

EMPLOYER HEALTH BENEFITS
2004 ANNUAL SURVEY

Plan Funding

SECTION

10

PLAN FUNDING

THE EMPLOYEE RETIREMENT INCOME AND SECURITY ACT (ERISA) OF 1974 EXEMPTS SELF-FUNDED PLANS FROM STATE REGULATION, INCLUDING RESERVE REQUIREMENTS, MANDATED BENEFITS, PREMIUM TAXES, AND CONSUMER PROTECTION REGULATIONS.¹⁰ SELF FUNDING IS COMMON AMONG ALL LARGE FIRMS (200 OR MORE WORKERS) BUT IS LESS PREVALENT AND A FAR RISKIER UNDERTAKING FOR ALL SMALL FIRMS (3-199 WORKERS), WHO HAVE FEWER EMPLOYEES OVER WHOM TO SPREAD THE RISK OF COSTLY CLAIMS.

SELF FUNDING

► Fifty-four percent of covered workers in 2004 are in a plan that is completely or partially self-funded (EXHIBITS 10.1, 10.2).

- The percentage of covered workers in self-funded plans is similar to last year (52% in 2003 vs. 54% in 2004) (EXHIBIT 10.1).

- Covered workers in all small firms (3-199 workers) are less likely than covered workers in larger firms to be in a self-funded plan. Ten percent of covered workers in all small firms are in self-funded plans, compared to 50% of workers in midsize firms (200-999 workers) and 80% of workers in jumbo firms (5,000 or more workers) (EXHIBIT 10.1).

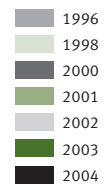
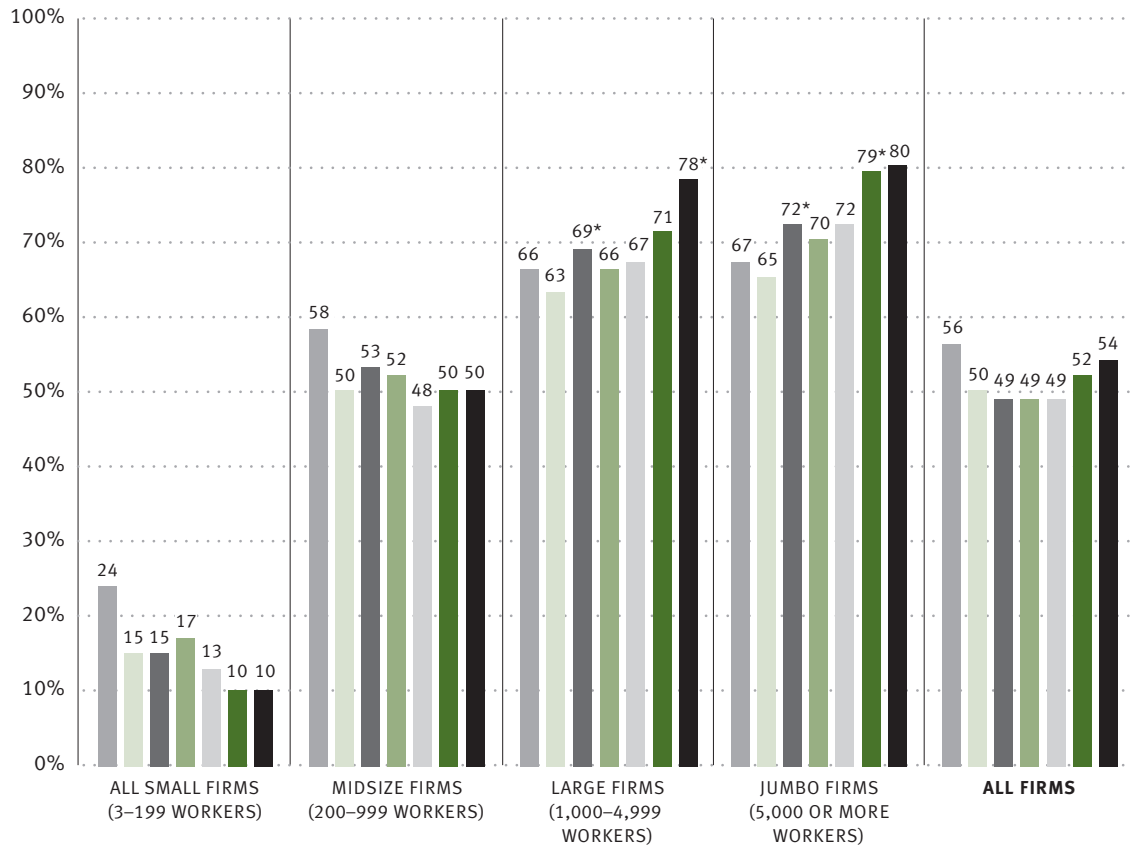
- The prevalence of self-funded plans is relatively high in PPO plans (64% of workers covered in PPOs) and relatively low in HMO plans (29% of workers covered in HMOs) (EXHIBIT 10.2).

