

Health Plan Differences: Fully-Insured vs. Self-Insured

Employers that offer health insurance benefits finance those benefits in 1 of 2 ways:

1. They purchase health insurance from an insurance company (fully insured plans), or
2. They provide health benefits directly to employees (self-insured plans).

Typically, these plans differ by who assumes the insurance risk, plan characteristics, employer size, and market share. Here are some of the details:

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 health care use. Premiums can also change over time within the same employer because of changes in the demographics of the employed group. However, employers are charged the same premium for each employee.
- **Employer size:** Small employers that offer health benefits are typically fully insured. In 2008, 88 percent of workers in firms with 3–199 employees were in fully insured plans. Smaller firms are typically located in one office or region (if they are on the large side of small).
- **Market share:** Overall, 45 percent of workers with health insurance were covered by a fully insured plan in 2008.

Self-Insured Plans

- **Risk:** In a self-insured plan, instead of purchasing health insurance from an insurance company and paying the insurer a per-employee premium, the employer acts as its own insurer. In the simplest form, the employer uses the money that it would have paid the insurance company and instead directly pays health care claims to providers. Self-insured plans often contract with an insurance company or other third party to administer the plan, but the employer bears the risk associated with offering health benefits.
- **Plan characteristics:** Large employers often offer multiple self-insured 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. Even when an employer offers a uniform benefits program across all locations and geographic regions, the cost of providing the program—commonly known as the premium equivalent—will vary because the cost of health care services is not uniform across the United States.
- **Employer size:** In 2008, 89 percent of workers employed in firms with 5,000 or more employees were in self-insured plans.
- **Market share:** Overall, 55 percent of workers with health insurance were covered by a self-insured plan in 2008.