highmark was impacted by higher utilization trends and healthcare costs during 2024 which impacted earnings. We expect these trends to persist in 2025.

Exhibit 1
Enrollment declined in 2024 due to lower Commercial Large Group and Medicaid membership



Source: Moody's Ratings; Company Filings

Credit strengths

» Growing and deepening network of strategic partnerships and affiliations across health insurance plans, providers, and leading tech firms to create a lower-cost, value-based ecosystem

» Holder of the Blue Cross and Blue Shield license and its leading position in the Pennsylvania, West Virginia, & Delaware markets, as well as Western and Northeastern New York via Highmark Western and Northeastern New York.

» Diverse product mix with large, profitable dental and stop loss subsidiaries; consistent core EBITDA margins

» Strong capital base, characterized by low goodwill and a strong RBC

Credit challenges

» Geographic concentration, especially in Western Pennsylvania, which is a highly competitive and challenged market from a demographic perspective

» Highly regulated and politically sensitive core Pennsylvania market

» Maintaining enrollment growth on an organic basis in a low growth geographic footprint

» Potential for lower patient volumes and/or higher costs due to industry challenges at the affiliated provider, AHN, causing Highmark to provide financial support

Outlook

The stable outlook for Highmark reflects Moody's expectations for incremental enrollment growth led primarily by individual, Medicare Advantage and Medicaid, and consistent core EBITDA margins.

Factors that could lead to an upgrade

» Successful execution of the tech-based integrated model (Living Health)

» Continued geographic diversification and growth of the enrollment base, along with continued capital strength

» Moderate financial leverage profile, with a consolidated RBC ratio at or above a 300% CAL

Factors that could lead to a downgrade

» Operational instability at the affiliated integrated delivery network, AHN, resulting in significant capital calls on Highmark, Inc.

» Sustained loss of medical membership

» Consolidated RBC below a 250% CAL

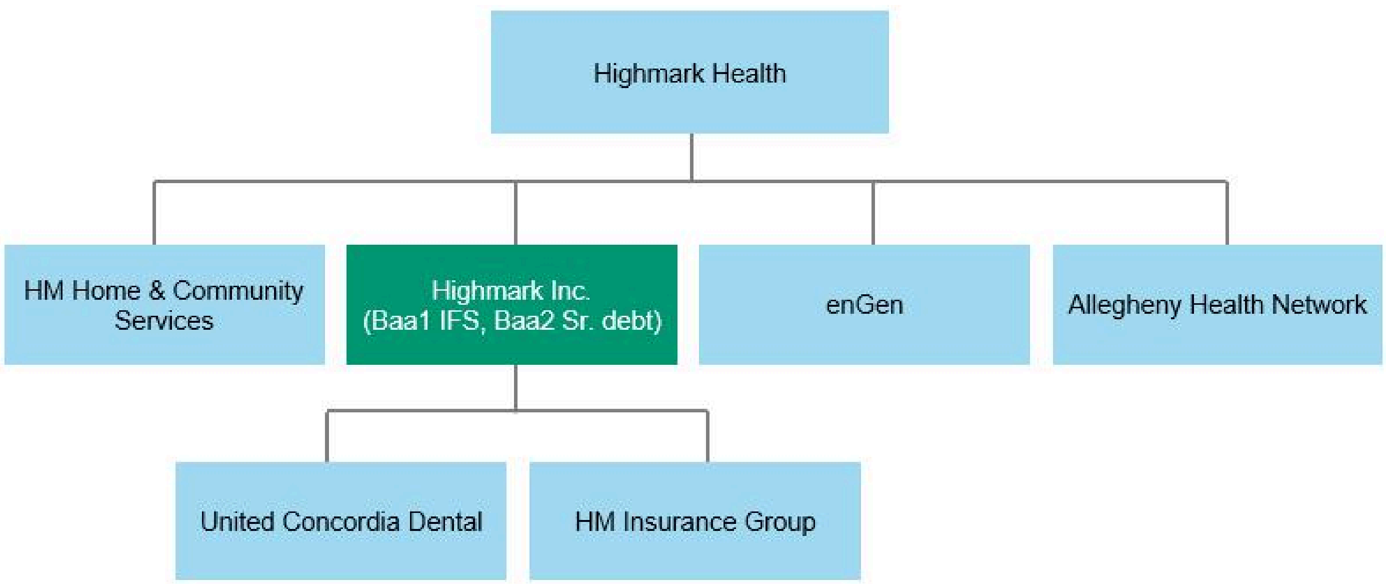
Key indicators

Exhibit 2
Highmark Inc.

