

Notes

Self-Insured Health Plans: State Variation and Recent Trends by Firm Size, p. 2

A T A G L A N C E

Self-Insured Health Plans: State Variation and Recent Trends by Firm Size, *by Paul Fronstin, Ph.D., EBRI*

- The percentage of workers in private-sector self-insured health plans has been increasing. In 2011, 58.5 percent of workers with health coverage were in self-insured plans, up from 40.9 percent in 1998. Large employers (with 1,000 or more workers) have driven the upward trend in overall self-insurance. The percentage of workers in self-insured plans in firms with fewer than 50 employees has been close to 12 percent in most years examined.
- The prevalence in self-insured plans varies by state, with Massachusetts having the third-highest prevalence of self-insurance in the small-group market (behind Hawaii and Alaska).
- Overall, 58.5 percent of workers were in self-insured plans in 2011, but the percentage ranged by state, from a low of 30.5 percent to a high of 73.8 percent.
- Massachusetts, the only state to have enacted health reform similar to PPACA, has seen an increase in the percentage of workers in self-insured plans among all firm-size cohorts, except among workers in firms with fewer than 50 employees.

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By Paul Fronstin, Ph.D., Employee Benefit Research Institute

Introduction

The Employee Retirement Income Security Act of 1974 (ERISA) provides the legal framework for the uniform provision of benefits by employers doing business anywhere in the country. ERISA allows multistate employers to self-insure (or directly fund health care expenses of workers) in order to offer consistent health benefits across states, which results in ease of administration and lower expenses. Employers that offer a self-insured plan are also not required to cover health care services for state-mandated benefits, as are fully insured plans—plans offered by employers where a premium is paid to an insurance company.

Offering a self-insured plan means the employer assumes the financial risk related to offering health insurance (as opposed to a fully insured plan, where the insurance company assumes the risk). Large employers are much more likely to offer health benefits on a self-insured basis than small employers.

However, there is speculation that passage of the Patient Protection and Affordable Care Act of 2010 (PPACA) will result in an increasing number of smaller employers offering self-insured plans. Employers think that components of PPACA, such as the strict grandfathering requirements; the minimum-creditable-coverage requirement; the breadth of essential health benefits; taxes on insurers, medical-device manufacturers, and pharmaceutical companies; affordability requirements; and reinsurance fees will all drive up the cost of health coverage. Small employers concerned about the rising cost of providing health coverage may view self-insurance as a more attractive means to mitigate any expected cost increases.

This analysis examines recent trends in self-insurance. Data come from the Medical Expenditure Panel Survey (MEPS) and are presented by establishment size among private-sector employers. State-level data are also presented, along with the correlation between state mandates and the prevalence of self-insurance.

