



ADVANCED ANALYTICAL
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SELF-INSURED HEALTH BENEFIT PLANS 2012

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SUMMARY

The Patient Protection and Affordable Care Act (ACA) (§1253) mandated that the Secretary of Labor prepare aggregate annual reports with general information on self-insured group health plans (including plan type, number of participants, benefits offered, funding arrangements, and benefit arrangements), as well as data from the financial filings of self-insured employers (including information on assets, liabilities, contributions, investments, and expenses). The U.S. Department of Labor (DOL) engaged Deloitte Financial Advisory Services LLP to assist with the ACA mandate and write *Self-Insured Health Benefit Plans* ("2011 Report").¹ The Secretary of Labor submitted to Congress the first such annual report in March 2011 ("2011 Report to Congress"), which included the 2011 Report as its Appendix B.²

The current report updates the 2011 Report for the Secretary of Labor's *2012 Report to Congress*. As required by §1253 of the ACA, the primary data source is the information provided by health plan sponsors on Form 5500 filings. For a subset of health plan sponsors, corporate financial data were also used. This report contains an analysis of such characteristics as plan type, number of participants, funding arrangements, and sponsors' financial health, based on health plans' annual Form 5500 filings and financial data on health plan sponsors. There is also a discussion of Form 5500 features that were new for 2009 and of data-quality issues.

The year grouping in the current report differs from that in the 2011 Report. The 2011 Report tabulated data by the year in which health plan reporting periods started, from 2000 to 2008. The current report tabulates data by the year in which health plan reporting periods ended, from 2001 to 2009.

The primary findings include:

- The fraction of self-insured or mixed-funded (funded through a mixture of insurance and self-insurance) Form 5500 filing health plans declined from 45% in 2001 to 42% in 2009. However, over the same period, the percentage of plan participants covered by self-insured or mixed-funded plans increased from 64% to 73%. This apparent paradox may potentially be explained by a trend toward less mixed-funding or self-insurance among relatively small plans and toward more mixed-funding or self-insurance among relatively large plans.
- From 2008 to 2009, the percentage of self-insured or mixed-funded Form 5500 filing health plans remained at 29% and 13% respectively. The total share of Form 5500 filing health plans with a self-insured component remained at 42%. This percentage has declined or remained flat every year from 2002 to 2009.

¹ Advanced Analytical Consulting Group, Inc. served as a subcontractor to Deloitte Financial Advisory Services LLP.

² See <http://www.dol.gov/ebsa/pdf/ACAReportToCongress032811.pdf> for the Secretary of Labor's 2011 Report to Congress and <http://www.dol.gov/ebsa/pdf/deloitte2011-1.pdf> for its Appendix B.

- Although only 42% of Form 5500 filing health plans had a self-insured component in 2009, the majority of Form 5500 filing health plan participants were in plans with a self-insured component. The total fraction of Form 5500 filing health plan participants in a plan with a self-insured component increased from 72% in 2008 to 73% in 2009. This fraction increased every year in our analysis.
- As reported in Form 5500 filings, stop-loss coverage among self-insured plans declined from 24% in 2008 to 20% in 2009. This fraction had ranged between 23% and 25% since 2001. Stop-loss coverage among mixed-funded plans was in the 28%-29% range since 2001 and reduced to 25% in 2009. As discussed on pages 15 and 25, these percentages may be underestimates of the prevalence of stop-loss insurance.
- Most Form 5500 filing plans with fewer than 100 participants were self-insured. This is presumably due to Form 5500 filing requirements rather than being representative of all small plans.
- Among Form 5500 filing plans with 100 or more participants, the prevalence of self-insurance generally increased with plan size. For example, 26% of plans with 100-199 participants were mixed-funded or self-insured in 2009, compared with 79% of plans with 5,000 or more participants. The 2008 percentages were similar: 27% and 77%, respectively.
- Larger plans that filed a Form 5500 were more likely to be mixed-funded than smaller plans. For example, 5% of plans with 100-199 participants were mixed-funded in 2009, compared with 44% of plans with 5,000 or more participants. The 2008 percentages were similar: 5% and 43%, respectively.
- Multiemployer and multiple-employer plans were more likely to self-insure than single-employer plans. In 2009, 67% of multiemployer or multiple-employer plans were self-insured or mixed-funded, compared with 40% of single-employer plans. The 2008 percentages were similar: 69% and 40%, respectively.
- Self-insurance rates varied by industry, with agriculture, mining, construction, and utilities firms having the highest prevalence of self-insurance.
- Limited quality issues arose in the Form 5500 data. For example, several dozen plans reported implausibly many participants. Starting with plan year 2009, the Form 5500 must be filed electronically. The observable data inconsistencies appear to be less frequent in the electronically submitted filings than in the paper filings.

The remainder of this report contains the following. Section 1 discusses the current report's updated plan selection. Section 2 discusses the objectives and contents of the Form 5500. Section 3 describes data sources and the definition of funding mechanism as used in this report. It also discusses data quality and consistency issues, and this section expands on the 2011 Report by describing Form 5500 missing-data patterns and the health plan filings not matched to financial data. Finally, Section 4 presents the results of our data analysis. This section expands on the 2011 Report with "New" plans' funding mechanisms, stop-loss insurance premiums, and tabulations of the numbers (in addition to percentages) of plans and participants throughout.

The views, opinions, and/or findings contained in this report are those of the authors and should not be construed as an official Government position, policy or decision, unless so designated by other documentation issued by the appropriate governmental authority.

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1. TECHNICAL NOTE: UPDATED PLAN SELECTION

The Electronic Disclosure System (EDS) through which the DOL Employee Benefits Security Administration (EBSA) accesses electronic representations of Form 5500 filings stores files by processing date, which results in data organized by plan year beginning dates. To ensure timely submission of the 2011 Report to Congress, EBSA provided such electronic files for analysis, resulting in tables based on plan year beginning dates. EBSA also publishes annual *Private Pension Plan Bulletins* based on Form 5500 filings with tables based on plan year ending dates, referred to as the statistical year. In an effort to harmonize the 2012 Report to Congress with EBSA's *Private Pension Plan Bulletins*, the current report updates the 2011 Report using a statistical year definition. The statistical year grouping consists of all Form 5500 employee benefit plan filings with a plan year ending date in the given year.

This report includes tables for statistical year 2009. This is the most recent year for which nearly complete electronic data were available. Of the 46,458 plan filings included in this report's statistical year 2009 tables, about 65% have beginning and ending dates in 2009, and about 35% have beginning dates in 2008. The 2011 Report analyzed filings for plan years that began in 2008, though some were received too late for inclusion in that report; about 14,000 (30%) plan filings underlying this report's 2009 tables were also used in the 2008 tables of the 2011 Report.

Presenting tabulations by statistical rather than plan year changes the analysis results little. None of the changes warranted explicit notice.

2. THE FORM 5500

Beginning in 1975, the Department of Labor, the Internal Revenue Service (IRS), and the Pension Benefit Guaranty Corporation (PBGC) jointly developed the Form 5500 Series to assist employee benefit plans in satisfying annual reporting requirements under Title I and Title IV of the Employee Retirement Income Security Act (ERISA) and under the Internal Revenue Code. Employers and administrators who comply with the general instructions for the Form 5500 generally will satisfy the annual reporting requirements for the IRS and DOL.³

Legislative and Regulatory Objectives of the Form 5500

The Form 5500 Annual Return/Report of Employee Benefit Plans, including the required Schedules and/or Attachments, ("Form 5500") contains information concerning the operation, funding, assets, and investments of pensions and other employee benefit plans. In addition to being a disclosure document for plan participants and beneficiaries, the Form 5500 is a compliance and research tool for the DOL, the IRS, and the PBGC, as well as a source of information for other federal agencies, Congress, and the private sector.⁴

Specifically, the objectives of Form 5500 reporting are to:⁵

- Ensure that disclosures be made to participants and safeguards be provided with respect to the establishment, operation, and administration of employee benefit plans;
- Increase the likelihood that participants and beneficiaries under single-employer defined-benefit pension plans will receive their full benefits;
- Protect the interests of participants in employee benefit plans and those of their beneficiaries; and
- Verify compliance with standards of conduct, responsibilities, and obligations for fiduciaries of employee benefit plans.

