Benefits Insights

5 Common Misconceptions About Self-funded Plans

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As health care costs continue to rise, more employers are exploring self-funded health plans as an alternative to traditional fully insured models. KFF reports that 63% of the more than 160 million people who receive health benefits through their employer are enrolled in self-funded plans. Yet despite their growing popularity, self-funded plans are often misunderstood. These misconceptions can prevent organizations from making informed decisions that could benefit both their bottom line and their employees.

Under an insured health benefit plan (or fully insured plan), an insurance company assumes the financial risk of loss in exchange for a fixed premium paid to the carrier by the employer. With a self-funded health plan, an employer assumes the financial risks associated with providing health care benefits to its employees. Rather than paying a fixed premium to an insurer, the employer collects premiums from enrollees and pays its employees and their dependents' medical claims out of pocket as they're incurred. Employers can administer their health plans themselves or contract with organizations that are third-party administrators (TPAs). Employers with self-funded health plans also typically carry stop-loss insurance to reduce the risk associated with large individual claims or high claims from the entire plan.

This article debunks five common myths surrounding self-funded health plans.

1. "Self-funded plans are only for large employers."

While it is true that, on average, large employers are more likely to choose self-funded plans, a growing number of small and midsized employers are also moving to self-funded plans. By partnering with a TPA and securing stop-loss insurance to mitigate the risk of catastrophic claims, smaller organizations can effectively manage their own employee health benefits. This approach offers enhanced flexibility in plan design and greater transparency in health care spending.

Midsized companies also often consider self-funded plans. According to KFF data, 27% of covered workers at companies with fewer than 200 employees are enrolled in a self-funded plan, and 57% of covered workers at companies with 200-999 workers are. With appropriate guidance and safeguards in place, self-funding can be a cost-effective and strategic alternative to traditional insurance models—regardless of a company's size.

2. "Self-funded plans are too risky."

Risk exists in every health plan model. Businesses can reduce financial uncertainty in self-funded health plans with effective claims oversight, cost-saving initiatives (e.g., wellness programs) and stop-loss insurance.

Stop-loss coverage protects employers from excessive claims by capping their financial liability. There are two types of stop-loss insurance: individual (or specific) and aggregate (or total claims). Because health plan usage can be unpredictable, some employers choose to purchase both individual and aggregate stop-loss insurance to provide their organizations with maximum financial protection. Individual stop-loss insurance limits an employer's liability when an individual employee's medical claims exceed the attachment point. As such, this coverage can protect employers against unexpectedly high claims from individual employees. On the other hand, aggregate stop-loss insurance can help safeguard employers from the total sum of health claims for an entire group of employees rather than any one individual. Under this coverage, an employer is usually reimbursed when their expenses for all employees' medical claims exceed the attachment point for the plan year.

Additionally, data transparency in self-funded plans allows employers to identify cost drivers and implement targeted cost-containment programs. When paired with sound planning, self-funding becomes a stable and cost-efficient way to offer employee health benefits.

3. "Self-funded plans mean more administrative burden."

Employers don't have to navigate this alone. TPAs handle claims processing, compliance, member services and more, and also offer robust support and technology platforms. Self-funded plans often provide more flexibility in plan design and vendor selection, which can streamline operations. TPAs take on as much responsibility for designing and administering a self-funded plan as the organization wants them to.

4. "Self-funded plans are too complex."

While self-funding can introduce new concepts, it doesn't have to be complicated. In fact, many are designed to mimic fully insured plans to help simplify the process for employers. Additionally, employers can rely on experienced brokers, TPAs and consultants to guide them through plan design, compliance and ongoing management. Many organizations find that once they make the switch, they gain clearer insights into health care spending and better control over their benefits strategy. Oftentimes, long-term rewards outweigh the learning curve.

Complexity is manageable, and it comes down to having an experienced, knowledgeable consulting team.

5. "Self-funded plans aren't compliant with health care regulations."

Employers often assume that self-funding is subject to less regulation than fully-insured plans. In fact, self-funded health plans are still subject to federal regulations, including the Employee Retirement Income Security Act, the Affordable Care Act, and the Health Insurance Portability and Accountability Act. While subject to many of the same laws related to nondiscrimination, claims procedures and reporting requirements, self-funded plans have more flexibility related to plan design and cost management.

Employers can customize their plans to meet specific workforce needs, as long as they continue to comply with applicable laws.

Conclusion

Self-funded health plans offer employers a powerful way to take control of health care costs, customize benefits and improve transparency. By dispelling these common myths, organizations can make more confident, informed decisions about their benefits strategy.

For employers considering a move to self-funding, it's important to first evaluate the employer's group health insurance goals and benchmarks, financial situation, workforce needs and available partners. Self-funding isn't ideal for every employer. Contact us for more information or resources.