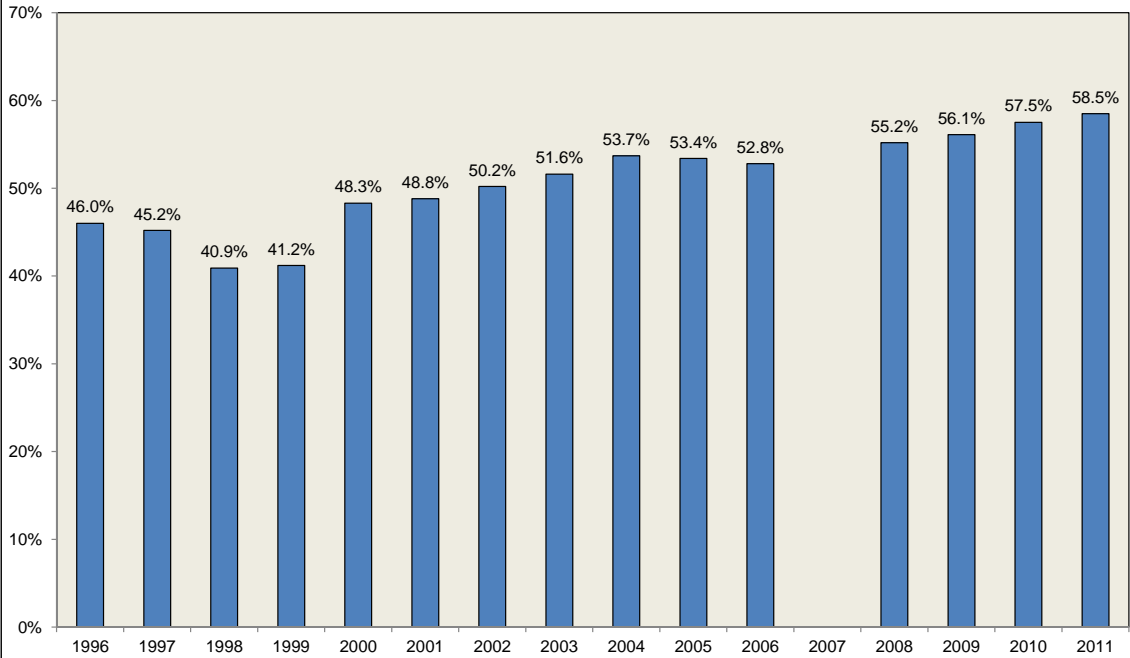
Trends in Self-Insurance

The percentage of workers in self-insured plans has been increasing. In 2011, 58.5 percent of workers with health coverage were in self-insured plans, up from 40.9 percent in 1998 (Figure 1). For the most part, the percentage of workers in self-insured plans increased consistently between 1998 and 2011.

As mentioned earlier, larger employers are more likely to offer self-insured health plans. In 2011, 68.5 percent of workers in firms with 50 or more employees were in self-insured plans, whereas only 10.8 percent of workers in firms with fewer than 50 employees were in self-insured plans (Figure 2). Large employers drove the upward trend in overall self-insurance seen in Figure 1. The percentage of workers in self-insured plans in firms with 50 or more employees increased from 48.4 percent in 1998 to 68.5 percent in 2011. In contrast, the percentage of workers in self-insured plans in firms with fewer than 50 employees was close to 12 percent in most years of the survey, though it peaked at 18.1 percent in 1997 and reached a low of 10.8 percent most recently in 2011.

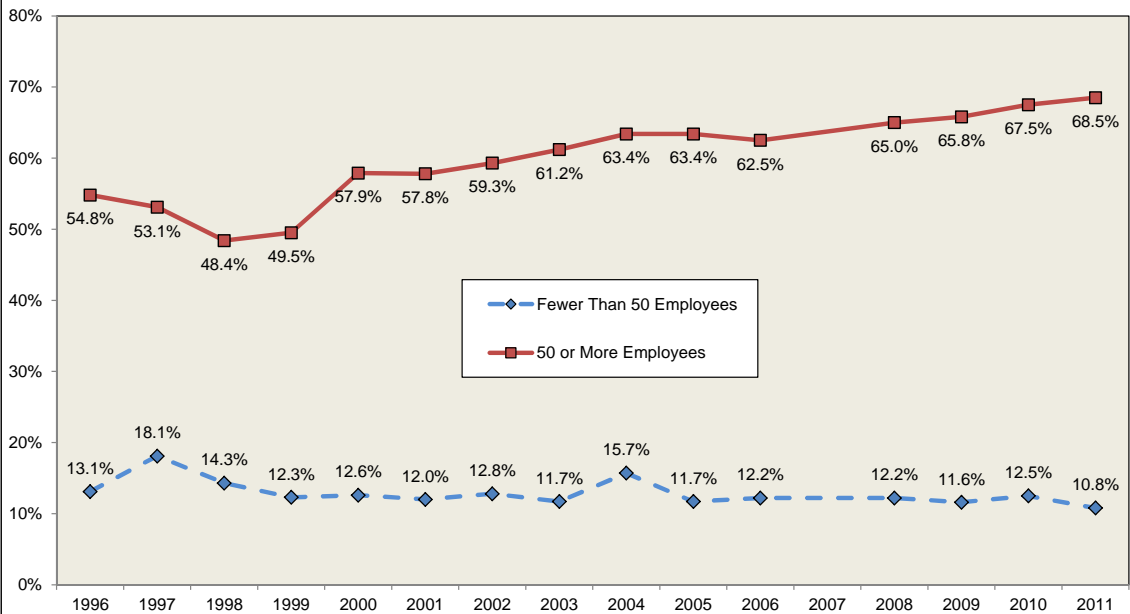
Understanding the trend in self-insurance for employers with 50 or more workers and those with fewer is important because the employer mandate in PPACA only affects employers with at least 50 workers. However, other aspects of the law that are expected to drive up health insurance costs (as mentioned above) will affect employers of all sizes. Figure 3 shows trends for more detailed employer-size breaks (Figure 4 contains the data points because of lack of space in Figure 3). The two figures show that the higher percentage of workers in self-insured arrangements was

