Maximizing Employee Benefits Through Multinational Pooling

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For many companies, international growth continues to outpace domestic growth, and global foreign direct investment flows are predicted to triple by 2025\(^1\). As a result, companies are increasingly crossing borders, either through acquisition or greenfield investment in new locations. Each country has its own regulatory environment, culture, customs, languages, and currency. These factors impact employee benefits programs, which can present challenges for global human resources managers.

Developing effective local employee benefits programs for multinational companies can be challenging and time-consuming. It requires finding alignment between corporate philosophy, local business needs, market practice, and cultural values. To be effective in the global economy, it is crucial for multinational companies to achieve the right mix of employee benefits programs to attract and retain key talent.

**COMPLIANT AND COMPETITIVE BENEFITS PROGRAMS**

When expanding globally, companies must understand and abide by local laws, rules, and regulations. It is also important to offer employee benefits programs that are in line with local market practice, providing appropriate protection and meeting employee expectations. In most countries, an employer will offer some combination of retirement, life, accident, disability, and healthcare coverage, but it is important to note that no two countries will have the exact same benefit plans for local employees. Insurance markets design products to complement statutory regimes, which usually include some level of social insurance and may include mandated coverage to be provided by the employer. Local needs and culture also shape typical benefits practice.

In most cases, local regulations require that employee benefit insurance products be written by licensed insurance carriers that are admitted and approved by the local regulators. Alternatives to locally written coverage do exist but may pose compliance, tax, or adequacy challenges. Consequently, multinational companies are faced with managing multiple insurance contracts in every country, each with its own features and renewal processes.

- **How do multinationals ensure compliance in every country?**
- **How do they leverage their global footprint and headcount to achieve economies of scale and manage costs?**
- **How do they ensure that the premium charged is appropriate for their claims experience?**

Global governance of benefits programs has become a priority for multinational organizations keen to ensure compliance and manage costs as effectively as possible. Program management increasingly requires significant investment of time and resources, and as costs continue to rise, the stakes are growing higher each day. Multinational pooling can be a valuable tool to address these challenges.

Partnering with global insurers and pooling networks can help a company’s global HR team:

- Improve its governance position.
- Reduce administration.
- Leverage its global size to obtain optimal terms and conditions for local benefit plans.
- Obtain comprehensive annual reporting of plan financials.

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SUITABILITY

Pooling provides a mechanism for global companies to reap financial dividends from their global premium spend. Before initiating a pooling arrangement, corporate decision makers should evaluate the suitability of pooling to their specific circumstances.

Q: Does corporate headquarters play a centralized or decentralized role in designing, managing, and approving local employee benefits plans?

A: A healthy pooling strategy requires top-end direction from the company’s C-suite and corporate head of human resources. If your company is decentralized, it will be very difficult to implement and manage an effective pooling strategy.

Q: How are our employee benefits programs financed?

A: Most benefits programs are fully insured, some with significant margins within the premium, making them appropriate for pooling. Self-insured programs are not suitable for pooling, but stop-loss coverage may be.

Q: Do we have sufficient premium volume to yield economies of scale with any global insurance networks?

A: It is always helpful to leverage your global premium spend by seeking economies of scale with a small number of preferred insurers.

Q: What is our company’s risk appetite?

A: If your company is financially conservative, so should be your approach to financing employee benefits risk. Pooling can create eligibility for financial dividends, even for companies with a low risk appetite, but it also offers a wide array of options for those wishing to take on a bit more risk to potentially achieve higher dividends.
**MULTINATIONAL POOLING**

Multinational pooling is not a new concept; the first pools were established in the 1960s, but with the ease of international expansion unlocked by the third and now the fourth great wave of economic development, it is a tool only now being discovered by newer and often smaller multinational organizations that didn’t realize that they too could leverage their global presence. Pooling networks have also evolved to meet these changing market demands by offering small group pools with less stringent minimum requirements to establish a pool (e.g., as few as two countries, lower pooled premium thresholds, and fewer covered lives). As companies expand globally and strive to finance employee benefit plans more efficiently, pooling and the value-added services offered in conjunction with pooling have become more attractive.

