Group Benefits Pooling Explained

How is it possible to offer great employee benefits when you only have four employees? With group benefits pooling, the impossible is easy to achieve.

What is group benefits pooling and how does it work?

Group benefits pooling is a way of spreading risk amongst a large group in order to lessen the impact should the “event” that is being covered occur. For example, with accidental death and dismemberment (AD&D) insurance, one of the **risks** is that an employee might get in an accident and become paralyzed. The insurance is there **in case** this were to happen, but the **likelihood is very small** that it ever will.

Thus, employers pay insurers monthly premiums to take on that risk and then the insurer, and not the employer, is responsible for paying any claims that arise.

When a claim is made from a very large group benefits pool, the effect is hardly felt. This allows insurers to provide lower rates. And allows them to ensure rate stability for their clients. If the risk was not spread out, employers would have to pay much more for their group benefits.

Different types of pooling

There are several different types of group benefits pooling. While they all aim to achieve the same goals of lower rates and rate stability, they work slightly differently.

Pooled benefits

Insurance costs for high-cost but low frequency (low risk) claims would be extremely expensive if insurers did not pool them. Unless you are a very large company. The following benefits are usually pooled:

- Life insurance
- Accidental death and dismemberment (AD&D) insurance
- Disability insurance
- Critical illness insurance (CI)

By grouping these coverages into a pool, it allows small- and medium-sized companies to provide coverage for these high-cost claims without paying extremely high premiums.

Download the infographic: Benefits pooling in action (PDF: 351 KB)

Health and dental pooling

When it comes to health care and dental care, fully pooled plans are available as well. This is typically done for small groups in order to provide long-term rate stability. Although health and dental care claims are often more frequent and lower cost, for small groups where the total annual premiums are small, even a modest increase in claims can have a big impact on rates.

As with pooled benefits, groups are put in a “pool” together with other small groups. At time of renewal, rate changes are based on the combined claims experience of all groups within the pool, instead of each group renewing based on their own merit. By spreading the risk across a larger number of plans, the overall claims experience becomes much more predictable and therefore results in stable rate changes year over year.

The caveat is that employers are not privy to what types of benefits are being utilized by their employees. Therefore, it is difficult to make educated, effective plan design updates. If you don’t know what parts of the plan employees are using, how do you know if the plan is valuable?

Andrea Shandro - Group Benefits Expert, Advocate, Collaborative Partner and CoFounder of Vital Partners gives a great example:

“A company had never offered paramedical services like massage therapy, physiotherapy or chiropractic care. When they left their pool, the most utilized drug classification was muscle relaxants and pain killers. They found that by introducing paramedical coverage into the plan, employees became less reliant on pharmaceutical pain management.”

Stop-loss pooling

This is a type of group benefits pooling at the plan member level. Under the health care benefit, each individual has a stop-loss threshold, commonly $10,000. If any individuals’ total claims reach that threshold, any amounts above are not included in the groups’ claims experience. Instead, the insurer takes on paying for those claims.

For example, Trikafta is a newer, highly effective drug used to treat cystic fibrosis and it has an annual cost of approximately $300,000 per year. If this claim were to be added to a small group’s claims experience, the premiums would be unreasonable and unsustainable.

Stop-loss pooling helps keep plans sustainable by removing high-cost claims from the claims experience. An example would be maintenance drugs for chronic conditions such as diabetes or crones’ disease. Stop-loss is paid as a percentage of the total premium for the health care benefit.

For a more detailed explanation of how stop loss works, refer to our blog post:

What is Stop Loss and How Does It Keep Benefits Plans Sustainable? (bbd.ca)

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