Figure 1
**Percentage of Private-Sector Enrollees
 in Self-Insured Plans, 1996–2011**



Source: Various tables that can be found at http://meps.ahrq.gov/mepsweb/data_stats/quick_tables.jsp

Figure 2
**Percentage of Private-Sector Enrollees in
 Self-Insured Plans, by Firm Size, 1996–2011**



Source: Various tables that can be found at http://meps.ahrq.gov/mepsweb/data_stats/quick_tables.jsp

driven by employers with 1,000 or more workers. In 1998, 55.4 percent of workers in firms with 1,000 or more employees were in self-insured plans. By 2011, 86.3 percent were in self-insured plans.

Among workers in firms with 100-999 employees, the percentage in self-insured plans fell from 42.3 percent in 1997 to 32.6 percent in 2006. It trended up in some years after 2006, reaching 37.6 percent in 2010, but then slipped to 35 percent in 2011.

As of 2011, there was no evidence of an increase in smaller firms in self-insuring their health plans. The percentage of workers in firms with either fewer than 10 workers, 10–24 workers, or 25–99 workers that were also in self-insured plans has been roughly between 10 percent and 20 percent during the entire 1996–2011 period and showed no clear trend upward or downward.

State Variation in Self-Insurance

Overall, 58.5 percent of workers were in self-insured plans in 2011, but the percentage ranged by state, from a low of 30.5 percent to a high of 73.8 percent (Figure 5). Hawaii (at 30.5 percent) was the only state with fewer than 40 percent of workers with health insurance in self-insured plans. In seven states (Montana, California, Rhode Island, Oregon, Vermont, North Dakota, and South Dakota), between 40 percent and 50 percent of workers with health insurance were in self-insured plans. Only two states (Indiana and Minnesota) had more than 70 percent of workers with health insurance in self-insured plans.

State estimates for employers with fewer than 50 workers ranged from a low of 1.7 percent to 27.5 percent, but most of these estimates did not meet standards for reliability or precision and are flagged as such in Figure 5. The states with the largest amount of self-insurance in firms with fewer than 50 employees were Minnesota (18.1 percent), Massachusetts (18.8 percent), Hawaii (23.8 percent), and Alaska (27.5 percent), and they all met standards for reliability and precision.