Benefit plans must generally file the return by the last day of the seventh month after the plan year ends. (If that due date falls on a Saturday, Sunday or Federal holiday, then it may be filed on the next business day).⁶

Form 5500 Contents

ERISA requires any administrator or sponsor of an employee benefit plan subject to ERISA to annually report details on such plans unless exempt from filing pursuant to the Instructions for the Form 5500. The Form 5500 consists of a main Form 5500 and a number of Schedules, depending on the type of plan. The main Form 5500

³ http://www.irs.gov/irm/part11/irm_11-003-007.html#d0e309

⁴ Federal Register Vol. 72, November 16, 2007, page 64731.
<http://www.dol.gov/ebsa/regs/fedreg/final/20071116.pdf>

⁵ <http://www.gpo.gov/fdsys/pkg/USCODE-2010-title29/html/USCODE-2010-title29-chap18-subchapI-subtitleA-sec1001.htm>

⁶ <http://www.irs.gov/retirement/article/0,,id=117588,00.html>

collects such general information on the plan as the name of the sponsoring company, the type of benefits provided (pension, health, disability, life insurance, etc.), the funding and benefit arrangements, and the number of plan participants. Some or all plan benefits may be provided through external insurance contracts. Form 5500 plan filings must include one or more Schedules A with details on each insurance contract (name of insurance company, type of benefit covered, number of persons covered, expenses, etc.). If the plan operates a trust, a Schedule H or Schedule I must be attached with financial information. Schedule H applies to plans with 100 or more participants, whereas smaller plans may file the shorter Schedule I.

Employee benefits may include, for example, pensions, health benefits or life insurance. Benefits other than pensions are collectively referred to as welfare benefits. Separate Forms 5500 must be filed for pension benefits and for welfare benefits. This report centers on health benefits only, and is thus based on a subset of welfare benefit filings.⁷

Recent Changes to Form 5500

Prior to plan year 2009, some Forms 5500 were filed on paper, and it is our understanding that paper filings were scanned and converted into an electronic database using a combination of optical barcodes and optical character recognition. Starting with the 2009 plan year, filers are required to file electronically using the ERISA Filing Acceptance System (EFAST2). As discussed below, we found the data integrity of electronic filings to be higher than that of paper filings.

Also beginning with the 2009 plan year, Schedule I, which collects information on trusts of small plans, includes a new line item for administrative fees. In addition, many small plans may now file a newly introduced Form 5500 Short Form (Form 5500-SF). The filings underlying this report's analysis include 629 Form 5500-SF filings.

⁷ For the purpose of this report, only health benefits are relevant. However, 82% of 2009 Form 5500 health plan filings reported on both health and other types of benefits (dental, vision, et cetera).

3. DATA SOURCES AND DEFINITION OF SELF-INSURANCE

The quantitative analysis in this report is based on two data sources: Form 5500 health plan filings and annual financial reports. In this section, we discuss the data sources and the matching algorithm. We then discuss the definition of self-insured, as used in this report, and point out some data limitations.

Form 5500 Data

As discussed in the previous section, employers and administrators who comply with the Form 5500 Instructions generally will satisfy the annual reporting requirements for the IRS and DOL. The Form 5500 Instructions exempt certain welfare plans from filing a Form 5500. Generally, a Form 5500 is required for plans with 100 or more participants at the beginning of the reporting period and for plans of any size that operate a trust. Some plans file a Form 5500 even though they are not required to do so. This report excludes such voluntary filers from the analysis. The analysis also excludes plans that were terminated during the plan year, or that had zero participants at the beginning or the end of the plan year. It also excludes health plans with one participant.⁸ It includes single-employer, multiemployer, and multiple-employer plans, but excludes filings by Direct Filing Entities (DFEs). Apart from these exclusions, our analysis covers the universe (not a sample) of health plans that filed a Form 5500.

Table 1 presents the distribution of plan size, as measured by the number of participants at the beginning of the reporting period, for filings in statistical year 2009, i.e., for filings with a reporting period that ended in 2009. As defined throughout this report, *participants* may include active and retired employees, but excludes dependents.

Table 1. Distribution of Health Plans and Health Plan Participants, By Plan Participant Counts (2009)

| Participants in plan | Plans | Percent | Participants (millions) | Percent |
|-------------------------|--------|---------|----------------------------|---------|
| 2-99 | 2,659 | 5.7% | 0.1 | 0.1% |
| 100-199 | 15,452 | 33.3% | 2.2 | 3.3% |
| 200-499 | 14,509 | 31.2% | 4.5 | 6.6% |
| 500-999 | 5,887 | 12.7% | 4.1 | 6.0% |
| 1,000-1,999 | 3,448 | 7.4% | 4.8 | 7.1% |
| 2,000-4,999 | 2,507 | 5.4% | 7.7 | 11.4% |
| 5,000+ | 1,996 | 4.3% | 44.6 | 65.5% |
| Total | 46,458 | 100.0% | 68.1 | 100.0% |

Source: Form 5500 health plan filings.

⁸ As the data do not allow for distinction between ERISA-covered and non-ERISA-covered plans with just one participant, we choose to exclude these plans from the analysis.

As previously noted, health plans with fewer than 100 participants (*small plans*) are not required to file a Form 5500 unless they operate a trust. Small plans in our analysis are thus a select subset of all small plans. In contrast, plans with 100 or more participants (*large plans*) are generally required to file a Form 5500 unless otherwise exempt from filing per Instructions for Form 5500, so we believe our analysis covers almost all large plans in the United States.⁹

Small plans accounted for 6% of plans in our analysis. Almost two in three plans had between 100 and 499 participants. Most participants, however, were in the largest plans. Plans with 5,000 or more participants make up 4% of all plans in our sample, but they account for 65% of all participants. Overall, the plans in our analysis relate to the health insurance of over 68 million participants.

Our analysis covers statistical years 2001 through 2009. As shown in Table 2, each statistical year includes between 43,000 and 47,000 plans providing health benefits. On average, there were approximately 45,000 plans per year. The number of covered participants ranged from approximately 55 million to 68 million per year. In recent years, the number of plans had been increasing. A notable exception, however, is 2008 when the number of plans dropped by almost 2,000 plans. While this decline occurred in plans of all sizes, it was greater among small plans than among large plans. For example, the number of plans with 5,000 or more participants decreased by just three plans. While the number of plans declined between 2007 and 2008, the number of participants increased in that same period. This apparent paradox is explained by an increase in average plan size. For example, among the largest plans the average plan size increased by more than 500 participants.

Table 2. Health Plans and Participants, by Statistical Year

| Statistical year | Plans | Participants (millions) |
|------------------|--------|----------------------------|
| 2001 | 43,019 | 55.6 |
| 2002 | 44,508 | 60.0 |
| 2003 | 44,645 | 60.9 |
| 2004 | 44,081 | 60.3 |
| 2005 | 44,219 | 60.9 |
| 2006 | 45,257 | 62.0 |
| 2007 | 46,086 | 67.2 |
| 2008 | 44,216 | 67.6 |
| 2009 | 46,458 | 68.1 |

Source: Form 5500 health plan filings.

Note: Figures in the 2011 Report may differ due to the switch from plan year to statistical year.

⁹ It is our understanding that church plans and governmental plans are not covered by Title I of ERISA (2009 Form 5500 Instructions). They are not included in this study.

Matching with Financial Information

Several research questions seek to understand the relationship between a plan sponsor's financial health and the plan's characteristics. To conduct this analysis, we matched Form 5500 health plan filings with Capital IQ corporate financial data. This section describes our approach and the number of Form 5500 filers for which we achieved a statistical year 2009 match.

Our financial metrics information comes from Capital IQ, a provider of financial and other data for companies in the United States and elsewhere. Capital IQ culls Form 10-K filings and other sources to collect data on companies with public financial statements, which generally includes companies with publicly-traded stock or bonds.¹⁰ Our extract from its database contains information on 2009 financial performance for about 54,000 companies, including about 40,000 public companies. To improve match rates with Form 5500 health plan sponsors, our extract cast a wide net.¹¹

We extracted fields that capture company characteristics, financial strength, financial health, and financial size. In particular:

- Market capitalization: total value of outstanding common stock as of the end of the company's financial reporting period;
- Total revenue;
- Net operating income: total revenues net of total operating expenses;
- Cash from operations: total of net income, depreciation and amortization and certain "other" items;
- Total debt: short-term borrowings, long-term debt, and long-term capital leases;
- Altman Z-Score: an index commonly used for predicting the probability that a firm will go into bankruptcy within two years. The lower the score, the greater the probability of insolvency; and
- Number of employees.

