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The Actuarial Role in Self-Insurance

A Health Section Strategic Initiative

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Did you know?

- The Henry J. Kaiser Family Foundation reports that employer-sponsored health benefit plans cover half of the nonelderly population, about 150 million people, and that about 61 percent of covered workers are enrolled in partially or completely self-funded plans.[1]
- The Employee Benefits Research Institute reports that 39 percent of firms offering health benefit plans in 2015 offered at least one plan that was self-insured and that 60 percent of workers covered by health plans are under self-insured plans.[2]
- Deloitte Advanced Analytics reports that of plans filing a Form 5500 for 2014, 41 percent are self-insured and 7 percent are "mixed funded."[3] Of the 70.8 million participants covered by the 51,643 plans in the study, 46 percent of participants are covered by a self-insured plan, and another 36 percent are covered by a mixed funded plan.[4]

It is challenging to reconcile these analyses. They use different terms, some of which have multiple meanings and others of which have the same meaning, are based on different sources and measure different things. Suffice it to say that tens of millions of people—perhaps a majority—are covered by employee health plans that their employers chose to self-insure.

A HEALTH SECTION STRATEGIC INITIATIVE

Recognizing the importance of self-insurance to the employer-based health insurance system, the inconsistent terminology used across the self-insurance industry and the limited actuarial literature addressing self-insurance, the Health Section has kicked off a new strategic initiative called "The Actuarial Role in Self-Insurance."

The overarching objective of the task force is to educate health actuaries on the role of actuaries in the self-insurance marketplace both as advisors to self-insured employers and as developers of tools self-insured employers need to manage the risks they assume. The task force expects to produce a white paper written "by actuaries, for actuaries" to fulfill this inwardly directed objective. The task force hopes to leverage the white paper to enhance the basic education of aspiring health actuaries and to offer educational material to potential non-actuarial audiences, a potential outwardly focused impact.

SELF-INSURANCE—WHAT IS IT?

The term "self-insurance" itself can be a source of confusion. Many people prefer the term "self-funded." Others make a distinction between "self-funded" and "partially self-funded," which itself has multiple contextual meanings. Other ways to categorize a self-insured plan include whether it is:

- Self-administered, administered by a third-party administrator or through a carrier's administrative-services-only contract
- An ERISA or non-ERISA plan
- Subject to the requirement to file a Form 5500
- Audited
- Covered by a stop-loss insurance policy, and if so, who purchased the policy, the employer or the plan itself, and what kind of stop-loss insurance was purchased

Perhaps we can leave this question of classification by noting one primary characteristic to assist in recognizing a self-insured employer health plan—that self-insurance via an employer ERISA plan has a special place within the employee benefits marketplace because such plans are generally exempt from state insurance department regulations and control.

HOW ARE ACTUARIES INVOLVED?

Because a self-insured health plan is a true risk-taking entity, most actuarial issues relating to evaluating risk—estimating expected claims under different plan scenarios, using and evaluating the various tools available to manage this risk—apply. In short, most of the actuarial functions within any health insurance organization are applicable to a self-insured plan. Important differences are found with the counterpart issues and functions of a large insurance company, however, and therein lie many of the challenges and opportunities for the health actuary involved in self-insurance. The health actuary may be a consultant advising the self-insured client directly, a stop-loss pricing actuary, a state regulator evaluating stop-loss policies and rates filed with a state insurance department, a self-insurance product developer designing risk management products for the self-insurance industry, an advisor to stop-loss renewal underwriters, or a valuation actuary estimating reserves for either the employer or the stop-loss carrier.

HOW WILL THIS HELP ME IN MY WORK AS AN ACTUARY?

Understanding the actuarial underpinnings of self-insurance can help us better understand the interrelatedness of different market segments within the health insurance arena. For example, a lot of speculation and analysis in the regulatory and academic worlds surrounds the potential damage of adverse selection to the individual and small group fully insured markets if self-insurance among smaller employers expands. Understanding the actuarial foundations of self-insurance may provide the basis for analysis of whether the hypothesized adverse selection exists, and if so, the resulting impact; as well, it may suggest appropriate public policy initiatives to "level the playing field."

Self-insured health plans provide an excellent testing ground for innovative plan designs and claims management tools that are easier to implement because of the limited regulatory environment in which such plans operate. As actuaries wishing to design and then measure and evaluate the impact of such designs and tools, self-insured plans offer a way to test such initiatives without the risk of locking in pricing and terms through filed forms before costs and benefits are clearly understood.

HOW CAN I LEARN MORE ABOUT THE TASK FORCE'S WORK?

The members of the Actuarial Topics in Self-Insurance Task Force include actuaries covering the breadth of the self-insurance industry. Members of the task force are Jeremy Benson, Kristi Bohn, Hobson Carroll, Tom Doran, Mike Kemp, Mehb Khoja, Jim Mange, David Olsho, Shaun Peterson, Nick Sarneso, Brent Seiler, Joe Slater, Greg Sullivan, Dustin Tindall and David Wilson. The task force is supported by Health Section Council members Greg Fann and Jackie Lee, and SOA staff Joe Wurzburger and Ladelia Berger. Contact any of them to learn more. ■

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ENDNOTES

1 Kaiser Family Foundation 2016 Employer Health Benefits Survey, Section Ten: Plan Funding.

2 *Employee Benefit Research Institute Notes*, July 2016, Vol. 37, No. 7.

3 A mixed funded "employer" has multiple plans, such as when an employer offers employees a choice between a traditional HMO ("fully" insured) and a self-insured PPO. If both plans are reported on a single Form 5500 filing, it is considered "mixed funded." Mixed funded plans tend to involve larger employers, with a significant number of participants in the self-insured options.

4 *Self-Insured Health Benefit Plans 2917, Based on Filings through Statistical Year 2014*, report dated February 8, 2017, by Advanced Analytical Consulting Group, Inc. and Deloitte Transaction and Business Analytics LLP, part of the *2017 Annual Report to Congress on Self-Insured Group Health Plans*.