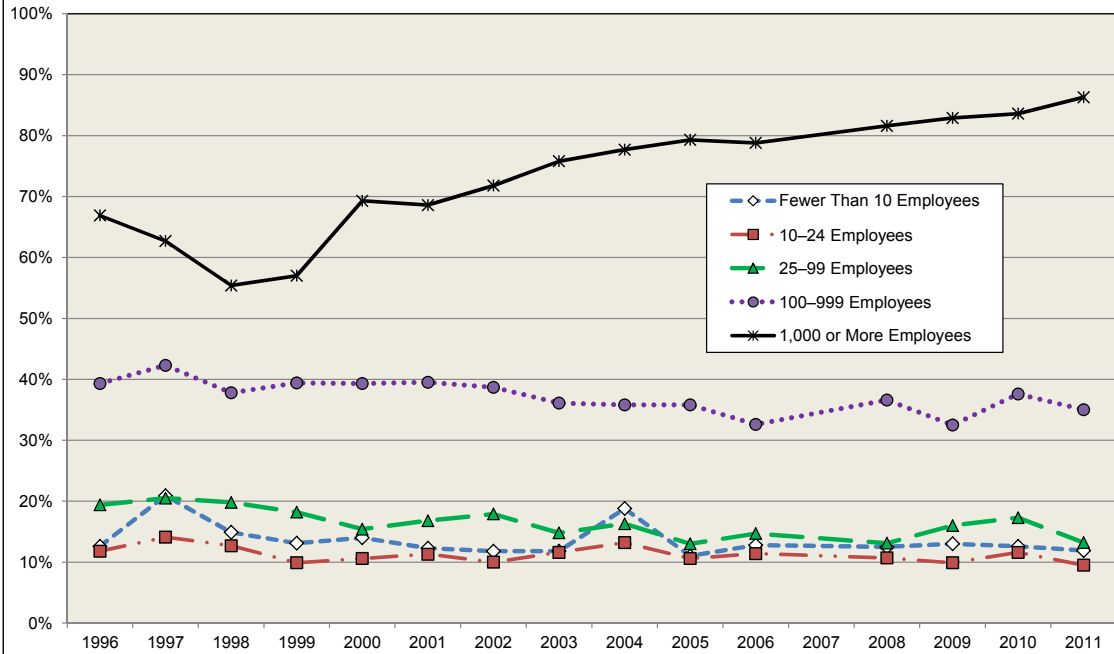
Massachusetts, the only state to have enacted health reform similar to PPACA, has seen an increase in the percentage of workers in self-insured plans among all firm-size cohorts, except among workers in firms with fewer than 50 employees. Since 2006, when this health reform law was passed in Massachusetts, the percentage of workers in firms with 50 or more employees in self-insured plans increased from 54.4 percent in 2005/2006 to 67.2 percent in 2010/2011; the percentage of workers in firms with 100-999 employees in self-insured plans increased from 16.6 percent to 29.2 percent; and the percentage of workers in firms with 1,000 or more employees in self-insured plans increased from 74.1 percent to 86.4 percent (Figure 6). The percentage of workers in firms with fewer than 50 employees in self-insured plans initially decreased from 15 percent in 2005/2006 to 11.2 percent in 2009/2010, before increasing to 15.7 percent in 2010/2011. Note that two-year moving averages were used to examine trends in Massachusetts to increase precision, since some of the year-to-year variability observed may be due to smaller sample sizes.

Variation With State-Mandated Benefits

State-mandated benefits are one of the factors that disproportionately affect small firms, since they are least likely to self-insure. Jensen and Morrisey (1999) modeled the effects of state mandates, as well as other insurance regulations, on the decision by small firms (fewer than 50 workers) to offer health insurance over a period of several years and found that mandated benefits resulted in reductions in coverage. According to their findings, each additional mandate significantly lowered the small firm's probability of offering health insurance.

Under PPACA, firms with fewer than 50 employees will not be penalized if they do not offer health coverage to their workers, but larger firms face \$2,000-per-worker penalties when they do not offer coverage. As a result, the prevalence of self-insurance may increase among smaller employers if costs increase due to the reasons cited above.

Figure 3
Percentage of Private-Sector Enrollees in Self-Insured Plans, by Firm Size, 1996–2011



Source: Various tables that can be found at http://meps.ahrq.gov/mepsweb/data_stats/quick_tables.jsp

Figure 4
Percentage of Private-Sector Enrollees in Self-Insured Plans, by Firm Size, 1996–2011

	Fewer Than 10 Employees	10–24 Employees	25–99 Employees	100–999 Employees	1,000 or More Employees
1996	12.6%	11.8%	19.4%	39.3%	66.9%
1997	20.9	14.1	20.5	42.3	62.7
1998	14.9	12.7	19.8	37.8	55.4
1999	13.1	9.9	18.2	39.4	57.0
2000	14.0	10.6	15.4	39.3	69.3
2001	12.3	11.3	16.8	39.5	68.6
2002	11.8	10.0	17.9	38.7	71.8
2003	11.8	11.6	14.8	36.1	75.8
2004	18.8	13.2	16.3	35.8	77.7
2005	11.0	10.6	13.0	35.8	79.3
2006	12.8	11.4	14.7	32.6	78.8
2007					
2008	12.5	10.7	13.1	36.6	81.6
2009	13.0	9.9	16.0	32.5	82.9
2010	12.6	11.6	17.3	37.6	83.6
2011	11.9	9.5	13.2	35.0	86.3

Source: Various tables that can be found at http://meps.ahrq.gov/mepsweb/data_stats/quick_tables.jsp

Figure 5
Percentage of Private-Sector Enrollees in Self-Insured Plans at
Establishments Offering Health Insurance, by Firm Size and State, 2011