Highmark Inc. [1][2]	2024	2023	2022	2021	2020
As Reported (US Dollar Millions)					
Total Assets	17,311	16,638	15,833	17,217	14,078
Total Shareholders' Equity	6,998	7,162	6,551	7,821	6,613
Total Revenue	25,433	23,644	21,577	18,835	14,810
Net Income (Loss) Attributable to Common Shareholders	126	690	(14)	1,519	1,153
Total Medical Membership (excl. Standalone PDP)(000)	5,265	5,298	5,279	5,120	4,021
Moody's Adjusted Ratios					
Organic Membership Growth	-0.6%	0.4%	3.1%	0.9%	1.2%
Operating Income (EBITDA) Margin	1.4%	3.7%	0.8%	4.6%	4.8%
Medical Loss Ratio	93.4%	90.3%	88.9%	89.6%	85.0%
Financial Leverage - Debt to Capital	22.4%	20.0%	20.0%	17.5%	11.3%
Financial Leverage - Debt to EBITDA	5.8x	2.1x	9.0x	1.9x	1.2x
EBITDA Interest Coverage	5.4x	15.4x	4.6x	24.3x	19.7x
Cash Flow Interest Coverage	0.0x	0.0x	0.0x	0.0x	0.0x
Consolidated NAIC Risk-Based Capital (CAL)	315%	302%	296%	324%	355%
Goodwill & Intangibles % Shareholders' Equity	4.1%	3.8%	4.6%	4.2%	1.1%
Full Risk Membership %	44.7%	43.9%	45.0%	45.0%	37.4%

[1] Information based both on statutory/regulatory and US GAAP financial statements as of the fiscal year ended 31 December. [2] Certain items may have been relabeled and/or reclassified for global consistency.
Source: Company filings and Moody's Ratings

Simplified organizational structure

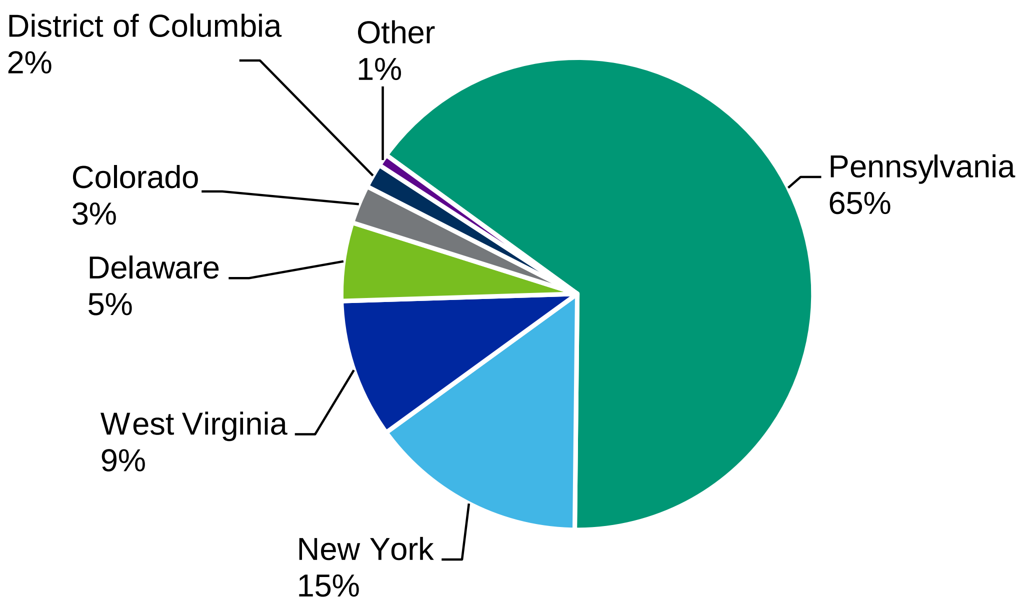


Profile

Highmark Inc., headquartered in Pittsburgh, is one of the top five Blue plans in the country. Its core geographic area is in Pennsylvania, where it holds leading market share serving counties in the western, central, and northeastern regions of the state. Parent Highmark Health is a PA-based non-profit and also has other affiliated companies that offer various hospital, health and home care solutions in the member footprint. Highmark also markets products in southeastern Pennsylvania. Through Highmark West Virginia Inc. and Highmark BCBSD Inc., the company offers BCBS health insurance products in West Virginia and Delaware, and through Highmark Western and Northeastern New York Inc. services areas of the western and northeastern regions of New York. Highmark also offers diversified specialty benefits on a national basis through Alloyed Works, most notably dental benefits through United Concordia Dental (unrated) and stop loss insurance through HM Insurance Group (unrated) as well as health plan management solutions nationwide, primarily to other Blue plans.

