NORD®
National Organization for Rare Disorders

CLAIM YOUR Care

Increasing Knowledge of Rare Disease Health Care Coverage

Employer-based Health Insurance: What You Need to Know

1. What is employer-based health insurance?

Employer-based health insurance is a type of health coverage that many people in the U.S. get through their jobs. When an employer provides its' employees health insurance, it helps pay for part of the cost for doctor visits, hospital stays, medicines, and other covered health-related costs for its employees.

There are two main types of employer health insurance: **fully insured plans** and **self-insured (or self-funded) plans**. Each works differently and has its own good and bad points. Let us look at each to see how they work and how it may impact the employees.

2. What is a fully insured plan?

In a fully insured plan, your employer pays an insurance company to handle all your covered medical bills and health related costs. In this type of plan, the insurance company takes care of any money owed to doctors, hospitals, or pharmacies. Your employer and you each pay a set amount, called a premium, to the insurance company every month.

How fully insured plans work

- Your employer pays the insurance company each month, and so do you, usually through payroll deductions.
- The insurance company is responsible for paying all your covered health bills and managing any paperwork.
- You get health benefits based on the details of your plan, like doctor visits, hospital care, and prescriptions.

Pros of fully insured plans

- **Predictable costs:** It is easy to know how much you will pay each month.
- **Less work for the employer:** The insurance company takes care of the bills and paperwork and makes sure the plan meets all state and federal laws and follows all the rules.
- **Larger provider networks:** Often fully insured plans offered through an employer have a larger network of providers (clinicians, hospitals, and laboratories).
- **More benefit options:** These plans often include a wide range of covered health services, like regular check-ups, medications, laboratory testing, and in some instances wellness programs.

Cons of fully insured plans

- **Less flexibility:** These plans have a set list of benefit, provider network and preferred drug list and so employers may not have the ability to customize coverage to meet the needs of their employees.
- **Choice of doctors:** Depending on the type of plan offered, the plan may not cover doctors or hospitals outside their provider network.
- **Higher premiums:** Fully insured plans may cost a bit more because of extra fees from the insurance company.
- **Limited information sharing:** Employers do not always get to see how much employees are using the plan or what services are costing the most, which makes it harder to find ways to save money.
- **State laws apply:** Fully insured plans have to follow state laws which can be difficult for employers who have employees in multiple states.

3. What is a self-insured (self-funded) plan?

In a self-insured plan, the employer pays for covered health costs directly instead of hiring an insurance company to do it. This means the employer uses their own money to pay for health expenses when employees get sick or need medical care. Sometimes, the employer will work with a company called a **third-party administrator (TPA**) to help with paying bills and keeping track of paperwork.

How self-insured plans work

- The employer sets aside money to cover the cost of employees' health care.
- When employees go to the doctor, the employer pays the bills directly (often through the TPA).

Pros of self-insured plans

- **More flexibility and control:** Employers can customize the benefits to better meet the needs of their employees.
- **Potentially lower costs:** Employers only pay for the care employees use. If health costs are lower than expected the employer saves money, which could mean better benefits or lower costs for the employees.
- **Better information:** Employers can see details about which medical services employees use the most. This can help them decide what benefits to offer and help them identify ways to lower costs.
- **No state rules:** Self-insured plans are managed by the federal government under a law called the Employee Retirement Income Security Act of 1974 (ERISA) and are not typically subject to state insurance laws. This makes it easier for employers who have employees in multiple states.

Cons of self-insured plans

- **Increased risk:** Costs vary because they depend on actual health expenses incurred by employees. If multiple employees or their family members have ongoing medical care, costs may increase making it more difficult for the employer to continue offering the same health benefits, specifically smaller companies.

Difficult to manage

- **Increased administrative burden:** Employers may have to hire additional staff or consultants to help with the administration of the plan, thereby increasing the cost of the plan to employers and possibly to the employees may not have the ability to customize coverage to meet the needs of their employees.
- **Customer service:** Some smaller employers may not be able to offer the same level of support that larger insurance companies do.

Conclusion

Both types of health insurance plans can help you cover the cost of healthcare. In a fully insured plan, your monthly payments and coverage are more predictable, and the insurance company takes care of all the details. In a self insured plan, the employer has more control which may lead to better benefits and lower costs for the employer and the employee. Knowing how your health insurance plan works can help you make smart decisions about your healthcare.

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