Division and State	Total	Fewer Than 50 Employees	50 or More Employees	100–999 Employees	1,000 or More Employees
United States	58.5%	10.8%	68.5%	35.0%	86.3%
New England:					
Connecticut	54.4	8.3	64.9	26.9	85.9
Maine	56.1	10.3*	66.4	47.5	93.5
Massachusetts	55.3	18.8	62.7	14.8*	85.8
New Hampshire	62.0	6.1	74.4	29.8	96.1
Rhode Island	46.8	8.2	58.5	20.3*	84.7
Vermont	49.6	10.6*	62.8	58.8	74.3
Middle Atlantic:					
New Jersey	59.9	13.5	72.1	13.6*	90.2
New York	50.7	9.3*	61.5	26.9	80.8
Pennsylvania	63.8	10.0	75.1	22.2	92.8
East North Central:					
Illinois	59.6	13.5	68.4	32.8	85.0
Indiana	73.7	17.5*	83.1	76.1	92.7
Michigan	60.9	13.9	71.2	50.8	85.9
Ohio	59.8	8.6*	69.4	37.8	86.3
Wisconsin	61.4	11.2*	69.5	58.1	83.5
West North-Central:					
Iowa	67.5	16.6	76.9	47.4	91.6
Kansas	62.4	15.0*	75.0	30.1*	93.5
Minnesota	73.8	18.1	82.4	61.2	94.6
Missouri	69.0	12.1*	80.4	54.3	93.9
Nebraska	69.3	14.4*	79.0	54.1	93.5
North Dakota	49.9	10.3*	62.5	48.0	75.5
South Dakota	49.9	10.3*	61.0	33.6	89.1
South Atlantic:					
Delaware	67.6	11.6*	78.0	43.2	91.2
District of Columbia	54.6	6.5*	63.7	44.1	79.2
Florida	60.2	11.2*	68.8	26.5	87.6
Georgia	64.9	10.4*	73.1	32.1*	92.2
Maryland	64.0	13.4*	76.1	43.7	91.6
North Carolina	64.6	4.9*	75.8	53.4	92.1
South Carolina	61.4	6.8*	72.3	30.6	89.5
Virginia	57.6	10.8*	67.2	43.4	82.8
West Virginia	66.1	7.7*	76.1	62.2	86.9

(cont'd.)

(cont'd.)

Division and State	Total	Fewer Than 50 Employees	50 or More Employees	100–999 Employees	1,000 or More Employees
East South-Central:					
Alabama	64.8	14.3*	76.0	42.8	91.5
Kentucky	66.9	6.8*	77.8	51.9	95.7
Mississippi	64.0	17.8*	72.1	42.6	89.8
Tennessee	51.8	8.9*	59.9	20.0	84.7
West South-Central:					
Arkansas	63.0	8.2*	72.3	44.8	91.2
Louisiana	62.2	6.8	77.2	47.9	95.7
Oklahoma	55.5	9.8	68.0	41.2	91.0
Texas	58.8	7.0	68.3	25.9	88.7
Mountain:					
Arizona	64.1	10.4*	73.1	26.3*	89.1
Colorado	56.5	9.0*	66.1	36.6	78.6
Idaho	59.6	8.6*	73.0	42.6	92.6
Montana	45.3	6.2*	58.9	39.1	76.8
Nevada	50.9	8.8*	58.3	24.0*	70.6
New Mexico	60.9	17.1	69.9	39.2	90.1
Utah	55.2	16.7*	61.8	49.0	73.4
Wyoming	62.6	14.8	79.2	55.9	94.2
Pacific:					
Alaska	68.2	27.5	73.7	42.0	94.6
California	46.3	9.9	55.4	18.9	74.8
Hawaii	30.5	23.8	33.0	10.1*	48.1
Oregon	47.3	15.9	56.8	25.2*	78.6
Washington	56.0	1.7*	69.2	39.7	87.2

Source: Agency for Healthcare Research and Quality, Center for Financing, Access and Cost Trends. 2011 Medical Expenditure Panel Survey-Insurance Component, http://meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2011/tiib2b1.htm

* Figure does not meet standard of reliability or precision.