**How It Works**

The headquarters of a multinational employer signs a pooling agreement with a multinational insurance network that allows the local group risk contracts to be financially evaluated as if they were one combined contract. The multinational decides which eligible contracts it wishes to add to the pool. These can be existing contracts already held by network insurers, new contracts, or contracts that the company moves from nonnetwork insurers to network insurers. At the end of the financial year, the network reevaluates the contracts at the international account level through a process referred to as “second-stage accounting.” All income and expenses (premiums, claims, interest, commissions, profit-sharing, etc.) are aggregated for experience-rating purposes. This allows the network to assess the administration and risk charge retentions for the entire group of contracts as if they were one large group, which produces lower charges than were available to the smaller, local contracts when they were originally rated and issued locally. The original premium rates are not actually revised, but rather, a theoretical savings is identified at the international level that will be used to return an “international dividend” to the client if the claims experience is favorable.

At the macro level, the pooling networks proactively work with their local partnering insurance carriers to negotiate the best administration charges, terms, and conditions for pooled clients. There is no additional financial risk for the multinational employer due to the stop-loss and loss carry forward arrangements that are used to address deficits in most pooling agreements.

![Figure 1—Client & Network Agreements](image-url)
Local insurance carriers are willing to sacrifice part of their margin for pooled clients for two primary reasons:

- First, pooling agreements tend to secure a client relationship over a long period of time, which is important from an insurer perspective.
- Second, the local carriers are reimbursed by the network in the event of any losses in a given country up to the pooled limits set by each pool.

Multinational pooling clients receive an annual report from the pooling network that details both the plan experience in each pooled country and the overall pool experience for the client. The aggregate result determines the potential pooling dividend.

**The International Dividend**

The potential dividend is dependent on favorable claims experience. Essentially, a dividend is derived from the margin that would otherwise be retained by the carrier (Figure 2).

If local premiums are competitively priced, clients should not expect to see large dividends, but the pool’s economies of scale and its ability to experience-rate less competitively priced contracts—in tariff markets, for example—result in pooling dividends paid to clients that typically average 5 to 10 percent of the pooled risk premium. There is no guarantee that a dividend will be paid each year, as the dividend is completely dependent on actual claims experience. A pool has the potential to end in a surplus or deficit.

Many multinational companies share dividends with their local subsidiaries as an incentive for participating in the pool. Some multinational companies apply the dividend toward other global programs and initiatives that benefit their employees worldwide, while others may use the dividend to offset future premiums. It is helpful to have transparency with each of the participating countries, whether the dividends are distributed or not, as that visibility generates a better understanding for local human resources and decision makers. This should result in better participation of local offices and avoids the perception of being forced to participate in the pool.

<table>
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<tr>
<th>Returned To Client</th>
<th>Pooled Premium Claims &amp; Expenses = Multinational Dividend</th>
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<tbody>
<tr>
<td>Retained By Carrier</td>
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<tr>
<td>Carrier</td>
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<tr>
<td>Margin</td>
<td>Potential International Dividend</td>
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<td>Pool Contribution</td>
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<td>Risk Retention</td>
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<td>Local Dividends</td>
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<td>Commissions</td>
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<td>Benefits Paid</td>
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<td>Claims Reserves</td>
<td>Claims Reserves</td>
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<tr>
<td>Administration</td>
<td>Administration</td>
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</tbody>
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Figure 2—Annual Accounting

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<tr>
<th>Not Pooled</th>
<th>Pooled</th>
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<tbody>
<tr>
<td>Margin</td>
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<td>Pool Contribution</td>
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Deficits

Not all pools produce a surplus every year; deficits are possible. Clients are not, however, required to pay this deficit under most pooling arrangements, which either forgive deficits entirely from year to year through stop-loss terms or carry them forward in part or whole to be applied against future results. Many pooling options are available, and it is important to design the pool such that the risk profile is aligned with company objectives and philosophy (see Figure 3). Company demographics should also be considered.

The most conservative approach would involve full stop-loss terms in the pooling contract, whereby losses are forgiven on an annual basis. Less conservative approaches allow the employer to assume greater risk by carrying forward losses to future years where they are paid down by future surpluses. Employers should exercise caution when considering long carryforward or unlimited carryforward terms, as a year with very poor experience could render the pool ineligible for dividends for years to come.

Poolable Contracts

Group risk contracts are poolable if they are fully insured, employer-sponsored, and 100 percent employer-paid. Benefits that require employee contributions or salary sacrifice are generally not suitable for pooling or may require special arrangements to ensure equitable distribution of dividends to contributing employees, such as reduction in future premiums or some other mechanism. Likewise, voluntary employee benefits programs should not be pooled.

