Johnstone's BENEFITS

THE JOURNAL

solid group plans made simple

HOW POOLING AFFECTS YOUR EXTENDED HEALTH PLAN

What is pooling? Why are costs increasing?

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, hepatitis C, and cancer has caused drug expenditures to soar. Although specialty drugs tend to represent less than 2% of the number of drug claims, they can make up almost 25% of total drug costs paid for benefit plans and the trend is that this is only going to increase.

Insurers have reported several claims that have surpassed $500,000, including at least one over $1,000,000.

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?

Large claim pooling, also known as stop loss coverage, has been designed to help protect against the significant and negative financial consequences of a catastrophic claim. Claims that are over a predetermined amount are removed from the claims experience before renewal rates are calculated. This helps smooth the impact of large claims on health care premiums rates and allows plan sponsors to continue to provide a comprehensive and affordable health care plan.

THE JOHNSTONE'S ADVANTAGE

Our mission is simple: **Treat each client as if they were our only client**.

Our value is clear: **We are completely independent**. We work for you and offer total flexibility on insurers and plans.

We offer all your group insurance services including administration, brokerage, consulting, and communications.

We provide dedicated client support, customization and flexibility to meet all of your company's benefits needs. And we make **solid group plans simple**.

Each group's Extended Health Care 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 $10,000 to $25,000 in a calendar year, depending on the contract details.

Most extended health care 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?
With the number of new biologic and specialty drugs, the usage of these drugs over more traditional drugs will increase. Since most of these would fall under the pooling limits, the financial liability is drastically increased. For insurers to manage their liability they would look at options to share the liability with the plan sponsor. Such as;

- **Increased pooling levels** –as recently as 3-5 years ago, you would be able to find pooling levels as low as $5,000. Now, levels are more aligned to the $10,000 to $25,000 range.
- **Increased pooling premiums** –a portion of the cost associated with extended health care is a pooling premium. These premiums used to be considerably lower in years past. However, the forecast is that these will continue to increase.

Let's take a small company under 20 employees that has a claimant incurring $30,000 of drugs annually. With a $10,000 pooling level, $20,000 of the annual claims are removed from the group's renewal calculation. The extended health care plan remains far more affordable for the company, but the insurer is left paying $20,000 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.

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