NOTES:

¹⁰ A self-funded plan is one in which the employer assumes direct responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

EXHIBIT 10.1

Percentage of Covered Workers in Partially or Completely Self-Funded Plans, by Firm Size, 1996-2004*



SOURCE :

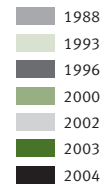
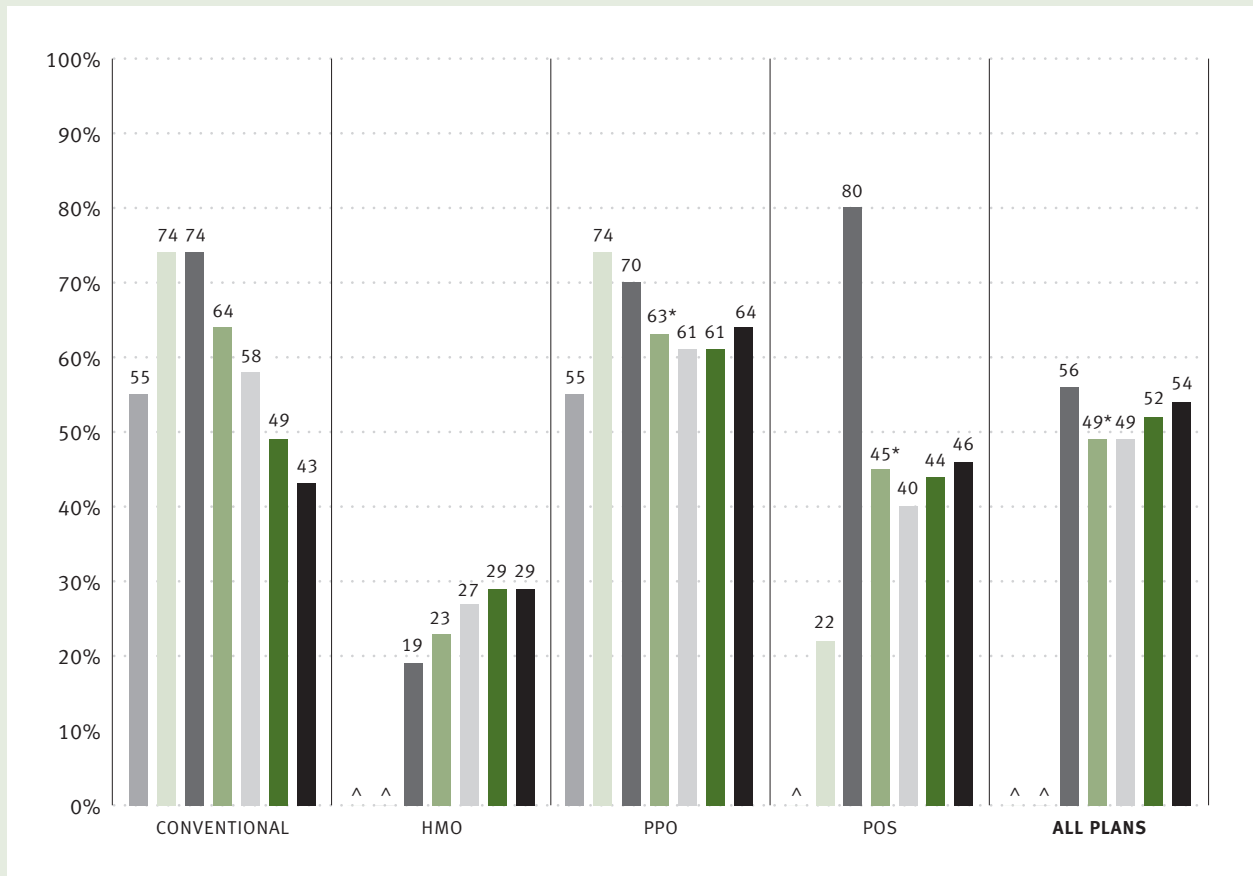
Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2001, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

* Tests found no statistically different estimates from the previous year shown at $p < .05$.

Self-funded plan: A plan in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

EXHIBIT 10.2

Percentage of Covered Workers in Partially or Completely Self-Funded Plans, by Plan Type, 1988-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004; KPMG Survey of Employer-Sponsored Health Benefits: 1993, 1996; The Health Insurance Association of America (HIAA): 1988.