However, this analysis finds no correlation between state-mandated benefits and prevalence of self-insurance for any firm-size cohort. Figure 7 shows no correlation between the number of mandates for each state and the percentage of enrollees in self-insured plans who work in firms with fewer than 50 employees. Figure 8 is similar to Figure 7, but excludes the state estimates that do not meet reliability or precision standards; it also shows no correlation. Figure 9 shows no correlation between the number of mandates for each state and the prevalence of self-insured workers regardless of firm size. However, more precise modeling would be useful for a number of reasons: First, not all mandates affect insurance premiums equally. Second, some mandates affect *who* is covered rather than *what* has to be covered. Third, other state regulations, such as those that govern the degree to which health plans can vary premiums based on age and health status, will affect insurance premiums.

Conclusion

There is concern that passage and implementation of PPACA will result in an increasing number of smaller employers choosing to offer self-insured plans as a means of avoiding coverage mandates.

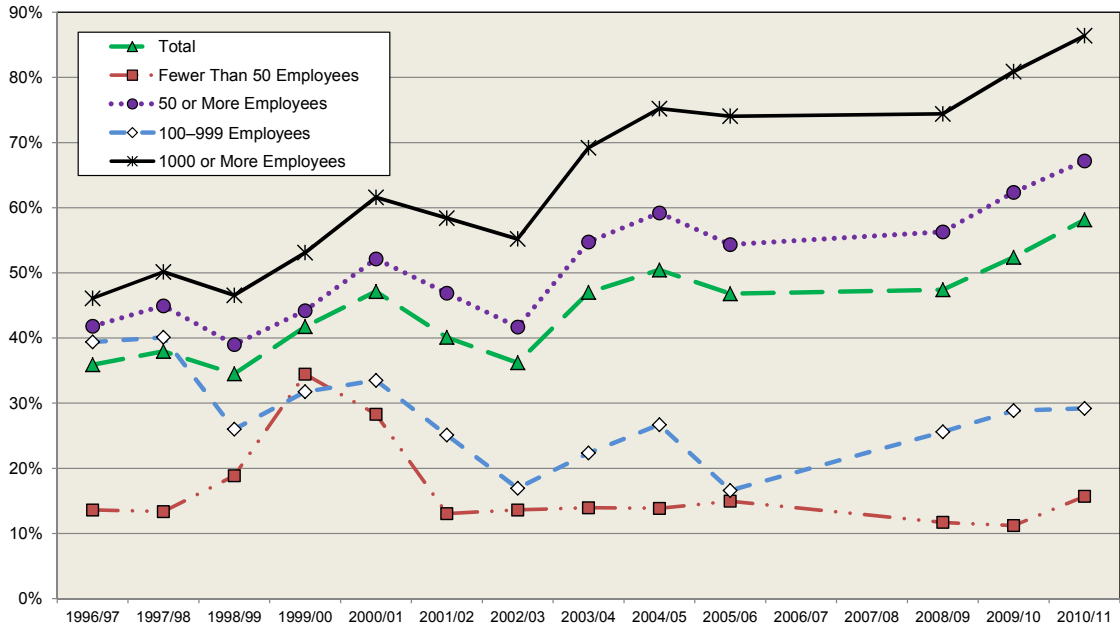
This analysis examined data on recent trends in self-insurance and found that the percentage of workers in self-insured plans has been increasing. It also found that large employers (with 1,000 or more workers) have driven the upward trend in overall self-insurance. The percentage of workers in self-insured plans in firms with fewer than 50 employees has been close to 12 percent in most years examined in this analysis.

Variation in the prevalence in self-insured plans was found by state, and Massachusetts was found to be the state with the third-highest prevalence of self-insurance in the small-group market (behind Hawaii and Alaska). There has been an increase in the prevalence of self-insurance in the larger-group market in Massachusetts, but no increase in the smallest-group market. These estimates in this analysis should serve as a baseline to gauge the potential impact of rising health insurance costs on self-insurance in the future.