Highmark has also developed an integrated healthcare network through its affiliation with AHN. AHN includes 14 hospitals as well as outpatient surgery and urgent care centers and employs more than 2,500 employed and affiliated physicians. The integrated model is unique and a key differentiator within the Blue Cross Blue Shield space.

Exhibit 3
2024 Health premiums written concentrated in Pennsylvania



Source: Moody's Ratings; S&P Global Market Intelligence LLC. Contains copyrighted and trade secret material. Distributed under license from S&P. For recipient's internal use only.

Detailed credit considerations

Moody's rates Highmark Baa1 for IFS, which is in line with the adjusted rating scorecard-indicated outcome of Moody's insurance financial strength rating scorecard.

Insurance financial strength rating

The key factors currently influencing the rating and outlook are:

Market position and brand – Strengthening franchise via growing partnerships and affiliations

Supporting Highmark's market position assessment is the strength of its brand, together with its BCBS licensing; its leading market position in Western Pennsylvania; and its ventures with other Blue plans elsewhere in Pennsylvania. At December 31, 2024 medical membership totaled approximately 5.3 million (excluding BlueCard and Part D members). Overall membership decreased 0.6% from 2023 as the company's Large Group membership declined by 1% and Medicaid membership decreased by 8% during 2024 to 518,000 members, primarily due to the impact of redeterminations. Medicare and Individual membership grew, reflecting competitive products and successful open enrollment. With the addition of HealthNow in 2021, Highmark expanded into eight counties in Western New York and 13 in Northeastern New York, accounting for over 700,000 members, mostly under fully insured commercial arrangements. We expect Highmark to modestly add to enrollment during 2025, in part due to its strategic partner relationships opening up new opportunities, and expansion in Medicare and Medicaid in West Virginia and the Southeastern Pennsylvania markets.

Though geographic diversification improved with HealthNow, the vast majority of the company's economics are driven by its operations in Western Pennsylvania, a highly competitive and regulated operating environment.

Over the last couple of years, Highmark Health, the parent of Highmark Inc., has collaborated with Google Cloud and League to develop an interoperable digital health platform, making it easier for members to navigate health care options and connect to the right resources when they need them via the My Highmark app, advancing Highmark's living health strategy.

We assess this factor at the Baa level, same as the unadjusted score, reflecting Highmark's successful preservation of its core membership base, its integrated insurance and healthcare management strategy, and the group's sustained market leadership within its footprint.

Product risk and concentration – Core business line mix and specialty operations provide earnings diversification

Highmark's unadjusted product risk and concentration score is A, which is the same as its adjusted score of A. Although most of the company's membership is from the commercial business (includes large group and ASO, accounts for about 67% of membership and 32% of premiums year-end 2024), it has a large ASO business (about 54% of total medical membership at year-end 2024) which mitigates the risk of unanticipated increases in medical trend. Earnings and revenue diversification is enhanced by Highmark's sizeable Medicare and specialty businesses (dental insurance through United Concordia Dental and stop-loss through HM Insurance Group, as well as health plan management solutions provided primarily to other Blue plans across the US). These businesses account for roughly one-third of operating earnings.

The company's Medicaid business provides solid revenue diversification, and represented around 10% of total medical membership at year-end 2024. The company's Medicare Advantage HMO plan in Pennsylvania, which accounts for a large portion of its Medicare members, achieved a 5 out of 5 star quality rating from the Centers for Medicare and Medicaid Services for 2025, one of only 7 Blue plans to do so. Plans above 4.0 stars receive bonus payments from the government, which benefits margins and are a source of marketing strength for attracting new members.

Capital adequacy and quality – 300% RBC target stronger than most national insurers

Highmark's consolidated NAIC risk-based capital (RBC) ratio remained strong at 315% of company action level (CAL) at December 31, 2024, compared to 302% in 2023. Total adjusted capital decreased, but required capital proportionally decreased more. The ratio and the Aa raw and adjusted factor scores could be pressured if utilization trends remain elevated. Highmark targets its RBC ratio in the mid-300% range (per state insurance regulation, if Highmark's RBC ratio exceeds 375%, it will be required to justify its surplus level and could be required to submit a plan to bring its surplus within the designated appropriate sufficient operating surplus range of 275%-375%).

