Weekly Checkup

If You Want Something Done, Do It Yourself?

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While many in Congress are focused on lowering prescription drug prices for consumers, there is little attention paid to the type of insurance coverage customers actually use, as well as the role insurance plays in determining the price of a specific medication or medical service. Employers provide health care coverage to 153 million nonelderly people with two-thirds enrolled in a self-insured plan in the United States. **This week, a study** (and accompanying podcast) **was published in Health Affairs on employer-sponsored coverage which found that employers offering self-insured plans paid higher unadjusted prices for certain medical services than those in the fully insured market.** Let's explore these findings and what they mean for the largest insured population in the country.

Insurance Background: Employers that offer insurance to their employees (whether it be a small or large business) can either offer a fully insured or self-insured health plan. Employers that select a fully insured plan (regulated by the state) pay a fixed premium to a third party to cover claims, whereas a self-insured plan (regulated by federal statute known as the Employee Retirement Income Security Act) pays claims out of current revenue. In short, employers assume a greater financial risk under a self-insured plan – in which the employer assumed financial responsibility – compared to a fully insured plan where the insurance company assumes the financial responsibility. For employers with more than 1,000 employees, selecting a self-insured plan offers greater plan flexibility while avoiding state taxes and other state regulatory mandates.

Study Data and Methods: The authors looked at claim data across a variety of health plans (Aetna, Humana, and more than 30 Blue Cross Blue Shield plans) from 2021, estimating that they reviewed such data for one-third of people with employer-sponsored insurance in the country. **In short, the study found that the "average per person health care spending…was about 10 percent higher for self-insured plan enrollees ($5,083) than fully insured plan enrollees ($4,606) which may reflect differences in use or price of services."** Additionally, the authors found that out-of-pocket spending was slightly lower for the self-insured enrollee. The study did not have data on plan premiums to compare to overall employer spending.

Study Results: To mitigate financial risk, employers offering self-insured plans are incentivized to lower the health care costs of their employees by obtaining competitive rates for medical services and prescription drug products. Typically, medical prices for self-insured plans are determined by negotiations among the employer, insurance company, and providers, including professionals and hospitals. As in other areas of health care contracting, employers utilize a third-party administrator (TPA) to assist in these negotiations, as well as set up a network of providers and offer other administrative services. **Approximately 55 percent of U.S. workers and their dependents in non-federal health coverage are in plans administrated by TPAs.**

The study highlights the potential for employers with self-insured plans to pay a higher price than those who use a fully insured plan. While there are probably many reasons for this, the study is a good reminder that **health care costs (both for the employer and the employee) depend heavily on the specific plan selected and the benefits offered.**