Johnstone's Journal

JOHNSTONE'S JOURNAL is published monthly, and designed to provide topical information of interest not only to plan administrators, but to all employees who enjoy coverage under the benefit plan. Feel free to make copies, and use as a payroll stuffer.

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Pooling Protection in Your Extended Health Plan
What is it? Why are costs increasing?

High Price Health Claims

The good news is that every year there are remarkable medical advancements for people with serious health conditions. The bad news is that the costs of these treatments can be prohibitive. Employees rely on their extended health care (EHC) benefits to help with these expenses, while employers are starting to wonder how long they will be able to afford EHC plans.

The arrival of new specialty drugs (in most cases biologics) used to treat complex conditions such as rheumatoid arthritis, multiple sclerosis, and cancer has caused drug expenditures to soar. Although specialty drugs represent only 1.3% of the number of drug claims, the latest figures show that they make up almost 25% of total drug costs paid for benefit plans.

Insurers have reported several claims surpassed $500,000, including one for more than $1.2 million!

By pooling these costs, employers, and ultimately employees, are sheltered from the potential devastating financial impacts that even a single ongoing (recurring) claim for highly expensive drug treatments could have on the sustainability of an extended health care plan. In the past, the focus of pooling was on emergency medical treatment outside of Canada. This risk pales in comparison to the risks related to high-cost medications.

What Is Pooling?

Extended health pooling protection (aka "stop loss") spreads the risk of large claims among an insurer's total book of business. Insurers remove large claims from a policy's experience analysis when calculating renewal rates. For this protection, an insurance premium, or pooled rate, is charged and included in the extended health care premium.

Each group's EHC contract specifies the pooling details, but typically, it includes two types of pooling protection:

- All emergency out-of-country claims
- In Canada, claims over a specific dollar value. Levels of pooling can range from $5,000 to $25,000 in a calendar year.

Most EHC pooling arrangements cover all claims, including recurring claims such as expensive specialty drugs. However, not all pooling arrangements provide this kind of protection. Some contracts will only pool claims that are not recurring and therefore will not protect groups if an employee is claiming a high cost recurring drug claim.

Pooling is particularly beneficial to the small and medium-size businesses: the lower the pooling level, the better protection.

Pooling Costs Are Increasing—Why?

Let's take a small company under 20 employees that has a claimant incurring $30,000 of drugs annually. With a $5,000 pooling level, $25,000 of the annual claims are removed from the group's renewal calculation. The EHC plan remains far more affordable for the company, but the insurer is left paying $25,000 every year from the pool.

Insurers were so alarmed by this that they created a frame work (EP3) to share the risk (see our January 2013 *Journal*, Protecting Your Prescription Drug Plan).

We know prescription drug coverage helps employers attract and retain quality employees. These plans also help to keep those employees healthy and productive. Pooling protection keeps plans affordable.