Fully Insured vs. Self-Insuring Medical Coverage

Fully insured and self-insured (also known as self-funded) are two different approaches to providing medical coverage or health insurance. Here's a description of the differences between the two:

Fully Insured: a company purchases health insurance from an insurance carrier. The insurance carrier assumes the financial risk and responsibility for paying claims and providing coverage. The policyholder pays premiums to the insurance company in exchange for the coverage provided. The insurance carrier establishes the terms and conditions of the policy, including the coverage limits, deductibles, copayments, and network of healthcare providers. The insurance carrier handles all claims processing, payments, and administrative tasks.

Key features of Fully Insured Coverage include:

- **Premiums**: The policyholder pays regular premiums to the insurance carrier.
- **Risk assumption**: The insurance carrier assumes the financial risk for covering plan expenses.
- **Coverage terms:** The insurance carrier sets the terms and conditions of the policy.
- **Administrative tasks:** The insurance carrier handles claims processing, payments, and administrative functions.
- **Predictable costs:** The premium amounts are fixed and provide predictability in budgeting.

Self-Insuring (Self-Funded): a company takes on the financial risk and responsibility for providing healthcare benefits to its employees or members. Instead of purchasing a traditional insurance policy, the company sets aside funds to cover the medical expenses of its members. Typically, the company contracts with a third-party administrator (TPA) to handle claims processing and administrative tasks on their behalf. However, the company retains the financial risk and control over the plan design.

Key features of Self-Insured Coverage include:

- **Funding:** The company or organization sets aside funds to cover medical expenses.
- **Risk assumption:** The company assumes the financial risk for providing healthcare benefits.
- **Plan design:** The company has more flexibility in designing the coverage, benefits, and network.
- **Third-party administrator (TPA):** A TPA is usually contracted to handle claims processing and administrative tasks.
- **Cost control:** Self-insuring allows for more direct cost control and the potential for cost savings if claims are lower than expected.

There are effective ways to mitigate the exposure for smaller organizations who may want to self-insure their plan but are concerned they don't have the funds to do so.

Self-insuring is more common among larger companies with sufficient financial resources to cover potential high-cost claims. Smaller organizations often opt for fully insured coverage due to the lower financial risk and administrative burden. The decision between fully insured and self-insured coverage depends on factors such as the size of the organization, financial capabilities and risk tolerance.