The Matching Process

The only common field in Capital IQ and Form 5500 health plan data is the company/sponsor name. In part because of alternate spelling and issues with scanned names on the Form 5500 data, the match rate on name alone is low.

To obtain a better match rate, we used both EINs and company names. Form 5500 health plan data contain EINs, but the Capital IQ file does not. About 28% of Capital IQ records, however, report the company's Central Index Key (CIK), a number used by the U.S. Securities and Exchange Commission to identify corporations and individuals who have filed disclosure with the SEC. SEC filings, electronically

¹⁰ A Form 10-K is an annual financial report filed with the U.S. Securities and Exchange Commission (SEC).

¹¹ Our Capital IQ extract includes overseas companies, some without operations in the United States. For companies with operations outside the United States, financial metrics reported in the Capital IQ database may include foreign components.

available from the SEC's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system, often include both companies' CIKs and EINs. So the CIK can be used to link Capital IQ records to EINs from the SEC and then the EIN can link the Capital IQ-SEC record to Form 5500. An automated internet search of EDGAR for CIKs and EINs yielded EINs for about 22% of Capital IQ records.¹²

Next, we defined clusters of EINs and company names that appeared to relate to the same company. For example, a company may have used two EINs, or an EIN may have been associated with multiple (similar) names. To improve the clustering, we normalized the company names (e.g., ABC Incorporated Employee Benefit Trust is equivalent to ABC Inc.).

All related EINs and company names were mapped into a unique cluster ID. Finally, we matched Capital IQ records and Form 5500 health plan filings by cluster ID.

Since the Capital IQ database typically contains one record per company per year, and companies typically file a Form 5500 annually, a single company commonly appears multiple times in the Capital IQ and Form 5500 databases. Additionally, corporate fiscal years need not correspond to health plan reporting periods. In an effort to accurately match 2009 Form 5500 health plan filings with their sponsor's corresponding 2009 financial information, we required that the end date of the fiscal year captured in Capital IQ and the end date of the Form 5500 plan year differed by no more than 183 days. If and only if the closest fiscal and plan years differed by no more than 183 days, we considered this a match.

For example, a health plan sponsor could have a plan year from January 1 to December 31, but a fiscal year that ran from April 1 to March 31. Under these circumstances, we would match the Form 5500 health plan filing ending December 31, 2009 with the Capital IQ financial information for fiscal year ending March 31, 2010.

Table 3 shows that we matched 4,622 plans, or about 10% of the plans in the 2009 Form 5500 health plan data.¹³ This is the set of companies that appear in our matched analyses to follow. The 4,622 plans cover over 27 million participants or 40% of all participants across all group health plans.

¹² Some issues arose in the process. While about 72% of Capital IQ records do not contain a CIK, about 3% contain multiple CIKs. Also, some CIKs were found to be linked to multiple EINs.

¹³ While this is a small number, many companies that filed a Form 5500 are not represented in Capital IQ data because they may have no requirement to issue publicly available financial statements.

Table 3. Form 5500 Health Plan Filings Matched with Financial Information, by Plan Size (2009)

| Number of participants | Plans | | | Participants | | |
|------------------------|--------|---------|------------|-------------------|---------|------------|
| | Number | Percent | Match rate | Number (millions) | Percent | Match rate |
| 2-99 | 45 | 1.0% | 1.7% | 0.002 | 0.0% | 2.4% |
| 100-199 | 647 | 14.0% | 4.2% | 0.1 | 0.3% | 4.3% |
| 200-499 | 1,002 | 21.7% | 6.9% | 0.3 | 1.2% | 7.3% |
| 500-999 | 718 | 15.5% | 12.2% | 0.5 | 1.9% | 12.5% |
| 1,000-1,999 | 602 | 13.0% | 17.5% | 0.9 | 3.1% | 17.8% |
| 2,000-4,999 | 721 | 15.6% | 28.8% | 2.3 | 8.4% | 29.8% |
| 5,000+ | 887 | 19.2% | 44.4% | 23.5 | 85.1% | 52.6% |
| Total | 4,622 | 100.0% | 9.9% | 27.6 | 100.0% | 40.5% |

Source: Form 5500 health plan filings and Capital IQ data.

Table 4 shows that 41,836 plans were not matched to Capital IQ data. Covering almost 41 million participants, these plans accounted for 60% of all participants across all matched and non-matched group health plans.

Table 4. Form 5500 Health Plan Filings Not Matched with Financial Information, by Plan Size (2009)

| Number of participants | Plans | | | Participants | | |
|------------------------|--------|---------|----------------|-------------------|---------|----------------|
| | Number | Percent | Non-match rate | Number (millions) | Percent | Non-match rate |
| 2-99 | 2,614 | 6.2% | 98.3% | 0.1 | 0.2% | 97.6% |
| 100-199 | 14,805 | 35.4% | 95.8% | 2.1 | 5.3% | 95.7% |
| 200-499 | 13,507 | 32.3% | 93.1% | 4.2 | 10.3% | 92.7% |
| 500-999 | 5,169 | 12.4% | 87.8% | 3.6 | 8.9% | 87.5% |
| 1,000-1,999 | 2,846 | 6.8% | 82.5% | 4.0 | 9.8% | 82.2% |
| 2,000-4,999 | 1,786 | 4.3% | 71.2% | 5.4 | 13.4% | 70.2% |
| 5,000+ | 1,109 | 2.7% | 55.6% | 21.1 | 52.1% | 47.4% |
| Total | 41,836 | 100.0% | 90.1% | 40.5 | 100.0% | 59.5% |

Source: Form 5500 health plan filings and Capital IQ data.

Alternate Matching Methods

There may be opportunities for improving the match rate between Form 5500 health plan filings and Capital IQ information.

First, some EINs appear to be reported (or scanned) with an erroneous digit. At present, the matching algorithm requires exact correspondence between EINs on the Capital IQ and Form 5500 sides. However, if two EINs differ by only a single digit, the absolute value of their difference consists of a single non-zero digit and otherwise zeroes. It may be feasible to compare all pairs of EINs and manually inspect the company names of those whose difference demonstrates a single digit difference.

Second, the name matching routine currently requires exact correspondence of company names, normalized as explained above. In some cases, a match is not

established because of minor differences in company names. The normalization algorithm addresses many such differences, but not, for example, *ABC Systems* vs *ABC Automotive Systems*. It may be feasible to develop a “fuzzy” matching scheme which recognizes common large substrings in company names.

Definition of Self-Insurance

Form 5500 does not require plan sponsors to explicitly specify the health plan’s funding mechanism. This section describes how we determine funding mechanisms for the purposes of this report.

The Definition of Funding Mechanism is Driven by Available Data

As defined in this report, funding mechanism is based on information in Form 5500 health plan filings. Plans are categorized as either self-insured, fully insured, or mixed-funded.¹⁴ In some cases, the data are incomplete or internally inconsistent. Given these limitations, the classification in this report should not be interpreted as an official or legal definition. The definition of funding mechanism is driven by available data. The actual fields are provided in the Technical Appendix.

In 2009, 13,520 plans (29%) were identified as self-insured because (1) they did not report any health insurance contracts and (2) attached a Schedule H or I or indicated that their funding or benefit arrangement was, at least in part, through a trust or from general assets.¹⁵ For the other 32,938 plans, we compared the number of people covered through health insurance contracts to the number of plan participants. If the number of people covered by a health insurance contract was less than 50% of the number of plan participants, we classified the plan as mixed funded.¹⁶ This was the case for 3,591 plans. Another 2,201 plans were identified as mixed-funded because they attached a Schedule H or I suggesting that they operated a trust which paid benefits to plan participants.¹⁷ The total number of mixed-funded plans was thus 5,792 (12%). The remaining 27,146 plans (58%) were classified as fully insured. Figure 1 below illustrates the funding mechanism identification process. Also see Table 8 below.

¹⁴ A mixed-funded plan contains both self-insured and fully insured components. For example, an employer may offer its employees a choice between a fully insured HMO and a self-insured PPO option. If both plan components were reported in a single Form 5500 filing, the plan would be mixed-funded.

¹⁵ We also assume, based on filing instructions, that all Form 5500-SF filers were self-insured.

¹⁶ See “Form 5500 Data Review” (forthcoming) for a discussion of the sensitivity of plans’ funding categorizations to the 50% threshold.

