

EMPLOYER HEALTH BENEFITS

2005 ANNUAL SURVEY

Plan
Funding

SECTION

10

PLAN FUNDING

THE EMPLOYEE RETIREMENT INCOME AND SECURITY ACT (ERISA) OF 1974 EXEMPTS SELF-FUNDED PLANS FROM STATE INSURANCE AND OTHER LAWS, INCLUDING RESERVE REQUIREMENTS, MANDATED BENEFITS, PREMIUM TAXES, AND CONSUMER PROTECTION REGULATIONS.¹³ BECAUSE LARGER FIRMS HAVE MORE EMPLOYEES OVER WHOM TO SPREAD THE RISK OF COSTLY CLAIMS, SELF-FUNDING IS MORE COMMON AND LESS RISKY AMONG LARGER FIRMS THAN AMONG SMALLER ONES.

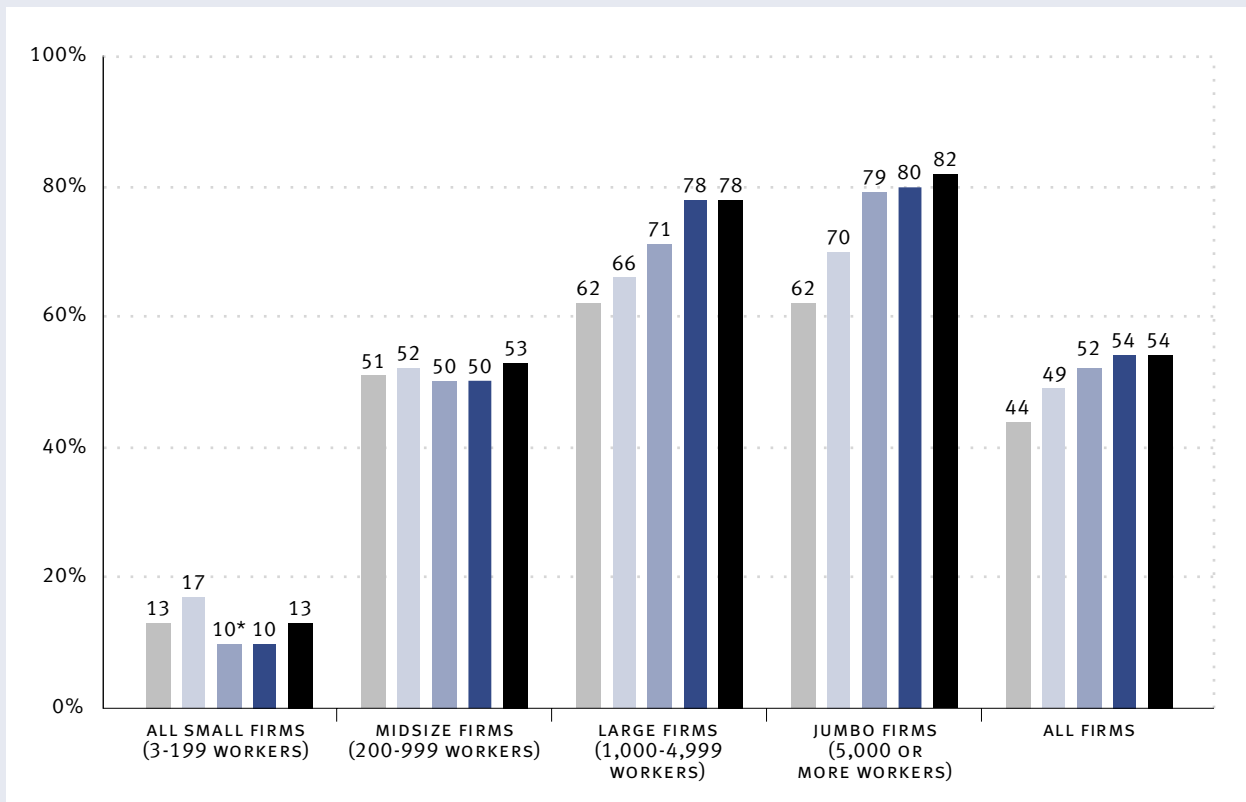
- ▶ Similar to last year, 54% of covered workers in 2005 are in a plan that is completely or partially self-funded (EXHIBIT 10.1).
- ▶ Covered workers in smaller firms are less likely to be in a self-funded plan compared to covered workers in larger firms. On average, 13% of covered workers in small firms (3-199 workers) are in a self-funded plan, compared with 53% of covered workers in midsize firms (200-999 workers), 78% in large firms (1,000-4,999 workers), and 82% in jumbo firms (5,000 or more workers) (EXHIBIT 10.1).
- ▶ The prevalence of self-funding is relatively high in PPO plans (65% of covered workers in PPOs are in a self-funded plan) compared to HMO plans (32%) and POS plans (36%) (EXHIBIT 10.2).

