

1. GENERAL INFORMATION

Cigna Health & Life Insurance Company (CHLIC) is filing rates for comprehensive major medical product 41921VA002 for individuals & families, to be effective January 1, 2019 through December 2019. These plans are attached to an existing product that has been submitted under policy form filing VAINDEPO042018. The proposed weighted average annual rate change for this filing is 15.0%.

2. KEY INFORMATION USED TO DEVELOP RATES

2017 individual health experience for CHLIC in Virginia, with the following adjustments, is the basis used to develop rates.

- Changes in the Morbidity of the Population Insured: Experience was adjusted to account for expected morbidity differences between the underlying experience population and the projected 2019 population. The morbidity adjustment factor accounts for morbidity drivers specific to CHLIC's single risk pool, including the membership distribution by metal tier, cost-share reduction subsidy status, and network type. The morbidity adjustment factor also accounts for expected market-wide morbidity changes due to the elimination of the individual mandate and increased awareness of Individual health insurance products.
- Changes in Benefits: The adjustment for changes in benefits was derived by comparing the average manual allowed claim cost for the 2019 product portfolio, weighted by projected 2019 membership by plan, to the average manual allowed claim cost for the 2017 product portfolio, weighted by 2017 CHLIC experience membership by plan. This adjustment captures anticipated changes in average utilization of services due to differences between the average member cost-sharing during the experience period and the expected average member cost-sharing in the projection period.
- Changes in Demographics: An adjustment was made to account for the change in distribution by age and gender between the 2017 underlying experience and the expected 2019 membership. The adjustment factor was developed as the ratio of the membership-weighted average demographic factor using 2019 projected membership, and a similar factor computed using the 2017 actual membership. An area adjustment was also made to reflect differences between the distribution of membership across rating areas in our experience population and our 2019 projected population.
- Trend Factors: The source data to determine the trend is national group experience adjusted for market-specific differences. Adjustments were made to account for differences in utilization across major service categories and differences in the formulary between group and individual. CHLIC's 2017 single risk pool experience is trended forward two years to 2019. The trend for group is deemed appropriate for use in development of individual rates because the networks constructed for group and individual are similar, and any differences in network are captured by a separate network savings decrement.

3. KEY DRIVERS OF PROPOSED RATE CHANGE

The following factors are the main drivers of the proposed rate change:

- Medical inflation and unit cost changes of medical services year over year: The underlying claim costs are expected to increase from 2018 to 2019, which is reflective of anticipated changes in the prices of medical services, the frequency with which consumers utilize services, as well as any changes in network contracts or provider payment mechanisms.
- The non-grandfathered individual market has continued to evolve since the inception of the Patient Protection and Affordable Care Act (PPACA), such as the introduction of the guaranteed issue requirement, the elimination of the individual mandate tax penalty, modified community rating, subsidies, the risk adjustment program, the external competitive landscape, anticipated changes to regulations regarding Short Term Medical and Association Health Plans, and many other provisions. After consideration for expected risk adjustment transfers, the single risk pool experience for CHLIC in Virginia was more adverse than assumed in the current rates. As a result, CHLIC's best estimate of the average market-wide morbidity of the covered population has increased compared to 2018.
- Increased Profit Margin: After reviewing Cigna's capital requirements and profitability targets, CHLIC raised the profit target assumed in pricing to a level that meets CHLIC's corporate hurdle rate.
- Plan design changes and benefit modifications: Changes have been made to certain plans that are resulting in a decrease in expected cost share and therefore a decrease to premium. All plan designs conform to actuarial value and essential health benefit requirements.

- Health Insurance Industry Fee Changes: The suspension of the HII Fee for 2019 results in a decrease to premium compared to 2018.
- Change to the Corporate Tax Rate: The Tax Cuts and Jobs Act decreased the corporate tax rate from 35% to 21%. This has been reflected in our filing for 2019 and resulted in a decrease to premium compared to 2018.

The requested rate change is not the same across all plans. The following factors drive different rate changes by plan:

- Plan design changes
- Trend leveraging due to member cost sharing provisions
- CHLIC has made refinements to the manual rating methodology based on its most recent group experience and refreshed the claim probability distribution (CPD) used in the development of the cost sharing for its plans based on recent data for the Individual market, which leads to expected claim cost changes and different cost share among plans
- CHLIC has updated the data and methodology used to project changes to customer utilization patterns as a result of changes in cost sharing