Coverages that are potentially include:

- Group term life.
- Accident.
- Disability (if paid as a lump sum).
- Medical.
- Risk benefits such as life, accident, and/or disability tied to pension.
It is important to note that although a group risk contract may appear to be poolable, it does not always mean it can or should be pooled. Contracts may not be suitable for a variety of reasons:

- Blocked currencies or specific local regulations may prevent a contract from being pooled from a financial perspective, but they may be included in the reporting for informational purposes.
- Dividends may be required to be paid locally; therefore, pooling at the global level would not be advantageous.
- Coverage may be poolable but only up to a certain threshold or percentage of risk premium. Premium for insured sums in excess of guaranteed issue that requires medical evidence is generally not poolable.
- It rarely makes sense to pool short- and long-term disability benefits that are paid as an annuity.
- Comprehensive medical is not typically a good candidate due to the large volume and volatility of claims.
- US group risk contracts can be included in a pool; however, they may not enhance the financial performance of the pool due to the already highly competitive rating of premiums.

**ADVANTAGES OF POOLING**

The value that pooling offers to global companies includes:

**Greater Access to Information**
- Premium and claims reports on a quarterly basis are offered by most pools.
- Claims management reports are offered by some pools.
- Country reports detailing mandatory/statutory and typical practice benefits in most countries.

**Enhanced Governance**
- Centralized control for headquarters to better support global governance and corporate benefit philosophies.
- Access to policies via a centralized point of contact at the pooling network.

**Financial Opportunity**
- Economies of scale to allow for stronger purchasing power.
- Lower overall retention costs based on total premium volume.
- Optimize cash-flow options.
- Minimize reserving requirements, if possible.
- Experience rating of all local group risk contracts in the pool.
- And, of course . . . the potential pooling dividend.

**Improved Terms and Conditions**
- Optimal underwriting terms and conditions, especially for small group populations, including:
  - Favorable free-cover limits.
  - Coverage for preexisting conditions, where possible.
- Potential exceptions to set up small group plans in new countries by leveraging the network relationships.
MULTINATIONAL POOLING NETWORKS

There are currently eight active pooling networks. Each network partners with local insurance companies with the shared objective of underwriting fully insured employee benefits programs. The networks are comprised of both wholly owned subsidiaries and partner insurers.

It is important to note that the network is not an insurance carrier or an underwriter. The pooling networks are typically bound to owned subsidiaries as well as external partners through contractual agreements. The networks may utilize a centralized reinsurance approach. Reinsurance coverage should be evaluated to determine whether it includes individual high claims, catastrophic coverage, and aggregate stop-loss coverage.

Choosing a Pooling Network

The best insurance network for a multinational company is highly dependent on a company’s needs and objectives, as well as its locations. There should be alignment between a company’s goals and the pool’s service model to ensure its ability to deliver the products and services to meet the client’s expectations.

Contracts must be placed with the pool’s local partner in order to participate in the pool. The local partners’ competitiveness may vary from country to country, so it is important to take a broad view of the company’s objectives in establishing a pool. Despite the fact that the local partner may not offer the most competitive terms at a given time, companies must weigh immediate premium savings with longer-term financial and other objectives of the pool.

Most importantly, a company should select a pooling network with an eye toward establishing a long-term business relationship, with open communication and a service model that supports the company’s internal goals and objectives.
Multinational Pooling Feasibility and Optimization Studies

Companies can evaluate pooling opportunities and networks on their own, but it is common to engage a broker or consultant with specialized knowledge and expertise. A feasibility study reviews the viability of initiating a pool, whereas an optimization study focuses on enhancing and potentially changing in-force pools. Pools require strategic planning and active management to ensure the best results.

These studies focus on a number of qualitative and quantitative variables. Key elements of the study include pool retention charges and the review of poolable contracts to ensure their continued viability in the pool. Particular attention should also be paid to the content and format of the various pooling reports, as each network presents information in its own unique fashion.

Natural Pools

When considering pooling network options, a multinational company may discover it already has a “natural pool.” A natural pool occurs when employer-sponsored group risk contracts are already held with local insurers that happen to be partners in the same pooling network. A network search can be conducted by the pooling networks 1) to determine whether any contracts are currently in force and 2) to evaluate their poolability. Illustrations can be provided by the network to indicate how the contract might fit into the pool from a financial perspective.

