

EMPLOYER HEALTH BENEFITS
2006 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. 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, 55% of covered workers in 2006 are in a plan that is completely or partially self funded (Exhibit 10.1). In 2000, only 49% of covered workers were enrolled in a self-funded plan.
- ▶ In general, 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 partially or completely self-funded plan, compared with 53% of covered workers in firms with 200 to 999 workers, 77% in firms with 1,000 to 4,999 workers, and 89% in firms with 5,000 or more workers (Exhibit 10.1).
- ▶ The prevalence of self funding is relatively high in PPO plans (63% of covered workers in PPOs are in a self-funded plan) compared to HMO plans (33%), and POS plans (32%). One-half of covered workers in a HDHP/SO are in a plan that is fully or partially self funded (Exhibit 10.2).

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.

Fully Insured Plan: An insurance arrangement in which the employer contracts with a health plan that assumes financial responsibility for the costs of enrollees' medical claims.

NOTE:

¹ The survey did not ask detailed questions about conventional plans other than premium increase. Conventional plan data is included in the "All Plans" estimate of premium increase by funding status unless the firm reported having only a conventional plan; in that case the data on premium increase they provided drops out of the "All Plans" estimate. For additional information, see the Survey Design and Methods section.

EXHIBIT 10.1

Percentage of Covered Workers in Partially or Completely Self-Funded Plans, by Firm Size, 1999–2006*

	1999	2000	2001	2002	2003	2004	2005	2006
3–199 Workers	13%	15%	17%	13%	10%	10%	13%	13%
200–999 Workers	51	53	52	48	50	50	53	53
1,000–4,999 Workers	62	69	66	67	71	78	78	77
5,000 or More Workers	62	72	70	72	79	80	82	89
ALL FIRMS	44%	49%	49%	49%	52%	54%	54%	55%

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999–2006.

* Tests found no statistical difference from estimate for the previous year shown at $p < .05$.

Note: Due to changes in the survey, conventional plan funding status is not included in this figure for 2006. For a detailed explanation, see the Survey Design and Methods section. For definitions of Self-Funded and Fully Insured plans, see the introduction to Section 10.

EXHIBIT 10.2

Percentage of Covered Workers in Partially or Completely Self-Funded Plans, by Plan Type, 1999–2006

	1999	2000	2001	2002	2003	2004	2005	2006
HMO	16%	23%*	31%*	27%	29%	29%	32%	33%
PPO	60	63	61	61	61	64	65	63
POS	42	45	42	40	44	46	36	32
HDHP/SO	^	^	^	^	^	^	^	50
ALL PLANS	44%	49%	49%	49%	52%	54%	54%	55%

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999–2006.

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

^ Information was not obtained for HDHP/SO plans prior to 2006.

Note: Due to changes in the survey, conventional plan funding status is not included in this figure for 2006. For a detailed explanation, see the Survey Design and Methods section. For definitions of Self-Funded and Fully Insured plans, see the introduction to Section 10.

EXHIBIT 10.3

Percentage of Covered Workers in Partially or Completely Self-Funded Plans, by Firm Size, Region, and Industry, 2006

	Self-Funded (Employer Bears Some or All of Financial Risk)
FIRM SIZE	
200–999 Workers	53%
1,000–4,999 Workers	77*
5,000 or More Workers	89*
All Small Firms (3–199 Workers)	13%*
All Large Firms (200 or More Workers)	78%*
REGION	
Northeast	58%
Midwest	63*
South	57
West	40*
INDUSTRY	
Agriculture/Mining/Construction	41%*
Manufacturing	79*
Transportation/Communications/Utilities	55
Wholesale	57
Retail	55
Finance	46*
Service	42*
State/Local Government	62
Health Care	70*
ALL FIRMS	55%

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2006.

* Estimate is statistically different from estimate for all other firms not in the indicated size, region, or industry category at $p < .05$.

Note: Due to changes in the survey, conventional plan funding status is not included in this figure for 2006. For a detailed explanation, see the Survey Design and Methods section. For definitions of Self-Funded and Fully Insured plans, see the introduction to Section 10.

EXHIBIT 10.4

Percentage of Covered Workers in Partially or Completely Self-Funded Plans, by Plan Type and Firm Size, 2006

	HMO	PPO	POS	HDHP/SO
3–199 Workers	3%*	19%*	6%*	7%*
200–999 Workers	29	61	36	57
1,000–4,999 Workers	54*	85*	62*	81*
5,000 or More Workers	47*	97*	80*	100*
ALL FIRMS	33%	63%	32%	50%

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 2006.

* Estimate is statistically different within plan type from All Firms estimate at $p < .05$.

Note: Due to changes in the survey, conventional plan funding status is not included in this figure for 2006. For a detailed explanation, see the Survey Design and Methods section. For definitions of Self-Funded and Fully Insured plans, see the introduction to Section 10.

EXHIBIT 10.5

Percentage of Covered Workers in Partially or Completely Self-Funded HMO Plans, by Firm Size, 1999–2006

	1999	2000	2001	2002	2003	2004	2005	2006
3–199 Workers	5%	4%	14%	10%	5%	4%	10%	3%
200–999 Workers	14	13	23	16	21	18	17	29
1,000–4,999 Workers	22	27	32	31	37	49	50	54
5,000 or More Workers	19	35*	40	38	44	40	44	47
ALL HMO PLANS	16%	23%*	31%*	27%	29%	29%	32%	33%

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999–2006.

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

Note: Due to changes in the survey, conventional plan funding status is not included in this figure for 2006. For a detailed explanation, see the Survey Design and Methods section. For definitions of Self-Funded and Fully Insured plans, see the introduction to Section 10.

EXHIBIT 10.6

Percentage of Covered Workers in Partially or Completely Self-Funded PPO Plans, by Firm Size, 1999–2006*

	1999	2000	2001	2002	2003	2004	2005	2006
3–199 Workers	19%	23%	23%	15%	13%	13%	18%	19%
200–999 Workers	69	72	66	63	60	63	67	61
1,000–4,999 Workers	84	89	87	83	85	88	88	85
5,000 or More Workers	87	88	87	93	93	93	95	97
ALL PPO PLANS	60%	63%	61%	61%	61%	64%	65%	63%

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999–2006.

* Tests found no statistical difference from estimate for the previous year shown at $p < .05$.

Note: Due to changes in the survey, conventional plan funding status is not included in this figure for 2006. For a detailed explanation, see the Survey Design and Methods section. For definitions of Self-Funded and Fully Insured plans, see the introduction to Section 10.

EXHIBIT 10.7

Percentage of Covered Workers in Partially or Completely Self-Funded POS Plans, by Firm Size, 1999–2006

	1999	2000	2001	2002	2003	2004	2005	2006
3–199 Workers	10%	10%	10%	10%	8%	9%	9%	6%
200–999 Workers	35	39	40	21*	42*	42	31	36
1,000–4,999 Workers	62	71	60	67	73	63	48	62
5,000 or More Workers	75	77	76	67	71	77	74	80
ALL POS PLANS	42%	45%	42%	40%	44%	46%	36%	32%

SOURCE:

Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999–2006.

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

Note: Due to changes in the survey, conventional plan funding status is not included in this figure for 2006. For a detailed explanation, see the Survey Design and Methods section. For definitions of Self-Funded and Fully Insured plans, see the introduction to Section 10.