

Plan Sponsor Guide

Self-Funding Comparison Guide

Understanding the practical differences between fully insured, level-funded, and self-funded group health plan models.

FIRST HILL TRUST Employee Benefits Guide

Prepared by First Hill Trust

Organization: _____

Renewal Date: _____

Understanding the Funding Models

Why this guide matters

- Employers often hear these funding terms used together, even though they shift cost predictability, risk, and control in very different ways.
- The key distinction is not just the monthly premium – it is who pays claims, who absorbs claim volatility, how much visibility the employer gets, and how much oversight the employer still needs.

Employers evaluating group health plan funding often compare fully insured, level-funded, and self-funded arrangements together, but the practical differences between them can be significant. Each model changes how costs are paid, how much volatility the employer retains, what claims information is available, and how actively the employer may need to manage vendors, cash flow, and renewal strategy.

This distinction matters because the real decision is not simply which option has the lowest initial quote. The more important question is how much risk the employer is prepared to retain, how stable the monthly budget needs to be, how much transparency and flexibility the employer wants, and whether the organization has the internal appetite to review plan performance beyond an annual renewal meeting.

This guide is designed to make that comparison easier by showing how these three funding approaches differ in practice, where predictability and volatility usually sit, and what those differences can mean when real claims experience begins to vary from expectations.

Fully insured

Carrier collects a fixed premium and generally assumes claim risk. This is usually the most predictable option from a monthly budget standpoint.

Level-funded

Employer pays a fixed monthly amount that blends estimated claims, administration, and stop-loss protection. It often feels more predictable than self-funding but still carries performance sensitivity.

Self-funded

Employer pays claims as they are incurred and typically purchases stop-loss to cap larger exposure. This can offer the greatest control and visibility, but also the most direct claim volatility.

Important note: actual financial results, stop-loss terms, surplus treatment, and administrative responsibilities depend on carrier, contract structure, employer size, state rules, and vendor arrangements – not just the label used in the proposal.

Side-by-Side Funding Comparison

A practical comparison of how each funding model works, where risk usually sits, and what the employer still retains.

Model	How it typically works	Budget predictability	Risk to employer	Visibility / flexibility	Best fit
Fully insured	Employer pays a fixed monthly premium to the carrier. The carrier generally pays claims and absorbs most routine claim volatility.	Highest. Monthly costs are usually the easiest to budget.	Lowest direct claim risk, though renewal increases can still be significant.	Usually less claims transparency and less plan design flexibility than self-funding.	Employers prioritizing simplicity, stable budgeting, and lower internal administrative burden.
Level-funded	Employer pays a fixed monthly amount that covers estimated claims funding, administration, and stop-loss protection.	Moderate to high. Monthly payments are more stable than self-funding, but year-end results and future renewals can still reflect claims experience.	Moderate. Stop-loss limits catastrophic exposure, but the employer still has more performance sensitivity than in a fully insured model.	Often more transparency than fully insured and some opportunity for plan customization or surplus return, depending on structure.	Employers seeking a middle ground between predictable payments and greater cost visibility.
Self-funded	Employer pays claims as they are incurred and typically buys stop-loss coverage to cap larger exposures.	Lowest. Monthly costs can vary materially with actual claims experience.	Highest direct exposure to claim volatility, cash-flow swings, and active performance management needs.	Usually offers the greatest claims visibility, reporting depth, and plan design flexibility.	Employers with stronger reserves, higher risk tolerance, and interest in actively managing plan performance.

A common misunderstanding

Choosing a level-funded or self-funded arrangement does not automatically make the plan cheaper or remove employer risk. These structures can shift how costs emerge, when cash flow pressure appears, how stop-loss performs, and how much oversight the employer still needs to retain.

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