Self-Insured Group Health Plans

Q. What is a self-insured health plan?

A. A self-insured group health plan (or a 'self-funded' plan as it is also called) is one in which the employer assumes the financial risk for providing health care benefits to its employees. In practical terms, self-insured employers pay for each out of pocket claim as they are incurred instead of paying a fixed premium to an insurance carrier, which is known as a fully-insured plan. Typically, a self-insured employer will set up a special trust fund to earmark money (corporate and employee contributions) to pay incurred claims.

Q. How many people receive coverage through self-insured health plans?

A. According to a 2000 report by the Employee Benefit Research Institute (EBRI), approximately 50 million workers and their dependents receive benefits through self-insured group health plans sponsored by their employers. This represents 33% of the 150 million total participants in private employment-based plans nationwide.

Q. Why do employers self fund their health plans?

A. There are several reasons why employers choose the self-insurance option. The following are the most common reasons:

1. The employer can customize the plan to meet the specific health care needs of its workforce, as opposed to purchasing a 'one-size-fits-all' insurance policy.
2. The employer maintains control over the health plan reserves, enabling maximization of interest income - income that would be otherwise generated by an insurance carrier through the investment of premium dollars.

3. The employer does not have to pre-pay for coverage, thereby providing for improved cash flow.
4. The employer is not subject to conflicting state health insurance regulations/benefit mandates, as self-insured health plans are regulated under federal law (ERISA).
5. The employer is not subject to state health insurance premium taxes, which are generally 2-3 percent of the premium's dollar value.
6. The employer is free to contract with the providers or provider network best suited to meet the health care needs of its employees.

Q. Is self-insurance the best option for every employer?

A. **No**. Since a self-insured employer assumes the risk for paying the health care claim costs for its employees, it must have the financial resources (cash flow) to meet this obligation, which can be unpredictable. Therefore, small employers and other employers with poor cash flow may find that self-insurance is not a viable option. It should be noted, however, that there are companies with as few as 25 employees that do maintain viable self-insured health plans.

Q. Can self-insured employers protect themselves against unpredicted or catastrophic claims?

A. **Yes**. While the largest employers have sufficient financial reserves to cover virtually any amount of health care costs, most self-insured employers purchase what is known as stop-loss insurance to reimburse them for claims above a specified dollar level. This is an insurance contract between the stop-loss carrier and the employer, and is not deemed to be a health insurance policy covering individual plan participants.

Q. Who administers claims for self-insured group health plans?

A. Self-insured employers can either administer the claims in-house, or subcontract this service to a third party administrator (TPA). TPAs can also help employers set up their self-insured group health plans and coordinate stop-loss insurance coverage, provider network contracts and utilization review services.

Q. What about payroll deductions?

A. Any payments made by employees for their coverage are still handled through the employer' s payroll department. However, instead of being sent to an insurance company for premiums, the contributions are held by the employer until such time as claims become due and payable; or, if being used as reserves, put in a tax-free trust that is controlled by the employer.

Q. With what laws must self-insured group health plans comply?

A. Self-insured group health plans come under all applicable federal laws, including the Employee Retirement Income Security Act (ERISA), Health Insurance Portability and Accountability Act (HIPAA), Consolidated Omnibus Budget Reconciliation Act (COBRA), the Americans with Disabilities Act (ADA), the Pregnancy Discrimination Act, the Age Discrimination in Employment Act, the Civil Rights Act, and various budget reconciliation acts such as Tax Equity and Fiscal Responsibility Act (TEFRA), Deficit Reduction Act (DEFRA), and Economic Recovery Tax Act (ERTA).