¹⁷ Where possible, our approach requires that the trust paid benefits to plan participants. Some plans may use a trust or a voluntary employees’ beneficiary association (VEBA) as a vehicle to pass insurance premiums through to an insurance company. Insofar as such plans did not make benefit payments to participants, they are appropriately classified as fully insured. For plans with fewer than 100 participants, Form 5500’s Schedule I does not ask whether any payments were made to plan participants. It is possible that some such small plans are classified as mixed-funded, even though they were fully insured.

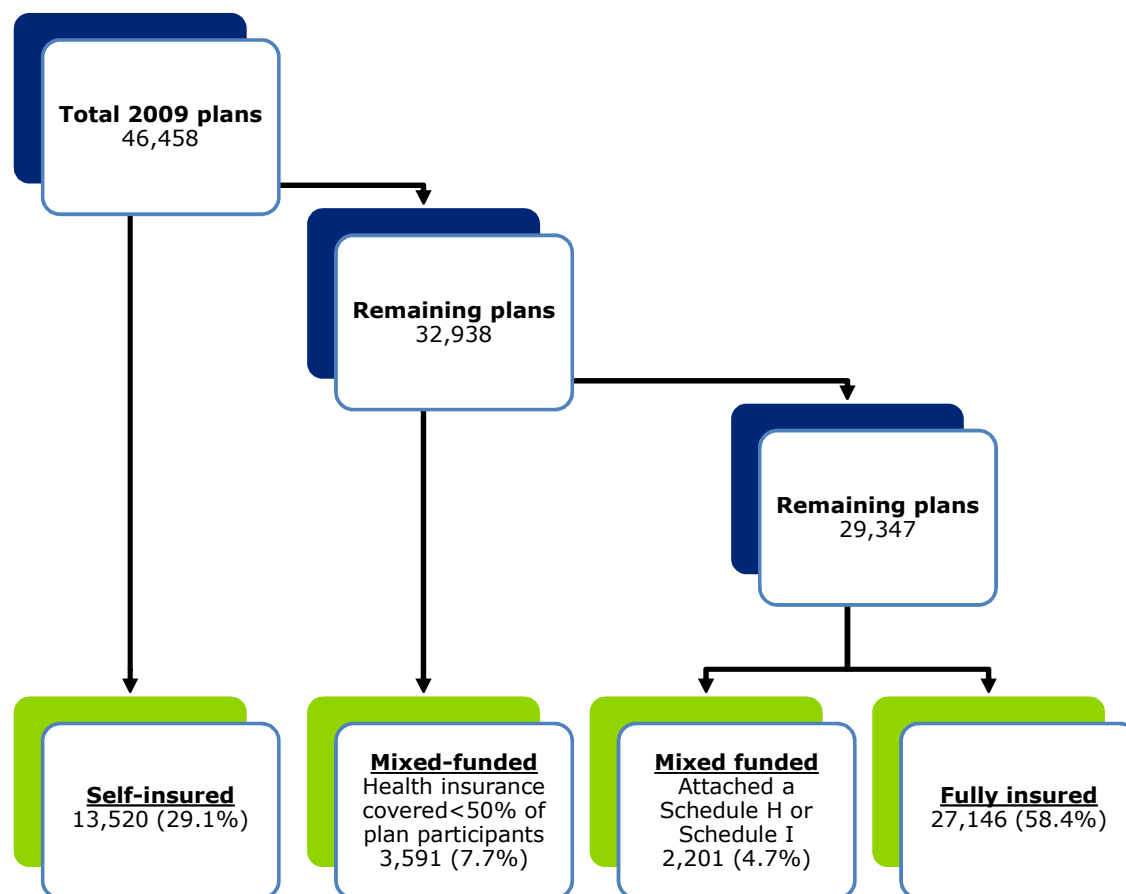


Figure 1. Funding Mechanism Derivation

While this approach is subject to some data quality issues (further discussed below), we believe it results in a meaningful characterization of health plans' funding mechanism.

Issues in Defining Funding Mechanism

The information on Form 5500 may be incomplete or inconsistent. Some of the issues affecting the funding mechanism definition are as follows:

- As noted in the 2011 Report, according to subject matter specialists, an employer may set up a subsidiary that acts as an in-house insurance company and sells health insurance to employees. These "captive" insurance companies are subject to regulations regarding insurance companies. Plan sponsors purchasing insurance from a captive insurance company would file Schedule A, which does not require disclosing the use of a captive insurance company. In the classification, such plans would thus be considered fully insured, even though the employer group to which they belong is incurring a risk identical to that of a self-insured plan. Since nothing on the Form 5500 permits the identification of captive insurance companies, we were not able to quantify how frequently this issue arises.

- As explained above, 12% of Form 5500 filing health plans contained both externally insured and self-insured health components in statistical year 2009. While the distinction may be clear conceptually, Form 5500 data limitations imply that the health plan as a whole must be categorized as mixed-funded (partially self-insured and partially insured). The issue arises because Form 5500 and its instructions allow a single Form 5500 to be filed with information on multiple types of welfare benefits and multiple types of health benefit options. As a result, it is not always possible to attribute responses to the health benefit component(s) of the filer's welfare plan. A plan may indicate funding benefits through insurance contracts and from general assets without specifying which plan components are funded in either way. Separately, Form 5500 data limitations arise from the fact that the Form 5500 does not ask details about self-insured plan components. At the participant/policy level, however, a benefit is either self-insured or fully insured.
- As noted above, plans are classified as mixed-funded if fewer than 50% of plan participants are covered by health insurance contracts. The two metrics may not be strictly comparable. First, the number of "persons covered" by insurance contracts, as reported on Schedule A, may be interpreted as inclusive of dependents, whereas the Form 5500 explicitly requires excluding dependents from "participants" (e.g., 2009 Instructions for Form 5500). Second, on plans that provide multiple types of benefits, not all reported participants may in fact be participants in the health benefits component of the plan.
- The classification does not recognize mixed funding due to carve-out services. For example, a plan may purchase insurance coverage for mental health benefits and self-insure other health benefits. Its Form 5500 filing would include a Schedule A with details of the mental health carve-out, but would not specify that the insurance covers only a subset of health benefits.
- Among plan sponsors that filed a Schedule A for a health insurance contract, an average of approximately 6% over the 2001 to 2009 period (and 4% in 2009) did not specify how many people were covered by that contract. According to subject matter specialists, the plan sponsor could also have incorrectly filed a Schedule A for an Administrative Services Only (ASO) plan which would not insure any participants. In such cases, it was assumed that the majority of participants were covered by an insurance contract and we classified these plans as fully insured. Based on Form 5500 health plan filings only, we could not identify or quantify erroneous filings by ASO plans.
- Among plans that reported a funding or benefit arrangement through insurance, approximately 4% over the 2001 to 2009 period (2% in 2009) did not file a Schedule A with insurance contract details. In such cases, it was assumed that the plan was fully insured.
- Some plans reporting a funding or benefit arrangement through insurance and filing one or more Schedules A did not specify the type of benefit that the insurance contract covered. Approximately 5% of plans over the 2001 to 2009 period (3% in 2009) reported this way. In such cases, it was assumed that the insurance contract provided health benefits.

Note that the data issues enumerated above were less prevalent for 2009 than for the entire analysis period. Roughly two-thirds of statistical year 2009 filings were submitted electronically, suggesting that the EFAST2 system has improved data quality.

For more details on data anomalies that stood in the way of unambiguous funding mechanism classifications see "Form 5500 Data Review" (forthcoming).

Stop-Loss Insurance

While self-insured plans bear the financial risks of health benefits, some self-insured plans purchase insurance against particularly large losses. As discussed in the Analysis section below, roughly one in four self-insured plans report such catastrophic or stop-loss insurance on their Form 5500 health plan filings. However, if the beneficiary of stop-loss insurance is the sponsor rather than the plan and it was not purchased with plan assets, it need not be reported on Form 5500.¹⁸ Also, the stop-loss insurance need not relate to health benefits but could protect other self-insured benefits, such as disability benefits. Thus the true prevalence of stop-loss insurance cannot be gleaned from Form 5500 health plan filings alone.

For the purpose of defining self-insurance, we do not account for the presence of stop-loss insurance. A self-insured plan may thus have only limited exposure to the financial risks of health benefits.

Form 5500 Health Plan General Data Issues

In this section, we present some general observations about potential data quality and completeness issues associated with Form 5500 health plan filings. Data anomalies and inconsistencies have generally decreased in 2009 with the introduction of electronic filing.