References

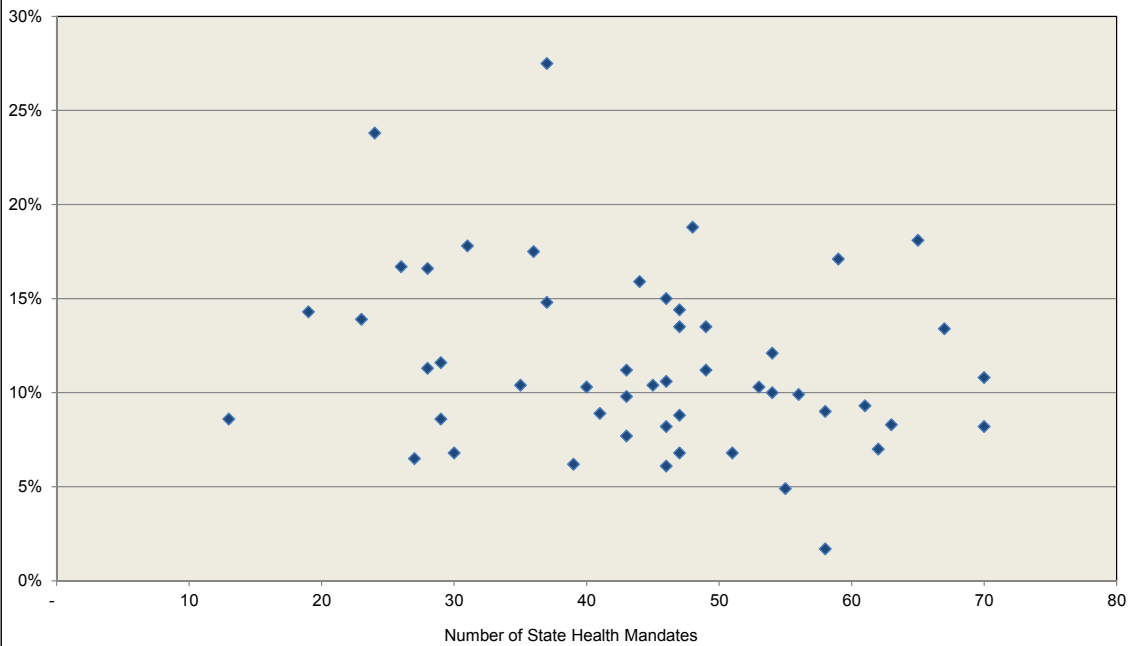
Jensen, Gail and Michael Morrissey. "Employer Sponsored Health Insurance and Mandated Benefit Laws." *Milbank Quarterly*. Vol. 77, no. 4 (Milbank Memorial Fund, 1999).

Figure 6
Percentage of Private-Sector Enrollees in Self-Insured Plans at Establishments Offering Health Insurance, by Firm Size in Massachusetts, Two-Year Moving Averages, 1996–2011



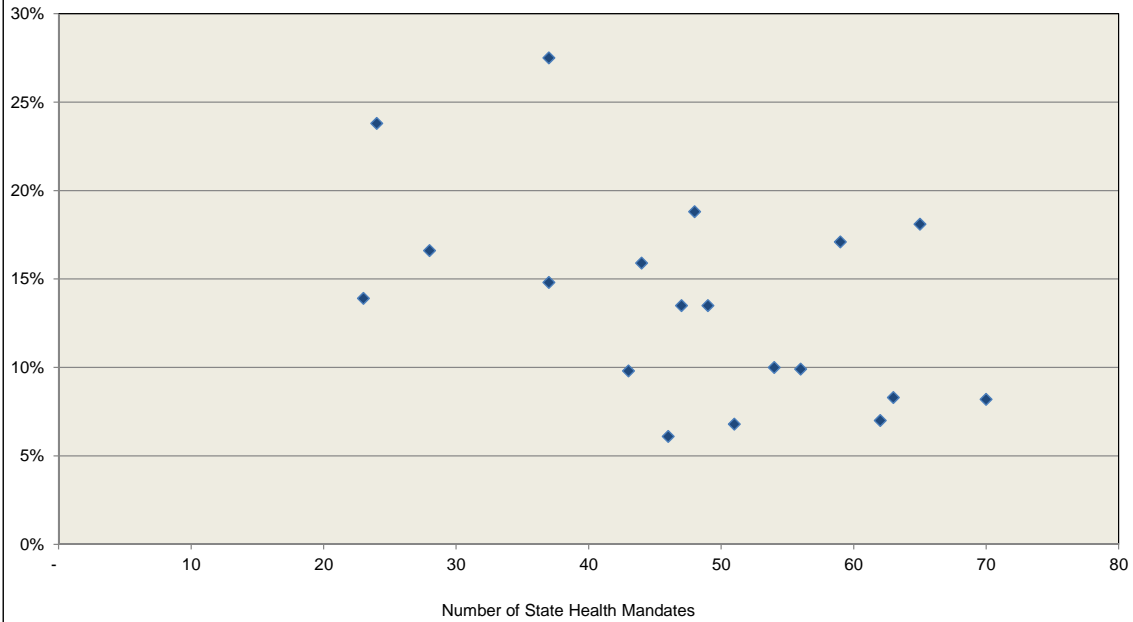
Source: Various tables that can be found at http://meps.ahrq.gov/mepsweb/data_stats/quick_tables.jsp