The amount of goodwill on the insurer's balance sheet is de minimis at 4.1% of equity at December 31, 2024 and has had a positive impact on the rating.

The Aa score for this factor recognizes prior and the potential for future financial commitments to the AHN network facilities. We note that there are regulatory limits on how much capital Highmark, Inc. can dividend out in any given year. Though not anticipated, if Highmark were to make additional capital commitments or guarantees in the future that reduce intrinsic capital strength, the score for this factor could be lowered.

Profitability – Lower earnings in 2024 due to unfavorable industry wide utilization trends

Highmark, whose raw and adjusted profitability factor score is in the Baa-range, reported a pre-tax profit of $179 million in 2024, down from $631 million in 2023, reflecting higher medical and pharmacy costs across most segments. Higher costs were driven by elevated utilization, Medicaid redetermination effects, and high prescription drug costs, especially GLP-1s. In 2025, we expect continued profitability challenges will remain for Highmark and the industry.

Investment income rose in 2024 due to higher fixed income yields and equity dividends, while realized gains benefitted from the strong equity market and private capital distributions. Adjusted for one-time items, 2024 EBITDA at approximately $348 million was down about 60% year over year, as EBITDA margin decreased to 1.4% from 3.7%. The medical loss ratio deteriorated to 93.4% from 90.3%.

The elevated costs most notably impacted earnings in Medicare, Medicaid, and Commercial risk, partially offset by favorable results in Large Group ASO. We anticipate EBITDA in 2025 will be negatively impacted by persistently higher cost trends as well, albeit with some moderation.

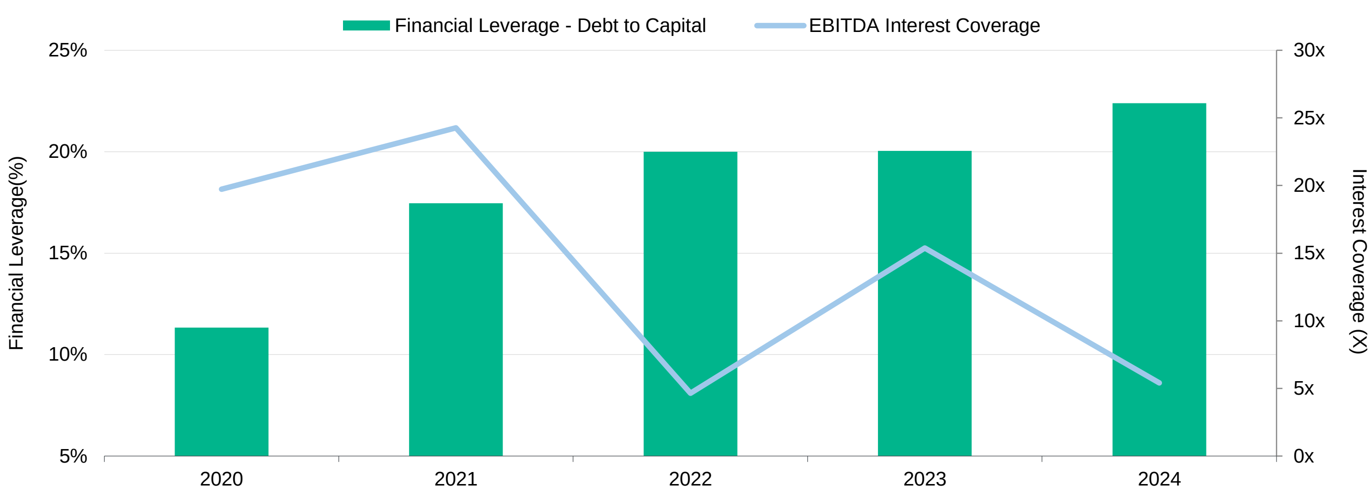
We expect margins in the low single digits in 2025. Despite the challenging industry environment, Highmark should benefit from continued underwriting and pricing discipline, continued operating leverage and cost discipline, as well as the benefits of the market expansion into Southeastern PA and Medicaid expansion into WV and PA.