Our observations on potential data quality and consistency issues with the Form 5500 include:

- Some filings appear to have internal inconsistencies. For example, among plans in 2001-2009 that reported funding and benefits from a trust or general assets only, 3% also filed a Schedule A with details of a health insurance contract. For statistical year 2009, this fraction was 3%.
- Another inconsistency arises from fields that do not sum correctly. For example, some filings of Schedule H reported a total contribution that did not sum to its components (from employers, participants, others, and in non-cash form). Of 4,240 plans filing a Schedule H in 2009 which had contributions greater than zero, the components did not reconcile to the total in 752 filings and the difference was greater than \$1,000 for 24 filings.
- A handful of fully insured health plans reported expenses well in excess of \$100,000 per participant per year.
- There are data issues that may be related to the Form 5500 data entry process as used prior to the introduction of electronic filing in 2009:
 - The electronic data contain no missing values for the plan year 2000-2008 filings. It appears that blank fields on the Form 5500 are transcribed as zeroes. It is thus not always possible to distinguish a true zero from a blank (missing) field. However, in the 2009 filings, the electronic data show instances of missing data. Counts of missing variables are provided in Table 5 and Table 6.

¹⁸ E.g., page 20 of the 2009 Form 5500 Instructions.

- Other data entry issues may have resulted in incorrect numbers of participants. In 2009, for example, one health plan reported over 82 million participants even though its sponsor had far fewer employees. Insofar as our analyses were weighted by number of participants, this plan was excluded from our analysis. Its inclusion would have affected the results greatly. There were an additional five plans with more than 400,000 participants, but these were plans maintained by large employers and the counts were not considered suspect.¹⁹
- When comparing numbers of participants over time or between the beginning and end of the plan year, some large differences emerge. In some cases, counts may have been entered incorrectly: 5% of plans in 2001-2009 reported a participant increase or decrease greater than 50% from the beginning to the end of the year (5% for 2009).
- Other data-entry issues may have resulted in incorrect benefit types. These types are denoted by strings of letters. For example, a Schedule A insurance contract with benefit type combination "AD" offers both health (A) and dental (D) coverage. One plan reported benefit type "ACCIDENTAL DE" and another "LIFE", i.e., its benefit type combination consisted of a description rather than a code. In a handful of cases, plans reported invalid codes, such as "A1" (a-one) indicating perhaps the original "AI" (a-eye) was scanned incorrectly. Such issues were absent in electronically submitted filings.
- Some EINs appeared to be incorrect (e.g., 000000000, 000000001, 0000000CO, and 00IMENTOR). No such issues surfaced in electronically submitted filings.

Table 5 and Table 6 present summary statistics of missing data patterns for statistical year 2009 Form 5500 health plan filings and its Schedules A, H, and I. Based on these tables and their counterparts in the 2011 Report, several conclusions can be drawn:

- In 2009, many of the relevant fields are left as blanks whereas in 2008, they were filled in as zeros.
- Almost all continuous numerical fields have implausible outlier values. The Maximum column shows values in the hundreds of billions, which strains credulity. For this reason, we presented median statistics and excluded outliers from mean calculations in our analyses.
- Few plan filings attached Schedules H and I, so information on the generosity of benefits is not widely available.

¹⁹ We manually inspected any filing that reported more than 400,000 participants. There may also be issues with participant counts under 400,000.

Table 5. Patterns of Missing Data in Form 5500 Health Plan Filings (2009)

| Main Form 5500 fields | Data type | Minimum | Median | Maximum | Percent zero | Percent missing |
|------------------------------|-------------|---------|--------|------------|--------------|-----------------|
| filing_id | String | | | | | 0.0% |
| opr_ein | Categorical | | | | | 0.0% |
| opr_pn | String | | | | | 0.0% |
| benef_rcvg_bnft_cnt | Continuous | 0 | 0 | 70,535,232 | 37.9% | 61.2% |
| business_code | Categorical | | | | | 0.3% |
| plan_name | String | | | | | 0.0% |
| rtd_sep_partcp_fut_cnt | Continuous | 0 | 0 | 73,542,220 | 72.2% | 21.8% |
| rtd_sep_partcp_rcvg_cnt | Continuous | 0 | 1 | 400,000 | 39.9% | 14.0% |
| sponsor_dfe_name | String | | | | | 0.0% |
| spons_dfe_ein | Categorical | | | | | 0.0% |
| subtl_act_rtd_sep_cnt | Continuous | 0 | 232 | 3,162,594 | 4.4% | 0.0% |
| tot_active_partcp_cnt | Continuous | 0 | 0 | 15,537,351 | 5.2% | 0.5% |
| tot_act_rtd_sep_benef_cnt | Continuous | 0 | 222 | 2,906,138 | 27.9% | 44.5% |
| tot_partcp_boy_cnt | Continuous | 0 | 241 | 82,555,258 | 1.3% | 0.0% |
| type_welfare_bnft_code | String | | | | | 0.0% |
| type_plan_entity_ind | Categorical | | | | | 0.2% |
| funding_arrangement_code | Categorical | | | | | 2.0% |
| benefit_code | Categorical | | | | | 2.0% |
| type_plan_filing_ind | Categorical | | | | | 79.8% |
| form_plan_year_begin_date | Date | | | | | 0.0% |
| form_tax_prd | Date | | | | | 0.0% |

Source: Form 5500 health plan filings.

Table 6. Patterns of Missing Data in Schedules A, H, and I of Form 5500 Health Plan Filings (2009)

| Schedule A variables | Data type | Minimum | Median | Maximum | Percent zero | Percent missing |
|--------------------------------|-------------|-------------|-----------|-----------------|--------------|-----------------|
| ins_carrier_name | String | | | | | 0.1% |
| ins_prsn_covered_eoy_cnt | Continuous | 0 | 193 | 9,122,400 | 2.0% | 0.8% |
| ins_broker_comm_tot_amt | Continuous | -98,293 | 3,182 | 282,766,034 | 23.9% | 4.2% |
| ins_broker_fees_tot_amt | Continuous | -163,434 | 0 | 188,549,188,549 | 69.9% | 10.4% |
| wlfr_type_bnft_ind* | String | | | | | 1.5% |
| wlfr_type_bnft_oth_text | String | | | | | 76.3% |
| wlfr_tot_earned_prem_amt | Continuous | -29,560,584 | 0 | 581,369,844 | 31.9% | 56.1% |
| wlfr_incurred_claim_amt | Continuous | -650,195 | 0 | 1,119,517,777 | 32.6% | 57.2% |
| wlfr_tot_charges_paid_amt | Continuous | -947,716 | 83,440 | 2,279,234,232 | 4.6% | 9.8% |
| filing_id | String | | | | | 0.0% |
| Schedule H variables | | | | | | |
| emplr_contrib_income_amt | Continuous | 0 | 3,729,558 | 4,973,244,000 | 5.9% | 8.4% |
| participant_contrib_amt | Continuous | -203 | 505,943 | 1,379,613,905 | 9.1% | 13.0% |
| oth_contrib_rcvd_amt | Continuous | -410,335 | 0 | 873,955,831 | 31.9% | 54.8% |
| non_cash_contrib_bs_amt | Continuous | 0 | 0 | 4,313,860 | 36.8% | 63.0% |
| tot_contrib_amt | Continuous | -11,042,310 | 4,321,434 | 5,345,529,000 | 5.6% | 4.2% |
| distrib_drt_partcp_amt | Continuous | -61,095 | 2,414,271 | 4,814,828,000 | 10.0% | 14.9% |
| ins_carrier_bnfts_amt | Continuous | -4,097,273 | 530,058 | 245,360,410,110 | 10.5% | 18.9% |
| oth_bnft_payment_amt | Continuous | -346,699 | 0 | 534,698,927 | 29.8% | 51.4% |
| tot_distrib_bnft_amt | Continuous | -28,970 | 4,075,847 | 5,766,173,000 | 4.9% | 3.9% |
| tot_admin_expenses_amt | Continuous | -78,623 | 282,330 | 372,670,000 | 7.9% | 5.9% |
| tot_expenses_amt | Continuous | -107,593 | 4,336,744 | 6,138,843,000 | 4.8% | 3.4% |
| res_term_plan_adpt_ind | Categorical | | | | | 3.4% |
| filing_id | String | | | | | 0.0% |
| Schedule I variables | | | | | | |
| small_emplr_contrib_income_amt | Continuous | -6,290 | 79,013 | 66,548,946 | 20.5% | 20.9% |
| small_participant_contrib_amt | Continuous | -36,160 | 12,390 | 15,215,402 | 21.5% | 30.1% |
| small_oth_contrib_rcvd_amt | Continuous | 0 | 0 | 1,562,431 | 42.2% | 51.8% |
| small_non_cash_contrib_bs_amt | Continuous | -8,975 | 0 | 4,929 | 46.2% | 53.6% |
| small_other_income_amt | Continuous | -3,700,675 | 2 | 5,556,101 | 31.9% | 31.0% |
| small_tot_income_amt | Continuous | -3,700,675 | 77,375 | 66,594,919 | 6.9% | 5.6% |
| small_tot_distrib_bnft_amt | Continuous | -2,161 | 67,096 | 21,623,666 | 8.4% | 12.8% |
| small_corrective_distrib_amt | Continuous | -2,304 | 0 | 1,568,230 | 45.5% | 53.6% |
| small_dm_dstrb_ptcp_ln_a | Continuous | 0 | 0 | 151,667 | 46.1% | 53.8% |
| small_oth_expenses_amt | Continuous | -62 | 3,474 | 1,333,333 | 19.9% | 32.4% |
| small_tot_expenses_amt | Continuous | -704 | 70,606 | 26,248,946 | 7.4% | 7.5% |
| small_res_term_plan_adpt_ind | Categorical | | | | | 1.2% |
| filing_id | String | | | | | 0.0% |

Source: Form 5500 health plan filings.

