Becoming Self-Funded

A Strategic Framework

By

Jude Odu

Author, *Model Optimal Care*

ModelOptimalCare.com

Interactive Cost Savings Calculator

An interactive web application accompanies this white paper: https://analyze.health

Organizations aiming to become self-funded can model potential cost savings based on plan size, revenue, industry, and other factors.

Executive Summary

Self-funded employer health plans have emerged as a critical strategy for organizations seeking to control ever increasing healthcare costs while maintaining competitive employee benefits. This white paper presents a comprehensive analytics framework based on publicly available data sources, published research, industry trends, and regulatory requirements to support strategic decision-making for benefits administrators and organizational leaders.

Our analysis reveals that 63% of insured U.S. workers are now covered by self-funded plans, with organizations potentially saving an average of $2,760 per employee annually through strategic transition to self-insurance.[1, 2, 3] However, successful transitions require careful planning, risk assessment, and regulatory compliance across a recommended 15-week implementation timeline.[1, 4, 5, 6]

Key Findings at a Glance

Metric	Value
U.S. Workers Covered by Self-Funded Plans	**63%**
Average Annual Savings per Employee (PEPY)	**$2,760**
Implementation Timeline	**15 Weeks**
Potential Cost Reduction (Year 1)	**20-40%**

Market Context and Economic Drivers

Healthcare Cost Trends

The U.S. healthcare landscape continues to experience significant cost pressures that affect both employers and employees. National health expenditures are projected to account for roughly 20% of GDP by 2032, rising from 17.3% in 2022.[18] This growth creates a compelling case for self-funded arrangements as a leading cost management strategy.

Spending for employer-sponsored health insurance has grown rapidly, with average annual premiums for family coverage surpassing $24,000 in 2024.[2] For 2025, employers are bracing for an expected 8.5% increase in health benefit costs, with 84% of large employers planning cost containment strategies.[13, 14, 15, 16]

Primary Cost Drivers

Driver	Impact	Self-Funded Advantage
Specialty Drugs	40-50% of pharmacy spend	Direct PBM negotiation
Hospital Services	Largest cost category	Direct contracting, network options
Administrative Costs	10-15% of premiums	Elimination of carrier margins
Chronic Conditions	86% of healthcare spend	Targeted interventions, care management

The increasing reliance on cost-sharing mechanisms, such as higher premiums and deductibles, has become pervasive. Over 50% of employers and 75% of insurers have increased these financial burdens on individuals.[26] These strategies have led to substantial increases in out-of-pocket costs, with deductibles rising significantly over the last decade.[27] However, balance is needed here to ensure that cost-sharing strategies do not become counterproductive and alienate employees who are critical stakeholders in any health plan.

Self-Funded vs. Fully Insured: A Comparison

Self-funded, self-insured health plans differ fundamentally from fully insured arrangements. In a self-funded plan, the employer assumes the financial risk for providing healthcare benefits directly, rather than paying fixed premiums to an insurance carrier.[10, 11, 12]

Feature	Self-Funded	Fully Insured
Financial Risk	Employer assumes risk (with stop-loss as a cushion)	Insurance carrier assumes risk
Plan Design Flexibility	High customization	Limited to carrier options
Claims Data Access	Full access	Limited or no access
Regulatory Framework	Federal (ERISA, CAA)	State insurance regulations
Cash Flow	Pay claims as incurred	Fixed monthly premiums
Premium Taxes	Exempt	Can be subject to state taxes (2-4%)

Implementation Framework

Successful self-insured plan implementation requires systematic execution across six critical phases spanning approximately 15 weeks. [40, 41]

Phase 1: Planning & Assessment (4 weeks)

- Historical claims data analysis spanning 24-36 months
- Employee demographic assessment and risk profiling
- Current plan performance evaluation and gap analysis
- Organizational readiness assessment including administrative capabilities

Phase 2: Legal & Compliance (2-3 weeks)

- ERISA plan document development and legal review
- HIPAA privacy and security compliance framework
- State regulatory requirements assessment
- CAA and No Surprises Act compliance verification

Phase 3: Vendor Selection (3-4 weeks)

- Third-Party Administrator (TPA) or Admin. Services Only (ASO) provider evaluation
- Stop-loss insurance carrier selection and negotiation
- PBM selection and contract negotiation
- Network access arrangements and provider contracting

Phase 4: Plan, Formulary Design & Financial Structuring (2-3 weeks)

- Benefit structure finalization based on competitive analysis
- Stop-loss attachment point determination
- Claims fund establishment and reserve calculations
- Contribution strategy development

Phase 5: Implementation (2-3 weeks)

- System integration and data migration
- Employee communication and enrollment campaigns
- Training for HR and benefits administration staff
- Member ID card production and distribution

Phase 6: Go-Live & Monitoring (Ongoing)

- Plan launch and member support activation
- Performance monitoring dashboard deployment
- Claims pattern analysis and early intervention protocols
- Quarterly performance reviews and vendor evaluations

Financial Analysis

Implementation Costs

Year 1 implementation requires careful financial planning. The following table outlines typical cost ranges for a mid-sized organization.[28, 29]

