

# Fully-Insured Plans vs. Self-Funded Plans

Typically, employers that offer health insurance benefits finance those benefits in one of two ways. The plans differ by who assumes the insurance risk, plan characteristics, payments and compliance governance.

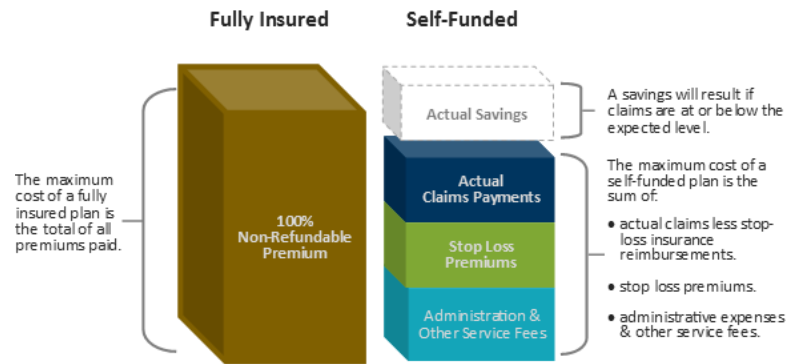
- Fully-insured plan—employer purchases insurance from an insurance company.
- Self-funded plan—employer provides health benefits directly to employees.

## Fully-insured plans

- ◆ **Risk:** In a fully-insured plan, the employer pays a per-employee premium to an insurance company, and the insurance company assumes the risk of providing health coverage for insured events.
- ◆ **Plan characteristics:** In fully-insured arrangements, premiums vary across employers based on employer size, employee population characteristics, and healthcare use. Premiums can also change over time within the same employer because of changes in the demographics of the employed group.
- ◆ Fully-insured plans are subject to state mandates.

## Self-funded plans

- ◆ **Risk:** In a self-funded plan, the employer acts as its own insurer.
  - ◇ Self-funded plans typically contract with a third party administrator (TPA) to administer the plan including claim payments to providers. TPAs can help employers set up their group health plans and, coordinate stop loss insurance coverage, provider network contracts and customized reporting.
  - ◇ Stop loss insurance reimburses an employer's health plan for any claims above the set limit.
- ◆ **Plan characteristics:** Large employers often offer multiple self-funded health plans to different classes of workers. Benefits may vary for management and labor, and benefits may vary by occupation or even hours of work. This provides a company with more control over benefits.
- ◆ Self-funded plans are governed by ERISA (federal law).



FULLY INSURED	VS.	SELF FUNDED
The insurance company assumes the risk.	ASSUMPTION OF RISK	The employer assumes the risk.
Employers are more limited by insurers' plan design options.	PLAN DESIGN	Employers have more control and freedom in their plan designs.
The employer pays monthly premiums to an insurance carrier.	PAYMENTS	The employer does not pay premiums; instead, it pays fixed costs (administrative fees and stop loss premiums) and variable costs (employee health care claims).
The plan must comply with state regulations.	COMPLIANCE PAYMENTS	The Employee Retirement Income Security Act of 1974 (ERISA) pre-empts state regulations.