* In 2009 the benefit indicator changed from a single string variable to a series of 0/1 indicator variables. In our analysis we harmonized these indicators to make them consistent with past years.

Table 7 shows the fraction of health plan filings that could be matched to their corresponding filing in the previous year. While generally in the 80%-85% range, this fraction decreased in 2009, perhaps related to the new electronic filing requirement. In order to gauge consistency in the reporting of the number of participants, the table also shows the distribution of the increase in participant counts of matched pairs of plans. Table 7 shows that, at the median, plans reported the same size or a small increase over the prior year, suggesting that the matches are generally accurate and that there is consistency in the reporting. The distributions are fairly stable and the interquartile range of plan size growth was about 15 percentage points.

Table 7. Distribution of Year-on-Year Participant Increases in Plans Matched across Years

| Statistical year | Number of plans in year t | Fraction matched to a plan in $t-1$ | Year-on-year increase | | |
|------------------|-----------------------------|-------------------------------------|-----------------------|--------|----------|
| | | | 25th pct | Median | 75th pct |
| 2001 | 43,015 | 0.0% | | | |
| 2002 | 44,506 | 78.8% | -6.7% | 0.5% | 9.7% |
| 2003 | 44,645 | 82.3% | -7.5% | 0.0% | 8.0% |
| 2004 | 44,080 | 85.3% | -6.4% | 0.0% | 7.8% |
| 2005 | 44,218 | 85.1% | -5.2% | 0.7% | 8.9% |
| 2006 | 45,257 | 84.8% | -4.8% | 1.0% | 9.4% |
| 2007 | 46,086 | 85.1% | -4.4% | 1.4% | 9.9% |
| 2008 | 44,215 | 86.5% | -4.4% | 1.6% | 10.2% |
| 2009 | 46,458 | 79.6% | -6.0% | 0.7% | 8.8% |

Source: Form 5500 health plan filings.

Note: Fractions matched based on all Form 5500 health plan filings. Participant increases based on the analysis sample only.

4. ANALYSIS

This section documents the findings of our analyses. We first present the Form 5500 distribution of funding mechanism by plan and plan sponsor characteristics. We then turn to Form 5500 filing health plans for which external financial information was available and present summary statistics by funding mechanism for the companies that sponsor these plans. Finally, we follow plan filings over time and document the rate at which plans have switched funding mechanisms.

Form 5500 Health Plan Characteristics

For statistical year 2009, Table 8 shows the overall distribution of funding mechanism among health plans that filed a Form 5500. About 29% of plans were self-insured, 58% were fully insured, and 13% were mixed-funded. As shown below, smaller plans tend to be fully insured and many very large plans are mixed-funded, so the funding distribution across participants is quite different than it is across plans. About 36% of participants are in self-insured plans, 27% are in fully insured plans, and 37% are in mixed-funded plans.

Table 8. Distribution of Funding Mechanism (2009)

| | Plans | | Participants | |
|---------------|--------|---------|-------------------|---------|
| | Number | Percent | Number (millions) | Percent |
| Fully insured | 27,146 | 58.4% | 18.3 | 26.9% |
| Mixed | 5,792 | 12.5% | 25.3 | 37.2% |
| Self-insured | 13,520 | 29.1% | 24.4 | 35.8% |
| Total | 46,458 | 100.0% | 68.1 | 100.0% |

Source: Form 5500 health plan filings.

To put our analysis in context, consider recent trends in self-insurance according to the Kaiser Family Foundation and Health Research & Educational Trust's *Employer Health Benefits 2011 Annual Survey* ("2011 KFF/HRET Survey").²⁰ This survey, conducted annually from 1999 to 2011, gathered detailed information on employer-provided health benefits, including their funding status.

According to the 2011 KFF/HRET Survey, 57% of covered workers in firms with three or more employees were in self-funded plans in 2009.²¹ Our findings are not directly comparable, because we include only a subset of plans with fewer than 100 participants and because as many as 37% of plan participants are in mixed-funded plans. Given the limitations of Form 5500 health plan filings, our results are broadly consistent with those found in the 2011 KFF/HRET Survey.

Table 9 shows the distribution of funding mechanism by plan size for health plans in 2009. Most small plans are identified as self-insured, but this is due to the select

²⁰ *Employer Health Benefits, 2011 Annual Survey*. Publication 8225. Kaiser Family Foundation and Health Research & Educational Trust. <http://ehbs.kff.org/>.

²¹ The 2011 KFF/HRET survey defines covered workers as "employees receiving coverage from their employer".

nature of small plans in our analysis. Recall that plans with fewer than 100 participants are included only if they use a trust or separately maintained fund to hold plan assets or act as a conduit for the transfer of plan assets, which is often associated with self-insurance. Ignoring plans with fewer than 100 participants, the likelihood that a plan is self-insured generally increases with plan size. The pattern is particularly pronounced for mixed-funded plans, presumably because larger plans may offer multiple plan options, some of which are fully insured and some of which are self-insured. The fraction of plans with 5,000 or more participants that bear at least a portion of the financial risks of their health benefits is 79%, compared with 26% among plans with 100-199 participants. Weighted by plan participants, we find similar patterns. Overall, about 36% of participants are in self-insured plans, 27% are in fully insured plans, and 37% are in mixed-funded plans.

Table 9. Distribution of Funding Mechanism, by Plan Size (2009)

| Participants in plan | Plans | | | Participants | | |
|-------------------------|---------------|-------|--------------|---------------|-------|--------------|
| | Fully insured | Mixed | Self-insured | Fully insured | Mixed | Self-insured |
| 2-99 | 0.8% | 30.8% | 68.4% | 1.5% | 40.3% | 58.1% |
| 100-199 | 74.2% | 5.0% | 20.8% | 74.3% | 5.0% | 20.7% |
| 200-499 | 67.8% | 7.2% | 24.9% | 66.8% | 7.7% | 25.5% |
| 500-999 | 53.5% | 13.6% | 32.9% | 52.7% | 13.9% | 33.4% |
| 1,000-1,999 | 42.6% | 20.3% | 37.1% | 42.1% | 20.8% | 37.1% |
| 2,000-4,999 | 31.2% | 30.7% | 38.1% | 30.8% | 31.1% | 38.0% |
| 5,000+ | 20.8% | 44.2% | 35.0% | 15.9% | 46.8% | 37.3% |
| All | 58.4% | 12.5% | 29.1% | 26.9% | 37.2% | 35.8% |

Source: Form 5500 health plan filings.

The finding that larger plans are more likely to adopt mixed-funding or self-insurance is consistent with the 2011 KFF/HRET Survey. That study found that 15% of covered workers at firms with 3-199 employees were covered by self-insured plans in 2009, compared with 88% of covered workers at firms with 5,000 or more employees.

Table 10 and Table 11 show the funding mechanism distribution for health plans by statistical year from 2001-2009. Table 10 shows the percentage distribution and Table 11 the number of plans and participants. The total number of health plans in each year is between 43,000 and 47,000. The fraction of plans that were self-insured increased from 28% (11,850) in 2001 to 30% (13,596) in 2003, and has since declined to 29%. However, the fraction of participants in health plans that self-insured increased by about nine percentage points from 2001 to 2009. Similarly, the 2011 KFF/HRET Survey documented an eight percentage point increase in workers covered by self-funded plans from 2001 to 2009.