Financial flexibility – Leverage metrics impacted by lower earnings; commitment to AHN is key consideration

Moody's calculates Highmark's debt at December 31, 2024 at $2.0 billion, which consists of unsecured notes of $1.8 billion, $126 million of capitalized lease obligations, and $47 million of guaranteed AHN obligations. Unsecured debt was initially issued by Highmark Inc. in 2011 to help fund the AHN affiliation. The $47 million guaranteed AHN obligations relates to the unfunded pension obligations of Jefferson Regional Medical Center, part of AHN (no liability is recorded on Highmark's balance sheet as a result of this guarantee). Financial leverage as measured by adjusted debt-to-capital, including all of the aforementioned items, was 22.4% as of December 31, 2024. Debt to EBITDA increased to 5.8x at year-end 2024 from 2.1x at year-end 2023, while EBITDA coverage fell to 5.4x from 15.4x, due to lower earnings.

AHN has a $50 million line of credit, expiring June 2026, that was undrawn as of December 31, 2024. We view the credit line positively as it enhances liquidity at AHN without encumbering Highmark Inc. AHN's lines of credit are not guaranteed by Highmark Inc. The financial and operational profile of AHN leads us to view Highmark's guarantee of Jefferson's pension liabilities as a less burdensome contingency for the company than in prior years. That said, the potential financing needs of AHN remains a consideration in our Baa level assessment (same as raw score) for this rating factor given the importance of the integrated health delivery system to Highmark's strategy. We also note that our overall Baa level assessment also considers that, as a non-public company, Highmark lacks access to equity capital markets, which is a constraint on our assessment of its financial flexibility.

Exhibit 4
Lower coverage in 2024 as higher utilization and medical costs reduced EBITDA



Source: Moody's Ratings; Company Filings

Liquidity analysis

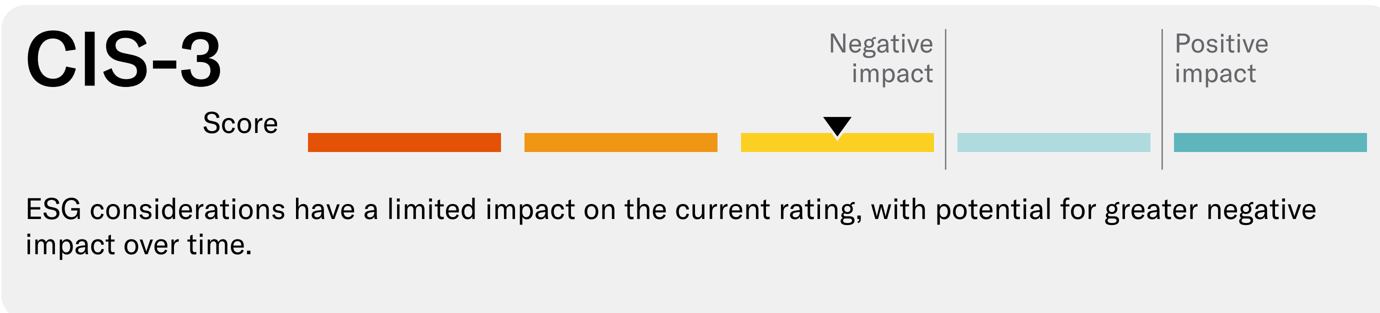
Collectively, cash and cash equivalents were approximately $755 million at December 31, 2024. Liquidity is enhanced by Highmark Inc.'s $500 million revolving credit facility (matures June 2027) of which $420 million was outstanding as of December 31, 2024. Highmark NY has a $150 million revolving line of credit (expires October 2025) with $96.3 million outstanding at the end of 2024. In 2022 Highmark became a member of the Federal Home Loan Bank (FHLB) of Pittsburgh and has a Board approved maximum borrowing capacity of $300.0 million. As of December 31, 2024, $288.2 million was outstanding.

Highmark Inc.'s operating cash flows are strong and combined with its cash balances, annual interest expense of approximately $63 million is very manageable. The company's next debt maturity is $400 million in 2026.