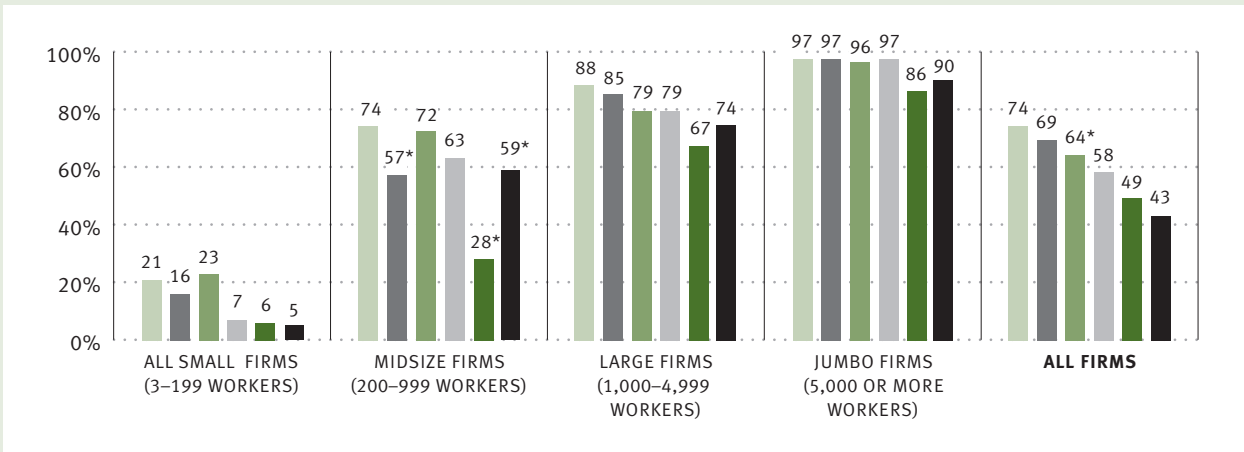
* Estimate is statistically different from the previous year shown at $p < .05$.

^ Information was not obtained for HMO plans in 1988 and 1993, or POS plans in 1988.

Self-funded plan: A plan in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

EXHIBIT 10.3

Percentage of Covered Workers in Partially or Completely Self-Funded Conventional Plans, by Firm Size, 1996-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

* Estimate is statistically different from the previous year shown at $p < .05$.

Self-funded plan: A plan in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

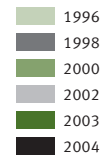
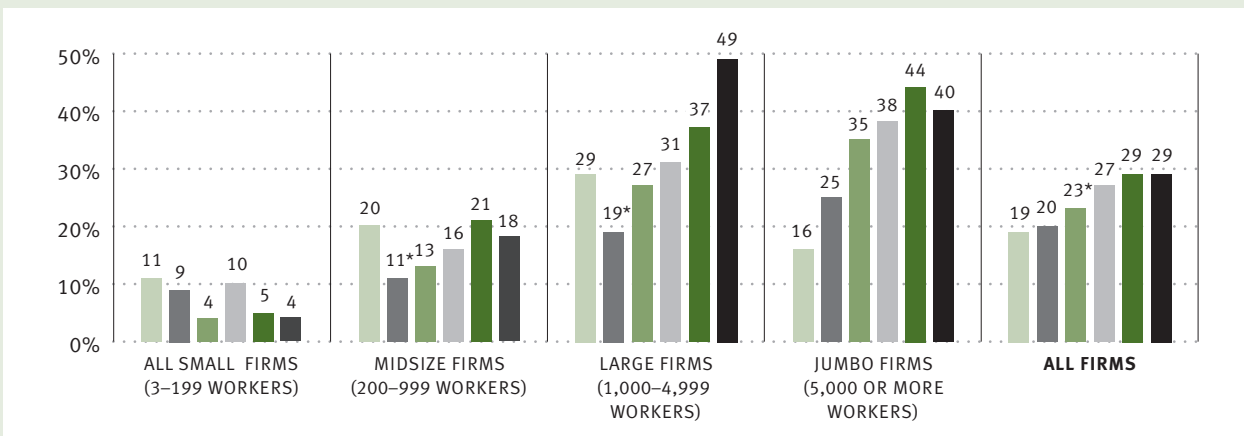


EXHIBIT 10.4

Percentage of Covered Workers in Partially or Completely Self-Funded HMO Plans, by Firm Size, 1996-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

* Estimate is statistically different from the previous year shown at $p < .05$.