NOTE:

¹³ 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, 1999-2005



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2005.

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

Self-funded plan: An insurance arrangement 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.

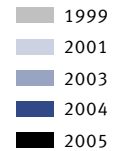
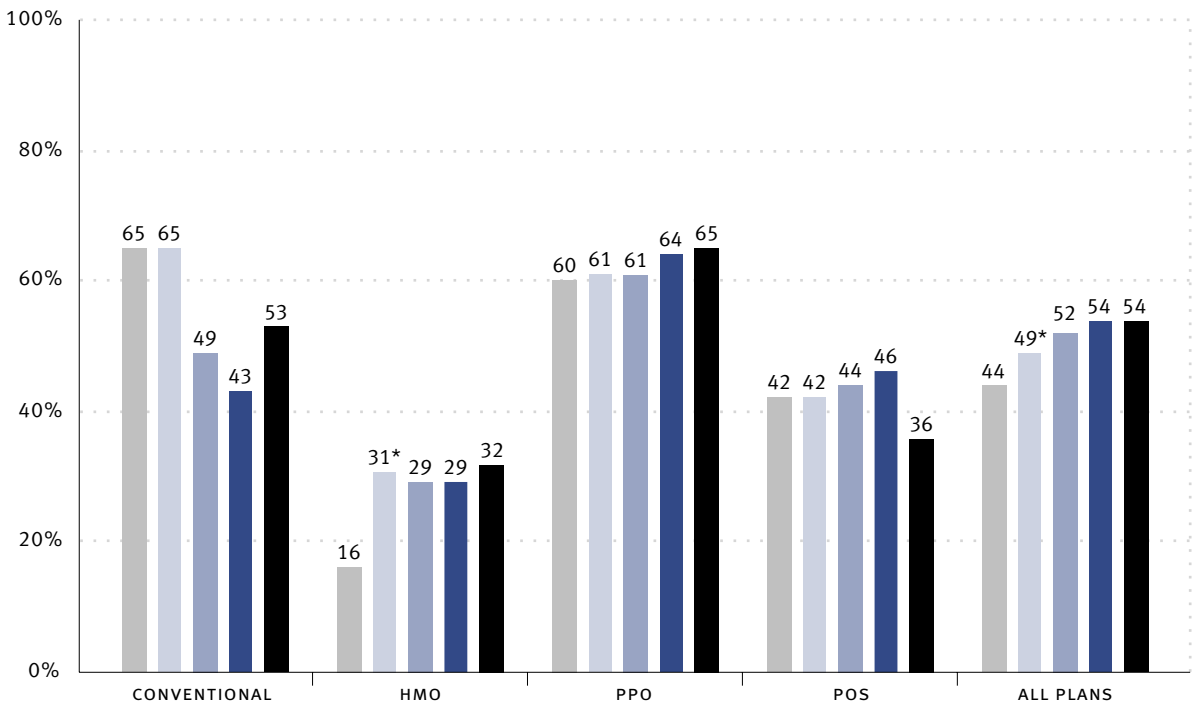


EXHIBIT 10.2

Percentage of Covered Workers in Partially or Completely Self-Funded Plans, by Plan Type, 1999-2005



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2005.

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

Self-funded plan: An insurance arrangement 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.

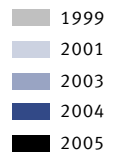
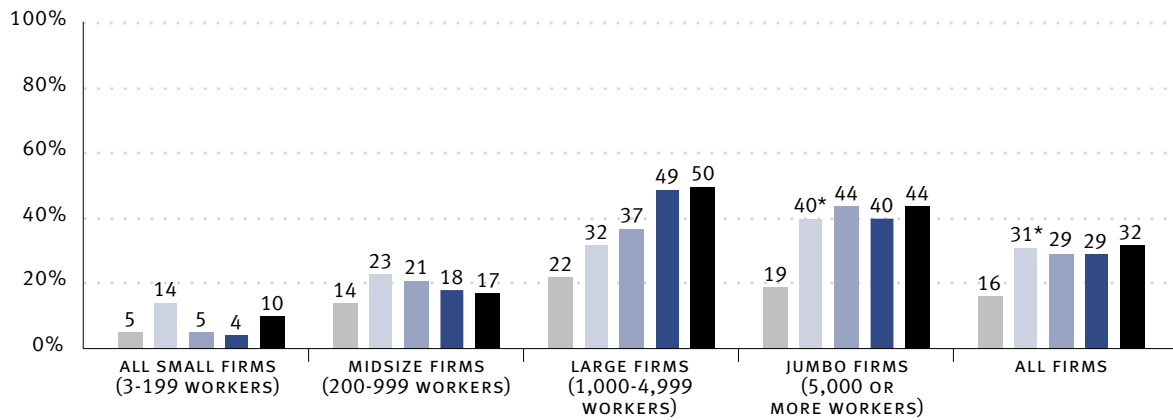


EXHIBIT 10.3

Percentage of Covered Workers in Partially or Completely Self-Funded HMO Plans, by Firm Size, 1999-2005



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2005.