Table 10. Distribution of Funding Mechanism, by Statistical Year

| Statistical year | Plans | | | Participants | | |
|---------------------|---------------|-------|--------------|---------------|-------|--------------|
| | Fully insured | Mixed | Self-insured | Fully insured | Mixed | Self-insured |
| 2001 | 54.6% | 17.9% | 27.5% | 36.3% | 36.8% | 26.9% |
| 2002 | 54.2% | 16.5% | 29.4% | 34.6% | 37.6% | 27.8% |
| 2003 | 54.2% | 15.3% | 30.5% | 33.0% | 37.0% | 30.0% |
| 2004 | 54.5% | 15.0% | 30.5% | 31.4% | 38.0% | 30.6% |
| 2005 | 55.3% | 14.6% | 30.1% | 31.0% | 37.8% | 31.2% |
| 2006 | 56.3% | 13.9% | 29.7% | 29.8% | 38.6% | 31.6% |
| 2007 | 57.0% | 13.3% | 29.7% | 28.3% | 37.9% | 33.9% |
| 2008 | 57.7% | 13.2% | 29.1% | 28.1% | 37.4% | 34.5% |
| 2009 | 58.4% | 12.5% | 29.1% | 26.9% | 37.2% | 35.8% |

Source: Form 5500 health plan filings.

Note: Figures in the 2011 Report may differ due to the switch from plan year to statistical year.

Table 11. Plans and Participants by Funding Mechanism, by Statistical Year

| Statistical year | Plans | | | Participants (millions) | | |
|---------------------|---------------|-------|--------------|-------------------------|-------|--------------|
| | Fully insured | Mixed | Self-insured | Fully insured | Mixed | Self-insured |
| 2001 | 23,484 | 7,685 | 11,850 | 20.2 | 20.4 | 15.0 |
| 2002 | 24,103 | 7,327 | 13,078 | 20.8 | 22.5 | 16.7 |
| 2003 | 24,207 | 6,842 | 13,596 | 20.1 | 22.5 | 18.3 |
| 2004 | 24,021 | 6,622 | 13,438 | 18.9 | 22.9 | 18.5 |
| 2005 | 24,436 | 6,478 | 13,305 | 18.9 | 23.0 | 19.0 |
| 2006 | 25,499 | 6,299 | 13,459 | 18.5 | 23.9 | 19.6 |
| 2007 | 26,279 | 6,138 | 13,669 | 19.0 | 25.4 | 22.8 |
| 2008 | 25,521 | 5,828 | 12,867 | 19.0 | 25.3 | 23.3 |
| 2009 | 27,146 | 5,792 | 13,520 | 18.3 | 25.3 | 24.4 |

Source: Form 5500 health plan filings.

Table 10 poses an apparent paradox: the fraction of plans that were mixed-funded or self-insured decreased between 2001 and 2009, but the fraction of participants in such plans increased. The paradox may be explained as follows. First, self-insurance has become less prevalent among relatively small plans and more prevalent among relatively large plans. Table 12 shows that from 2001 to 2009 the fraction of mixed-funded or self-insured plans with 100-499 participants decreased from 32% to 29%, whereas the corresponding fraction among plans with 500 or more participants increased from 52% to 58%. Similarly, the 2011 KFF/HRET Survey found the fraction of covered workers in self-funded plans declined from 17% in 2001 to 15% in 2009 among firms with 3-199 workers, while over the same period, that fraction increased from 70% to 88% at firms with 5,000 or more workers. Second, the number of small plans in the data decreased: the number of plans with 2-99 participants reduced from 4,531 (11%) in 2001 to 2,659 (6%) in 2009. The analysis includes small plans only if they operated a trust, which tends to be associated with self-insurance. The trend toward fewer filings by small plans is thus consistent with a trend toward less mixed-funding or self-insurance among small plans, as was also observed for relatively small plans with 100-499 participants. The combined result is that fewer plans are mixed-funded or self-insured, but those plans cover increasingly more participants.

Table 12. Distribution of Health Plans' Funding Mechanism, by Plan Size and Statistical Year

| Statistical year | Plans | | | Plans | | |
|---------------------|----------------------|-------|--------------|-------------------|-------|--------------|
| | 100-499 Participants | | | 500+ Participants | | |
| | Fully insured | Mixed | Self-insured | Fully insured | Mixed | Self-insured |
| 2001 | 67.5% | 10.4% | 22.1% | 48.2% | 22.8% | 29.0% |
| 2002 | 66.9% | 9.5% | 23.6% | 46.5% | 22.3% | 31.1% |
| 2003 | 67.4% | 8.8% | 23.8% | 45.9% | 22.4% | 31.7% |
| 2004 | 67.1% | 8.6% | 24.4% | 44.9% | 22.7% | 32.4% |
| 2005 | 67.7% | 8.0% | 24.3% | 44.4% | 22.4% | 33.2% |
| 2006 | 69.1% | 7.6% | 23.3% | 44.0% | 22.2% | 33.8% |
| 2007 | 69.9% | 6.9% | 23.2% | 43.7% | 22.1% | 34.2% |
| 2008 | 70.2% | 6.7% | 23.1% | 43.2% | 22.4% | 34.5% |
| 2009 | 71.1% | 6.1% | 22.8% | 42.0% | 22.8% | 35.2% |

Source: Form 5500 health plan filings.

Table 13 shows the funding mechanism distribution by industry, as identified by the business code provided on Form 5500 filings. We present the percentage breakdown of the funding mechanism for a classification of major industry groups. Plans in the agriculture, mining, construction, and utilities industries tend most likely to be mixed-funded or self-insured, whereas the services and wholesale trade industries are the most likely to be fully insured. Health plan size varies by industry and may drive the relationship between funding mechanism and industry.

Table 13. Distribution of Health Plans' Funding Mechanism, by Industry (2009)

| | Plans | | |
|----------------------------------|---------------|-------|--------------|
| | Fully insured | Mixed | Self-insured |
| Agriculture | 42.8% | 9.8% | 47.4% |
| Communications and information | 58.2% | 12.7% | 29.1% |
| Construction | 43.4% | 22.2% | 34.5% |
| Finance, insurance & real estate | 57.8% | 14.1% | 28.1% |
| Manufacturing | 56.5% | 13.1% | 30.4% |
| Mining | 45.3% | 10.3% | 44.4% |
| Retail trade | 60.3% | 14.4% | 25.2% |
| Services | 63.2% | 9.8% | 27.1% |
| Transportation | 54.5% | 13.6% | 32.0% |
| Utilities | 32.7% | 20.1% | 47.2% |
| Wholesale trade | 62.8% | 10.9% | 26.3% |
| Misc. organizations | 59.0% | 12.5% | 28.5% |
| Industry not reported | 68.4% | 12.6% | 18.9% |

Source: Form 5500 health plan filings.

Plans may be sponsored by a single employer or by multiple employers. Plans sponsored by a single employer file as a single-employer plan, whereas plans sponsored by multiple employers may file as either a multiemployer plan or a

multiple-employer plan.²² A multiemployer plan is maintained pursuant to one or more collective bargaining agreements, whereas a multiple-employer plan is generally not collectively bargained. Table 14 shows that multiemployer and multiple-employer plans are much more likely to choose a form of self-insurance than single-employer plans.

Table 14. Funding Mechanisms of Multiemployer and Multiple-Employer Health Plans (2009)

| | Plans | | |
|---|---------------|-------|--------------|
| | Fully insured | Mixed | Self-insured |
| Multiemployer or multiple-employer plan | 32.7% | 30.4% | 37.0% |
| Single-employer plan | 60.2% | 11.2% | 28.6% |

Source: Form 5500 health plan filings.

Table 15 shows the funding mechanism of *new* plans, defined as plans that could not be matched to a plan filing in a prior year, going back to 2001. For example, a new plan in 2009 is defined as a plan that filed a Form 5500 in 2009 but not in any other year from 2001-2008. A comparison of Table 15 to Table 10 indicates that plans that first filed in 2002-2005 were somewhat more likely to be self-insured than previously existing plans, and that new plans in 2006-2009 were somewhat less likely to be self-insured. Including mixed-funded plans, the turning point came three years prior.²³ Table 16 shows the numbers of plans and participants that underlie the percentages in Table 15.