Self-funded plan: A plan in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

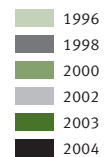
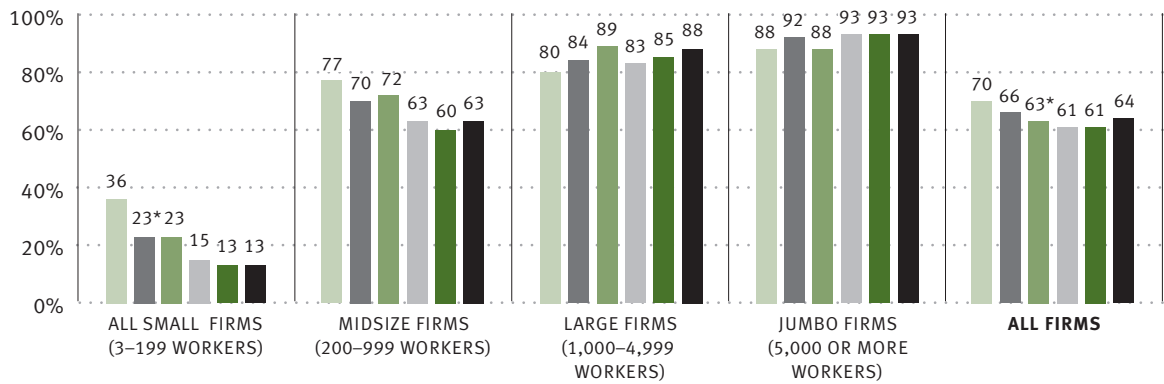


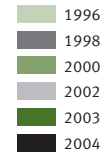
EXHIBIT 10.5

Percentage of Covered Workers in Partially or Completely Self-Funded PPO Plans, by Firm Size, 1996-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.

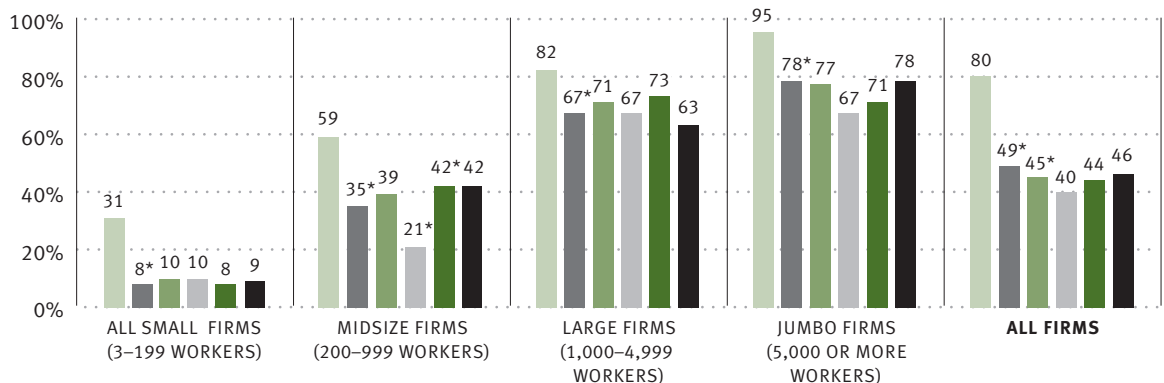


* Estimate is statistically different from the previous year shown at $p < .05$.

Self-funded plan: A plan in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

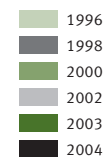
EXHIBIT 10.6

Percentage of Covered Workers in Partially or Completely Self-Funded POS Plans, by Firm Size, 1996-2004



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2000, 2002, 2003, 2004;
KPMG Survey of Employer-Sponsored Health Benefits: 1996, 1998.



* Estimate is statistically different from the previous year shown at $p < .05$.

Self-funded plan: A plan in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.

EXHIBIT 10.7

Percentage of Covered Workers Under Different Funding Arrangements, by Industry, 2004

	<i>Fully Insured (Coverage Underwritten by an Insurer)</i>	<i>Self-Funded (Employer Bears Some or All of Financial Risk)</i>
ALL PLANS		
Mining/Construction/Wholesale*	65%	35%
Manufacturing*	27	73
Transportation/Communication/Utility*	27	73
Retail	51	49
Finance*	58	42
Service*	59	41
State/Local Government	41	59
Health Care*	31	69
ALL INDUSTRIES	46%	54%

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2004.

* Estimates are statistically different from All Industries at $p < .05$.

Fully insured plan: A plan where the employer contracts with a health plan to assume financial responsibility for the costs of enrollees' medical claims.

Self-funded plan: A plan in which the employer assumes direct financial responsibility for the costs of enrollees' medical claims. Employers sponsoring self-funded plans typically contract with a third-party administrator or insurer to provide administrative services for the self-funded plan.