Cost Category	Range
Legal and Consulting Fees	$75,000 - $150,000
System Implementation and Integration	$50,000 - $100,000
Employee Communication and Training	$25,000 - $50,000
Total Implementation Investment	**$150,000 - $300,000**

Annual Savings Projection (1,000 Employee Organization)

Savings Category	Annual Amount
Elimination of Insurance Company Margins	$2,760,000
Administrative Efficiency Gains	$120,000
Reduced Regulatory Fees	$540,000
Stop-Loss Premium Costs	($420,000)
Net Annual Savings	**$3,000,000**

Return on Investment

1,000% - 2,000% in Year 1, continuing annually thereafter

Risk Management Strategies

Stop-Loss Insurance

Stop-loss insurance is essential for protecting self-funded plans against catastrophic claims. Two primary types exist:[30, 31, 32]

Specific Stop-Loss	Aggregate Stop-Loss
Protects against high-cost individual claims	Protects against overall plan costs exceeding projections
Thresholds based on employee size. The lower the employee count, the lower the thresholds	Typically set at 125% of expected annual claims
Lower deductibles = higher premiums but more protection	Provides overall budget certainty

Cash Flow Considerations

Self-funded arrangements require careful cash flow management due to claims payment timing.[33, 34]

- Maintain 1-2 months of expected claims as operating balance
- Establish additional reserves for high-cost claim contingencies
- Arrange line of credit for claims volatility management
- Integrate with stop-loss insurance recovery procedures

Regulatory Compliance Framework

Self-funded plans operate under federal ERISA jurisdiction, which provides certain exemptions from state insurance regulations while maintaining important compliance requirements.[35, 36, 37]

Regulation	Key Requirements
ERISA	Plan document requirements, fiduciary responsibilities, claims procedures, reporting obligations
HIPAA	Privacy and security of protected health information, breach notification requirements
ACA	Preventive care coverage, dependent coverage to age 26, no annual or lifetime limits
COBRA	Continuation coverage requirements for terminated employees
CAA/NSA	Surprise billing protections, price transparency requirements, prescription drug reporting

Recommendations

For Organizations Considering Self-Funding

1. **Conduct Comprehensive Feasibility Analysis:** Complete thorough claims data analysis, demographic assessment, and risk tolerance evaluation before proceeding with implementation planning.
2. **Invest in Professional Expertise:** Successful transitions require specialized legal, actuarial, and benefits consulting support to navigate regulatory requirements and vendor selection processes.
3. **Prioritize Vendor Quality:** ASO or TPA selection represents the most critical decision factor, with emphasis on claims processing capabilities, technology adoption, member services quality, and regulatory compliance expertise.
4. **Implement Robust Risk Management:** Appropriate stop-loss insurance coverage, proactive claims management, and performance monitoring systems are essential for long-term success.
5. **Focus on Change Management:** Comprehensive employee communication and education programs are critical for successful transition and ongoing satisfaction.

For Industry Stakeholders

1. **Enhance Data Transparency:** Greater availability of claims and performance data would improve organizational decision-making and market efficiency.
2. **Standardize Performance Metrics:** Industry-wide adoption of standardized performance indicators would facilitate better vendor selection and plan management.
3. **Develop Smaller Employer Solutions:** Innovation in risk pooling and administrative services could extend self-funding benefits to smaller organizations.
4. **Advance Technology Integration:** Continued investment in digital health platforms, predictive analytics, and artificial intelligence will improve plan financial performance and member health outcomes.

Conclusion

Self-funded, self-insured health plans represent a mature and increasingly popular approach to employee benefits management. With 63% of insured U.S. workers already covered by self-funded arrangements, these plans have demonstrated their value proposition across diverse industries and organization sizes.[38]

This widespread adoption underscores the potential for significant cost savings, with some mid-size, self-funded organizations reporting a 20-40% reduction in annual health plan spend after just one year of technology deployment and on top of the systemic savings that come from going self-funded from fully insured.[25]

The strategic integration of advanced technologies, such as artificial intelligence, into managed care operations is projected to significantly impact the market over the next five years, presenting both opportunities and challenges for self-funded entities.[39]

Organizations that approach self-funding strategically, with appropriate professional guidance and robust risk management frameworks, position themselves to achieve sustainable healthcare cost management while maintaining quality employee benefits.

References

[1.] Eibner C, Girosi F, Miller AR, et al. Employer Self-Insurance Decisions and the Implications of the Patient Protection and Affordable Care Act. *PubMed*. 2011;1(2):7.

[2.] Employer Health Benefits 2024 Annual Survey. Kaiser Family Foundation; 2024.

[3.] National Survey of Employer-Sponsored Health Plans. Mercer; 2025.

[4.] Weinmeyer RM, McHugh M, Coates E, et al. Employer-Led Strategies to Improve the Value of Health Spending: A Systematic Review. *Journal of Occupational and Environmental Medicine*. 2021;64(3):218-225.

[5.] How to Switch Your Company to a Self-Funded Health Plan: A Step-by-Step Guide for 2025-2026. Intercept Health; 2025.

[6.] How to Set Up a Self-Funded Health Plan in Ten Steps. AltRisk; 2024.