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

Self-funded plan: An insurance arrangement 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.

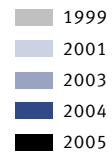
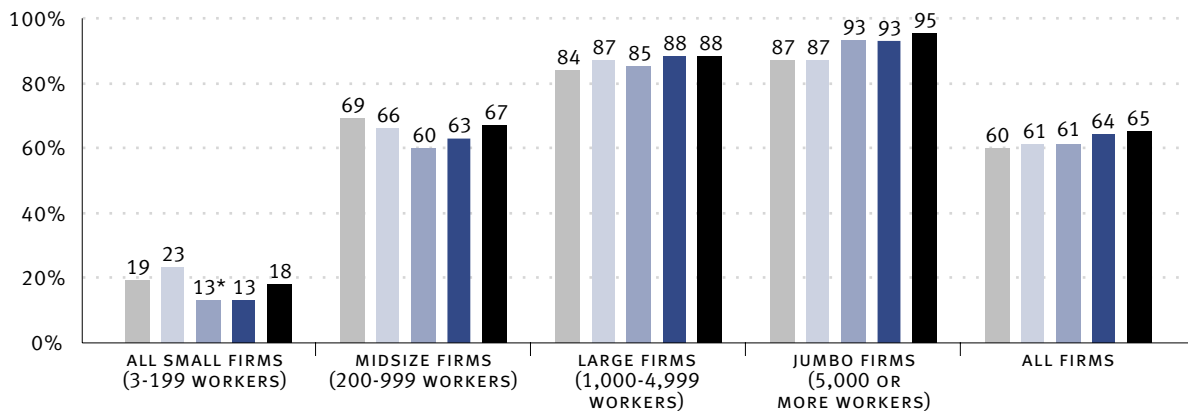


EXHIBIT 10.4

Percentage of Covered Workers in Partially or Completely Self-Funded PPO Plans, by Firm Size, 1999-2005



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2005.

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

Self-funded plan: An insurance arrangement 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.

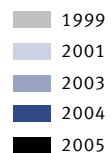
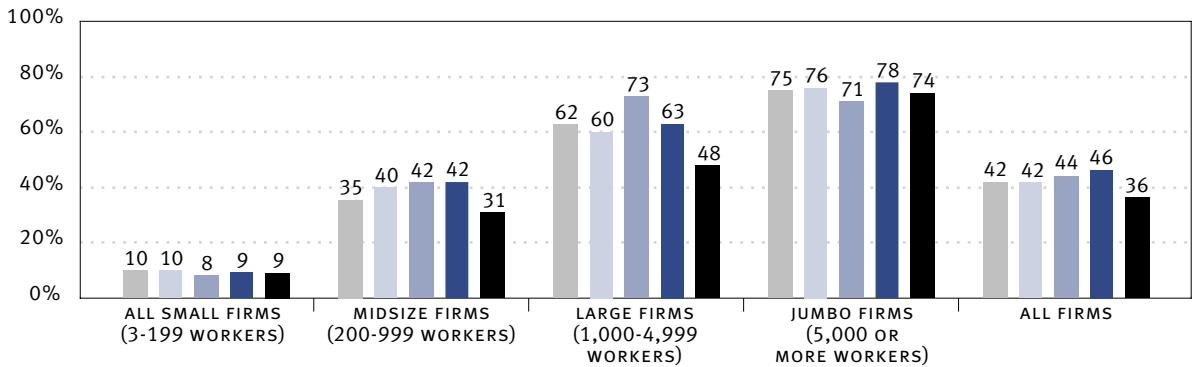


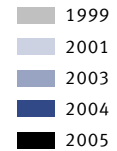
EXHIBIT 10.5

Percentage of Covered Workers in Partially or Completely Self-Funded POS Plans, by Firm Size, 1999-2005*



SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2005.



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

Self-funded plan: An insurance arrangement 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 With Different Funding Arrangements, by Industry, 2005

	Fully Insured (Coverage Underwritten by an Insurer)	Self-Funded (Employer Bears Some or All of Financial Risk)
ALL PLANS		
Mining/Construction/Wholesale	60%*	40%*
Manufacturing	26*	74*
Transportation/Communications/Utility	28*	72*
Retail	46	54
Finance	49	51
Service	61*	39*
State/Local Government	39	61
Health Care	35*	65*
ALL INDUSTRIES	46%	54%

SOURCE :

Kaiser/HRET Survey of Employer-Sponsored Health Benefits: 2005.

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

Fully insured plan: An insurance arrangement in which the employer contracts with a health plan to assume financial responsibility for the costs of enrollees' medical claims.

Self-funded plan: An insurance arrangement 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.