Minimum Requirements

Each pooling network has established minimum requirements to initiate a pool. Stand-alone pools typically require a minimum of 500 or more lives in two or more countries. Less stringent requirements apply for small group pools, where a multinational company’s group risk contracts are pooled with other multinational companies.

Pooling networks continue to evolve in order to meet the needs and demands of their multinational clients. A growing number of networks are offering more flexibility to initiate a one-country pool based on the expectation that minimum requirements will be met within the first year.
MULTIPLE POOLS

Depending on the size of the total group and the number and location of the participating countries, pools could be established with more than one network. Having multiple pools allows companies to spread risk, optimize local benefits, provide greater choice of insurers, and include countries that might not be covered by a given network.

Special Consideration for US Contracts

Even if US-based group policies can be pooled by an insurance network, it may not necessarily make sense to pool the contracts. Group term life and accident benefits in the US are typically offered at very competitive premium rates due to the size and nature of the US insurance market. The viability of pooling life and accident coverage in the US is dependent on several factors, including the number of lives in the US compared to the rest of the pool (to maintain balance), premium rates, and annual premium in relation to projected claims experience, if credible.

In addition, US-based short- and long-term disability benefits, which are paid as an annuity rather than a lump-sum payment, can be pooled with some—but not all—networks. The reserving requirements that result from potential claims can have a significant impact on a pool and merit careful consideration.

Comprehensive medical coverage has not typically been poolable in the US; however, one network has the capability to pool medical stop-loss.

IMPLEMENTATION

Current in-force contracts can normally be transferred to a pooling network insurer on a no-loss/no-gain basis, meaning that the network’s local insurance carrier would match all current in-force benefits, terms, and conditions upon transfer.

Group risk contracts that include a local dividend or local profit-sharing provision are poolable in theory but may not make sense to include in the pool, dependent on the local dividend formula. The local formula should be reviewed in detail and consideration given to the financial and nonfinancial objectives of pooling the contract.
OTHER CONSIDERATIONS

The premium proposed by a network insurer should not be affected by the potential of pooling the contract. The same premium rates should be offered whether coverage is pooled or not pooled.

Receiving an annual dividend may be the most gratifying reward for a multinational company. However, that reward may come at a price—as the insurance company is holding the premium, returning a potential dividend up to 22 months after the premium has been paid—applying a conservative interest rate. It may be better to obtain up-front premium savings from a nonnetwork insurer in order to optimize cash flow. For example, advanced dividends may be an option in order for multinational companies to receive a portion of the potential dividend in advance of the completion of the annual pool accounting. In some situations, it may be more prudent to place coverage with the network but on a nonpooled basis.

Local termination notice and penalties should be taken into consideration, as they may impact the immediate viability of implementing a pool. A termination notice period can range from 30 days to six months, depending on the country, and the transfer of retirement annuity contracts could require payments that make a change of insurer inadvisable. Plan renewal dates as well as termination notice and penalties should be taken into consideration to ensure a realistic timeline when transferring contracts to alternative insurance networks and their local carriers.

Companies which have implemented pools should periodically market local coverage to ensure competitive premium rates.

Balancing Act

Pools must be kept in balance in order to ensure long-term viability. Pooling networks typically will not allow any one country to comprise more than roughly two-thirds of total pooled risk premium. This is of particular importance when the company is considering the inclusion of home-country contracts, which tend to be larger than those from outside of the home country.

Pools should be reviewed periodically to account for any contracts consistently resulting in high loss ratios, especially accident policies, annuitized disability policies, or comprehensive medical policies that can have a significant impact on a pool. Some networks can offer case management on a case-by-case basis. It is important to monitor the claims and underlying factors that may impact claims.
SUMMARY

A multinational pool can be a valuable risk management tool for the global benefits manager. Used properly, it can produce both financial and nonfinancial dividends to the organization. However, it is not a simple turnkey solution to achieve savings. It should be properly evaluated and structured prior to inception, implemented in a deliberate manner, and actively managed to ensure optimal results. The participation of a good adviser is essential for the proper control and management of the pool and for effective use of the data generated by the pool’s experience. Your trusted global consultant can help ensure the proper design, implementation, and management of the pool. A well-managed pool can produce value to the organization over many years and become an integral part of the corporate strategy to manage to global benefits.
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