

# WHY MEDICAL COSTS INCREASE FASTER THAN INFLATION

## Understanding the factors behind health insurance rate increases

Almost all health insurers apply a price change annually. Cigna is committed to keeping price changes as minimal as possible. Premiums do not go up to create higher profits. We work carefully to balance our books and absorb the increasing costs of healthcare services and treatments while providing the best value we can to our customers.

Cigna's pricing strategy in each rate review period reflects market trends, observed experience data and other strategic lenses or considerations.

The reality is that there are many factors that drive an increase in cost—not only for Cigna, but also for the industry as a whole.

### Medical cost factors that can affect health insurance pricing

- › **Medical costs and inflation** increase each year, and at a faster rate than normal inflation.
- › **Medical inflation** is separate from global price inflation trends – and is usually much higher – due to factors specific to the healthcare industry, such as advances in medical technology and overburdened health care providers. The average annual medical inflation across the globe is typically between 7% and 8%, though this varies by country.
- › **Medical technology** can account for up to 50% of medical inflation increases. Every year, health care technology changes — usually for the better, but always at higher cost. Pioneering technology is constantly evolving which is now curing more diseases and illnesses than ever.



Many **cost** factors like pharmaceuticals and technology are simply **passed onto insurers** from hospitals, doctors and the health care industry.

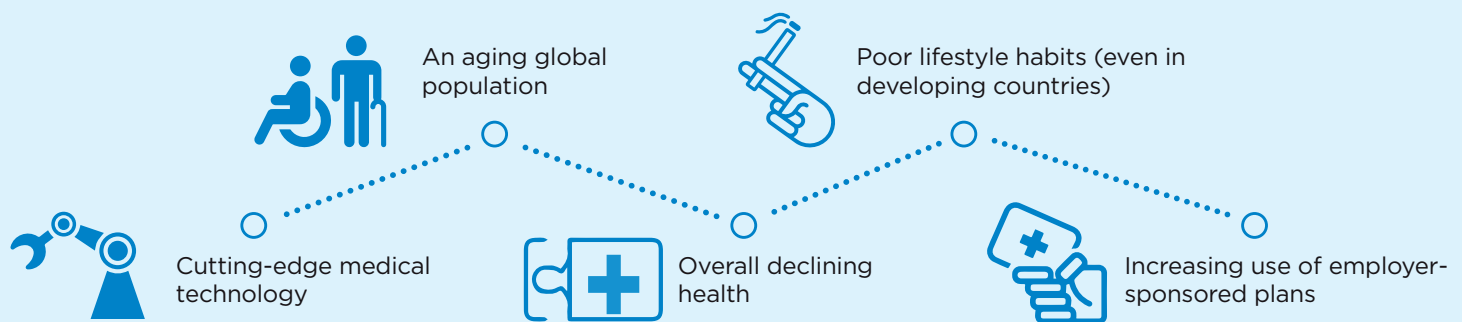
## Other factors that can affect health insurance pricing



**Aging.** This increase varies by the customer's current age (for example, toddlers vs adults will see different age-related increases).

- **Observed experience data.** Our data for various demographic categories and plan design selections, such as deductibles and coinsurances, are reviewed on an ongoing basis to ensure that price points reflect differing cost of care across the globe. When changes are made to pricing to reflect the experience data, some areas will be more favourably impacted than others, but the average change across the portfolio is neutral. Please note that these changes reflect a better understanding of the costs and do not increase Cigna's profits.

### ACROSS THE HEALTH CARE SPECTRUM, THE INCREASING COSTS OF MEDICAL TREATMENT CAN BE EXPLAINED BY:



### Why would there be price increases more than once a year?

Price changes usually occur at the point of renewal for existing customers and at a specified date for all new customers. Sometimes, health insurers update their pricing more than once a year, based on the following impacts:

- Product changes that result in changes to the price.
- Developing claim patterns that vary by region resulting in larger/smaller increases in certain parts of the world.

### Our goal is to keep prices affordable and fair

Cigna strives to balance the requirement for rates to be sustainable and sufficient to provide for its customers in their time of need, with the goal of offering prices that are competitive and meet the short-term financial needs of our customers. In the past, our price trends have been lower than other insurers.



We also make our rate changes region specific - impacting only those areas that are most affected by external influences. This region-specific approach means that some areas are affected negatively (and see a price increase) while other areas are positively affected (and see a price decrease).

## Further information specific to the 2021 September Rate Review

Understandably, the impact of **COVID-19** on everyone's life has been significant, that's why in 2020 Cigna Global Individual Health implemented a very competitive rate review. In 2021, medical claims have begun to return to pre-COVID-19 levels, and claims are also expected to return to pre-COVID-19 levels in late 2021 and onwards. This is due to delayed procedures and demand for services on conditions that may have worsened during COVID.

Additionally in 2020, Cigna rolled out **enhancements to the Cigna Global Health Options product** to improve plan design features and access to care, all at no additional cost to members. We will also further enhance CGHO this year, without price impact. Here are some of the new benefits:



A specific benefit for pandemic and infectious illnesses. Covering medically necessary treatments as well as approved testing and vaccines (if privately available) and looking after customers faced with long Covid symptoms



A new wellness coaching service giving our Health and Wellbeing customers access to a personal coach to focus on a specific wellness goal through 6 telephonic sessions



Expanded behavioural health tools and services for our Health and Wellbeing customers, including a mindfulness programme, a life coaching service, a manager assist programme and an online Cognitive Behavioural Therapy (CBT) programme, all of these supported by consultants and counsellors.

The goal of all of Cigna Global Individual Health's prospective rate changes is to maintain the **sustainability** of our pricing so that we can continue to offer our products and 5-star experience. Rate updates in 2021, which are consistent with those prior to the pandemic, ensure that we are maintaining pricing based on industry-standard medical trend recommendations as well as historical experience data, and will allow us to implement consistent rate changes in the future as claims continue to return to and exceed pre-pandemic levels.

**Together, all the way.<sup>SM</sup>**



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