

Pooling Demystified: How Pooling Levels Help Manage Risk in Group Benefits

by Matthew D. Strain, Senior Vice President

When employers prepare for their group benefits renewal, most focus on obvious cost drivers, such as claims experience, demographics or plan design. A less visible factor, pooling, can have a significant influence on renewal outcomes. Understanding how pooling levels help manage risk in group benefits can assist benefit leaders as they navigate claim volatility, negotiate renewals and protect their budgets from healthcare cost increases.

What is Pooling?

Pooling is a built-in safeguard in fully insured programs that protects a group from high-cost claims. For employers, it softens the impact of high-cost medical or pharmacy claims that could otherwise destabilize a plan. Pooling also protects carriers by spreading the risk of the unknown across their book of business through pooling premiums. Recognizing this dual purpose is essential to understanding how pooling affects renewals.

In fully insured plans, pooling functions like stop-loss protection. Once an individual's claims exceed a certain threshold, known as the pooling level, the insurer removes the excess from the group's renewal calculation. These excess costs are covered by pooled funds, supported by an additional charge—the pooling premium.

Pooling establishes a financial ceiling for how much one catastrophic claim can affect a renewal. Without it, a single cancer diagnosis or expensive specialty prescription drugs could easily drive double-digit premium increases at your next renewal.

Understanding Pooling Levels

Pooling levels are dollar thresholds set by carriers. For example, if a group's level is \$100,000, only the first \$100,000 counts toward the group's rate increase. Amounts in excess are excluded from the renewal calculation.

Several factors influence pooling levels:

- Group size: Larger groups generally have higher pooling levels; smaller groups usually have lower thresholds
- Carrier practices: Insurers set ranges that can vary by region
- Premium volume: Carriers need to collect a certain amount of pooled premium to justify higher thresholds, which often limits how high a client's pooling level can go

Employers sometimes have the option to increase their pooling level, which reduces fixed costs (lower pooling premiums) but transfers more risk back to the group. In other words, higher pooling levels equal lower fixed charges but potentially higher claim liability. In this way, pooling levels can help manage risk.

The Role of Pooling Premiums

Pooling premiums are the fees carriers charge to provide this protection. Though they may appear minor compared to overall medical premiums, they play a significant role in renewal math.

Pooling protects both employers and carriers. Catastrophic claims are unpredictable, and pooling helps insurers shield themselves against those unknowns. By pricing that risk in advance, carriers maintain financial stability while offering protection to groups.

Once a claim becomes ongoing and predictable, such as a member requiring \$130,000 annually in specialty drugs, carriers no longer treat it as an unknown. Instead, they may increase the pooling premium at the next renewal to reflect that new certainty. Pooling charges evolve alongside the group's risk profile, ensuring both parties share in the risk.

What Claims Typically Hit the Pooling Level?

Traditionally, high-cost hospital stays or rare diagnoses were the primary drivers of pooled costs. However, pharmacy claims are increasingly the primary cause. Specialty medications for conditions such as multiple sclerosis or rheumatoid arthritis can exceed six figures annually, even without hospital admissions.

With the rapid advancement of specialty drugs and more expensive medications, it will become increasingly common for pharmacy claims—not just traditional medical claims—to exceed pooling levels. Large claim reports often reveal pharmacy costs as the main driver of pooled claims, a significant shift for both clients and carriers, one that is expected to continue rising in the coming years.

How Pooling Affects Renewals

Pooling shields groups from immediate financial devastation, but it doesn't eliminate the impact of high-cost claims on renewals. Claims above the pooling level are removed from renewal formulas to soften increases, but ongoing claims can still influence pricing. Once a claim is no longer a surprise, carriers adjust pooling premiums upward to account for it.

Formulas matter as well. Carriers rely on underwriting models filed with regulators. If a group consistently experiences more high-cost claims than expected, those models drive higher charges at renewal.

In short, pooling is a shared risk-management tool: It creates stability for employers and ensures sustainability for carriers.

Managing Pooling in Renewal Strategy

For benefits leaders, the key isn't just knowing that pooling exists; it's understanding how to manage it strategically:

- Track large claims proactively: Monitor claimants approaching the pooling threshold to anticipate renewal impacts
- Evaluate pooling levels: In some cases, increasing the level may lower fixed costs and improve long-term predictability
- Understand carrier behavior: Each insurer has its own thresholds and approach to pooling; knowing how they respond to ongoing claims helps in negotiations
- Plan for the inevitable: Pooling levels and premiums rise over time due to inflation and [increasing drug spending](#), so factor this into multi-year budgeting

Pooling as a Tool for Stability

Pooling is a critical mechanism that shapes how carriers assess risk and how employers experience renewals. By understanding pooling levels, evaluating pooling premiums and planning for the impact of high-cost claims, benefits leaders can approach renewals from a position of strength.

Pooling is not just protection for the employer—it also ensures stability for the carrier. Recognizing this dual purpose allows HR and finance leaders to negotiate from a clearer understanding of the mechanics at play.

Pooling should be part of every renewal conversation, both as a cost driver and a cost protector, to achieve stability and predictability.

Follow the conversation with us on [LinkedIn](#).

For more information, please call: **877.426.7779**