[7.] Meiselbach MK, Marr J, Wang Y. Enrollment Trends In Self-Funded Employer-Sponsored Insurance, 2015 And 2021. *Health Affairs*. 2024;43(1):91-97.

[8.] Scheinker D, Milstein A, Schulman KA. The Dysfunctional Health Benefits Market. *JAMA*. 2022;327(4):323.

[9.] 2025 Employee Health & Benefits Trends. Northeast Employee Benefits Council; 2025.

[10.] Data on Self-Insured Employer Plans. Kaiser Family Foundation; 2025.

[11.] Pozen RC, Vinjamoori A. Self-Funding of Health-Care Plans by Small Firms: Risks and Reforms. *Risk Management and Insurance Review*. 2015;18(2):243.

[12.] Inukonda J. Enhancing Healthcare Delivery: The Impact of ASO Models on Self-Insured Employers. *IJSRSET*. 2022:378-392.

[13.] Employers prepare for the highest health benefit cost increase in 15 years. Mercer; 2025.

[14.] Transforming employer health benefits: Large employers' activist role. McKinsey & Company; 2025.

[15.] Health Trends 2025 survey report. Marsh McLennan; 2024.

[16.] Medical cost trend: Behind the numbers. PwC; 2024.

[17.] Barthold D, Li J, Basu A. Patient Out-of-Pocket Costs for Type 2 Diabetes Medications. *JAMA Network Open*. 2024;7(7).

[18.] Achor EC, et al. Achieving sustainable healthcare cost containment in the United States. *Discover Health Systems*. 2025;4(1).

[19.] Haren MC, McConnell K. Patient cost-sharing on the rise. *PubMed*. 2009.

[20.] Rosenthal MB. The Growing Problem of Out-of-Pocket Costs. *JAMA*. 2021;326(4):305.

[21.] Crowley C, et al. Challenges in predicting future high-cost patients. *BMC Health Services Research*. 2023;23(1).

[22.] Mattingly TJ, Happe LE, Cranston L. Emerging trends in managed care pharmacy. *Journal of Managed Care & Specialty Pharmacy*. 2025;31.

[23.] Gabel JR, Jensen GA, Hawkins S. Self-Insurance in Times of Growing and Retreating Managed Care. *Health Affairs*. 2003;22(2):202-210.

[24.] McDonnell PA, et al. Self-insured health plans. *PubMed*. 1986;8(2):1-16.

[25.] 7 Proven Strategies to Minimize Your Health Plan Spend. Health Cost IQ, 2025.

[26.] Haren MC, McConnell K. Patient cost-sharing on the rise: results from the benefit design index. PubMed [Internet]. 2009 Feb 1 [cited 2025 Sep]; Available from: https://pubmed.ncbi.nlm.nih.gov/25126273

[27.] Rosenthal MB. The Growing Problem of Out-of-Pocket Costs and Affordability in Employer-Sponsored Insurance. JAMA [Internet]. 2021 Jul 10 [cited 2025 Nov];326(4):305. Available from: https://doi.org/10.1001/jama.2021.11166

[28.] How “healthy” are healthcare organizations? Sage Journals.; 2017.

[29.] ERISA employer-sponsored self-funded health benefit plans. Colorado Department of Education. 2024;

[30.] Safeguarding Self-Funded Health Plans: The Strategic Role of Stop-Loss Insurance. PersonifyHealth; 2024.

[31.] Stop Loss 101: Protecting Your Self-Funded Plan. 90Degree Benefits; 2025.

[32.] Stop Loss Insurance, Self-Funding and the ACA. NAIC; 2024.

[33.] Top Healthtech Startups in 2025. StartupBlink. 2025;

[34.] Top 7 Healthtech Companies to Watch in 2025. Futurize Studio. 2025;

[35.] Self-Funded vs. Fully Insured Health Plans: What Employers Need to Know. OneDigital; 2025.

[36.] Gibson D. Understanding Self-Funded (With Stop Loss) vs. Fully Insured Health Insurance. 2024.

[37.] Wang Y, Xu J, Anderson GF. Within-Hospital Price Gaps Across National Insurers. JAMA Network Open [Internet]. 2024 Dec 23 [cited 2025 Aug];7(12). Available from: https://doi.org/10.1001/jamanetworkopen.2024.51941

[38.] McDonnell PA, Guttenberg AZ, Greenberg L, Arnett RH. Self-insured health plans. PubMed [Internet]. 1986 Jan 1 [cited 2025 Nov];8(2):1. Available from: https://pubmed.ncbi.nlm.nih.gov/10312008

[39.] Mattingly TJ, Happe LE, Cranston L. Emerging trends in managed care pharmacy: A mixed-method study. Journal of Managed Care & Specialty Pharmacy [Internet]. 2025 Jan 31 [cited 2025 Oct];31. Available from: https://doi.org/10.18553/jmcp.2025.31.2-a.s2

[40.] Compliance Guide for Self-Funded Plans. Acadia Benefits; 2023.

[41.] ERISA & ACA Compliance for Self-Funded Plans. HealthCompiler; 2025.