ESG considerations

Highmark Inc.'s ESG credit impact score is CIS-3

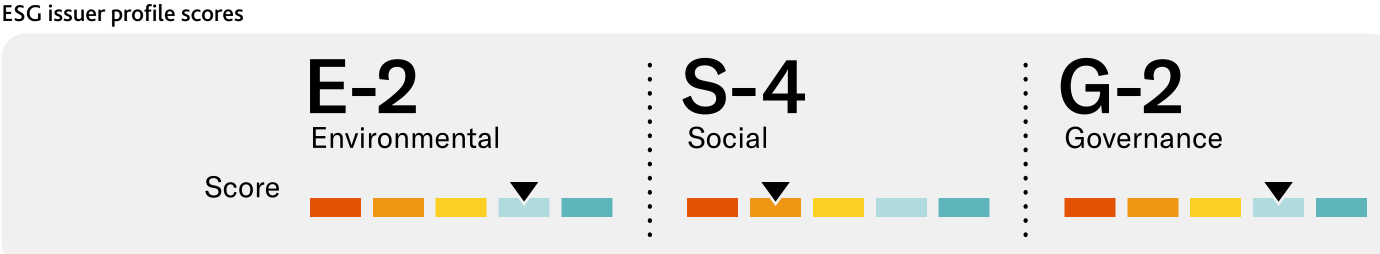
Exhibit 5
ESG credit impact score



Source: Moody's Ratings

Highmark's ESG Credit Impact Score is **CIS-3**. The score reflects a limited impact from social risks on the rating to date, but with the potential for future negative impact over time. Highmark's strong risk management and governance mitigate its exposure to social risks, including high customer relations risk and exposure to demographic and societal trends.

Exhibit 6
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Highmark has low environmental risk. Although certain environmental risks — such as waste and pollution — could give rise to increased incidence of certain diseases, currently, Highmark's diversification and scale mitigate these risks to a great extent.

Social

Highmark's social risks are high, including exposure to demographic and societal trends and customer relations risk. The loss of access to affordable health insurance is a key risk for insurers. As costs rise, health insurers may seek to share the burden with policyholders through higher premiums, rising co-pays, higher deductibles and more restrictive provider networks. The credit impact of these trends could be greater for companies in countries with aging or unhealthy populations that put cost pressure on health care systems. Highmark faces high exposure to customer relations risk through its sale of health insurance products and handling of sensitive personal data of its customers.

Governance

Highmark has low governance risks, and its risk management, policies and procedures are in line with industry best practices. Highmark demonstrates sound governance through its diversified board membership, along with prudent financial policies, risk management and compliance functions.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

Notwithstanding its holding company structure, Highmark's debt was issued at the operating company level. The one notch difference between the IFSR and senior debt rating represents our standard notching for US-based insurers, and reflects the priority of policyholder and provider claims over the insurer's debt and general creditor obligations.

Rating methodology and scorecard factors

Exhibit 7
Rating Factors

Financial Strength Rating Scorecard [1][2]	Aaa	Aa	A	Baa	Ba	B	Caa	Score	Adj Score
Business Profile								A	Baa
Market Position and Brand (15%)								Baa	Baa
-Total Medical Membership (excl. Standalone PDP)(000)			5,265						
-Geographic Diversity and Branding					X				
-Organic Membership Growth (3 yr. wtd. avg.)				0.3%					
Product Risk and Concentration (20%)								A	A
-Full risk membership %			44.7%						
-Premium Concentration		3.4%							
-Product Diversity			X						
Financial Profile								A	A
Capital Adequacy and Quality (25%)								Aa	Aa
-Consolidated NAIC Risk-Based Capital (CAL)		315.5%							
-Goodwill & Intangibles % Shareholders' Equity	4.1%								
Profitability (25%)								Baa	Baa
-EBITDA Margin (3 yr. wtd. avg.)					2.0%				
-Earnings Concentration (3 yr. avg.)			9.9%						
-Standard Deviation of Medical Loss Ratio (5 yr. stdv.)					3.0%				
Financial Flexibility (15%)								Baa	Baa
-Financial Leverage - Debt to Capital		22.4%							
-Financial Leverage - Debt to EBITDA							5.8x		
-EBITDA Coverage (3 yr. wtd. avg.)				8.6x					
-Cash Flow Interest Coverage (3 yr. wtd. avg.)									
Operating Environment								Aaa - A	Aaa - A
Preliminary Standalone Outcome								A3	Baa1
Other Considerations									
Management, Governance and Risk Management									
Accounting Policy & Disclosures									
Sovereign & Regulatory Environment									
Standalone Scorecard-indicated Outcome									Baa1
Support									
Nature and Terms of Explicit Support									
Nature and Terms of Implicit Support									
Scorecard-indicated Outcome									Baa1

[1] Information based on Highmark Inc. financial statements as of fiscal year ended December 31, 2024. [2] The Scorecard rating is an important component of the company's published rating, reflecting the standalone financial strength before other considerations (discussed above) are incorporated into the analysis.
Source: Moody's Ratings

Ratings

Exhibit 8

Category	Moody's Rating
HIGHMARK INC.	
Rating Outlook	STA
Insurance Financial Strength	Baa1
Senior Unsecured	Baa2

Source: Moody's Ratings

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