Figure 7
Correlation Between Total State Mandates and Percentage of Enrollees in Self-Insured Plans Among Employers With 50 or Fewer Workers, 2011



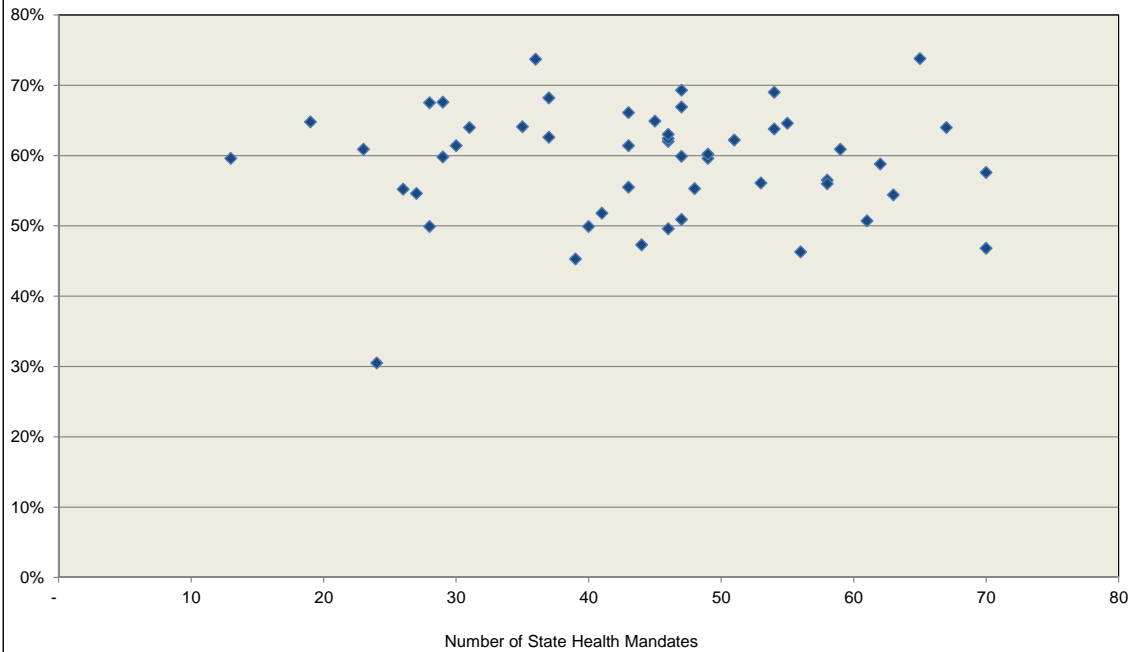
Source: Self-insured enrollment numbers were provided at http://meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2011/tib2b1.htm and state mandate numbers were provided at www.cahi.org/cahi_contents/resources/pdf/MandatesintheStates2011ExecSumm.pdf

Figure 8
Correlation Between Total State Mandates and Percentage of Enrollees in Self-Insured Plans Among Employers With 50 or Fewer Workers (Excluding States That Do Not Meet Standard of Reliability or Precision), 2011



Source: Self-insured enrollment numbers were provided at http://meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2011/tiib2b1.htm and state mandate numbers were provided at www.cahi.org/cahi_content/resources/pdf/MandatesintheStates2011ExecSumm.pdf

Figure 9
Correlation Between Total State Mandates and Percentage of Enrollees in Self-Insured Plans Among All Employees Regardless of Firm Size, 2011



Source: Self-insured enrollment numbers were provided at http://meps.ahrq.gov/mepsweb/data_stats/summ_tables/insr/state/series_2/2011/tiib2b1.htm and state mandate numbers were provided at www.cahi.org/cahi_content/resources/pdf/MandatesintheStates2011ExecSumm.pdf



Notes

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