Table 15. Funding Status of "New" Health Plans, by Statistical Year

| Statistical year | Plans | | | Participants | | |
|------------------|---------------|-------|--------------|---------------|-------|--------------|
| | Fully insured | Mixed | Self-insured | Fully insured | Mixed | Self-insured |
| 2002 | 52.0% | 12.3% | 35.7% | 37.2% | 25.4% | 37.4% |
| 2003 | 51.7% | 10.4% | 37.9% | 44.5% | 28.1% | 27.4% |
| 2004 | 55.9% | 10.9% | 33.2% | 40.4% | 27.5% | 32.1% |
| 2005 | 56.6% | 10.1% | 33.4% | 44.1% | 22.5% | 33.3% |
| 2006 | 61.4% | 9.5% | 29.0% | 35.6% | 34.8% | 29.7% |
| 2007 | 60.8% | 10.5% | 28.7% | 17.5% | 23.5% | 59.0% |
| 2008 | 64.7% | 9.7% | 25.7% | 36.8% | 30.3% | 32.9% |
| 2009 | 65.3% | 8.4% | 26.3% | 36.5% | 35.2% | 28.4% |

Source: Form 5500 health plan filings.

Note: "New" plans are defined as plans that could not be matched to a plan filing in any prior year. Some entries may be due to data quality issues.

²² The Form 5500 Instructions refer to the formal definitions of each of these plan types. Also see <http://www.bls.gov/ncs/ebs/sp/healthterms.pdf>.

²³ The large increase in 2007 in the share of participants in self-insured plans was due to the introduction of a single, self-insured plan from one sponsor with about 2.8 million participants.

Table 16. Plans and Participants for “New” Health Plans, by Statistical Year

| Statistical year | Plans | | | Participants (millions) | | |
|------------------|---------------|-------|--------------|-------------------------|-------|--------------|
| | Fully insured | Mixed | Self-insured | Fully insured | Mixed | Self-insured |
| 2002 | 4,751 | 1,126 | 3,260 | 2.7 | 1.8 | 2.7 |
| 2003 | 3,211 | 646 | 2,353 | 1.5 | 0.9 | 0.9 |
| 2004 | 2,644 | 516 | 1,574 | 1.2 | 0.8 | 0.9 |
| 2005 | 2,628 | 467 | 1,551 | 1.1 | 0.5 | 0.8 |
| 2006 | 2,942 | 457 | 1,389 | 1.1 | 1.1 | 0.9 |
| 2007 | 2,946 | 508 | 1,392 | 1.0 | 1.4 | 3.5 |
| 2008 | 2,627 | 393 | 1,043 | 1.0 | 0.8 | 0.9 |
| 2009 | 3,707 | 478 | 1,490 | 1.3 | 1.3 | 1.0 |

Source: Form 5500 health plan filings.

Note: "New" plans are defined as plans that could not be matched to a plan filing in any prior year. Some entries may be due to data quality issues.

Table 17 examines the presence of stop-loss insurance. These figures also must be interpreted with caution. If stop-loss insurance identifies the health plan as the beneficiary or it is purchased with plan assets, it must be reported on a Schedule A.²⁴ However, if the employer has purchased stop-loss insurance with itself as the beneficiary (rather than the plan), then it need not be reported on Form 5500. The figures in Schedule A may thus understate the prevalence of stop-loss insurance. Approximately one in four mixed-funded and one in five self-insured plans reports stop-loss coverage in a Schedule A. Weighting by the number of participants reduces those fractions by approximately one-half, indicating that smaller plans are more likely to purchase stop-loss insurance than larger plans or may be mistakenly reporting stop-loss insurance purchased for the benefit of the employer. We note that the participant-weighted figures are historically more volatile than unweighted figures.²⁵

²⁴ Since no Schedule A can be attached to a Form 5500-SF, it is assumed in our analysis that none of the Form 5500-SF filers have stop-loss insurance.

²⁵ A single, very large, self-insured plan with 1.8 million participants reported purchasing stop-loss insurance in 2006 and 2007, but not in other years. As a result, the fraction of participants in self-insured plans with stop-loss insurance was elevated in those years. Similarly, a single mixed-funded plan reported purchasing stop-loss insurance in only 2004 (1.2 million participants) and 2009 (1.4 million participants), leading to elevated fractions of participants in mixed-funded plans with stop-loss insurance in those years. As noted above, it is possible that the sponsor purchased stop-loss insurance in other years in a manner that is not required to be reported on Form 5500.

Table 17. Fraction of Health Plans Reporting Stop-Loss Insurance, by Funding Mechanism and Statistical Year

| Statistical year | Plans | | Participants | |
|------------------|-------|--------------|--------------|--------------|
| | Mixed | Self-insured | Mixed | Self-insured |
| 2001 | 27.9% | 24.9% | 17.7% | 15.2% |
| 2002 | 28.4% | 24.0% | 16.0% | 14.7% |
| 2003 | 28.5% | 23.2% | 16.9% | 13.9% |
| 2004 | 28.0% | 23.4% | 20.6% | 14.0% |
| 2005 | 28.8% | 23.9% | 15.2% | 13.8% |
| 2006 | 28.4% | 23.8% | 14.7% | 23.7% |
| 2007 | 27.7% | 23.4% | 14.1% | 20.7% |
| 2008 | 28.1% | 24.4% | 13.8% | 12.2% |
| 2009 | 25.4% | 20.4% | 17.7% | 10.6% |

Source: Form 5500 health plan filings.

Note: Figures in the 2011 Report may differ due to the switch from plan year to statistical year.

Table 18 shows that the number of mixed-funded or self-insured plans that purchased stop-loss coverage has steadily declined from 2001 through 2009. However, the number of participants in mixed-funded and self-insured plans covered by stop-loss coverage generally increased over the same period.

Table 18. Health Plans and Participants Reporting Stop-Loss Insurance, by Funding Mechanism and Statistical Year

| Statistical year | Plans | | Participants (millions) | |
|------------------|-------|--------------|-------------------------|--------------|
| | Mixed | Self-insured | Mixed | Self-insured |
| 2001 | 2,147 | 2,954 | 3.6 | 2.3 |
| 2002 | 2,080 | 3,142 | 3.6 | 2.5 |
| 2003 | 1,949 | 3,153 | 3.8 | 2.5 |
| 2004 | 1,853 | 3,149 | 4.7 | 2.6 |
| 2005 | 1,864 | 3,181 | 3.5 | 2.6 |
| 2006 | 1,791 | 3,209 | 3.5 | 4.6 |
| 2007 | 1,700 | 3,203 | 3.6 | 4.7 |
| 2008 | 1,635 | 3,135 | 3.5 | 2.8 |
| 2009 | 1,470 | 2,753 | 4.5 | 2.6 |

Source: Form 5500 health plan filings.

Table 19 shows the annual per-participant cost of stop-loss coverage, calculated as the ratio of premiums to "number of persons covered" by the stop-loss policy on Schedule A. These results should be interpreted with caution because the Form 5500 filing contains no information on attachment points or other stop-loss policy features that may reflect the amount of coverage provided by the policies. The median costs of stop-loss coverage have increased faster for self-insured plans than for mixed-funded plans.

Table 19. Per Participant Annual Premiums for Stop-Loss Insurance

| Statistical year | Mixed-funded (\$) | | | Self-insured (\$) | | |
|---------------------|-------------------|--------|----------|-------------------|--------|----------|
| | 25th pct | Median | 75th pct | 25th pct | Median | 75th pct |
| 2001 | 96 | 359 | 861 | 158 | 374 | 722 |
| 2002 | 92 | 351 | 862 | 186 | 418 | 815 |
| 2003 | 99 | 341 | 881 | 202 | 456 | 874 |
| 2004 | 108 | 370 | 846 | 211 | 463 | 865 |
| 2005 | 124 | 401 | 891 | 233 | 499 | 894 |
| 2006 | 137 | 421 | 926 | 243 | 524 | 933 |
| 2007 | 129 | 434 | 919 | 241 | 546 | 965 |
| 2008 | 141 | 449 | 958 | 255 | 580 | 1,041 |
| 2009 | 134 | 429 | 952 | 274 | 602 | 1,074 |

Source: Form 5500 health plan filings.

Table 20 shows the rate of stop-loss coverage among self-insured plans by plan size. Plans with fewer than 1,000 participants are more likely to purchase stop-loss coverage as plan size increases, but plans with more than 1,000 participants are less likely to purchase stop-loss coverage as plan size increases.

Table 20. Self-Insured Health Plans' Rate of Stop-Loss Coverage, by Plan Size (2009)

| Participants in plan | Plans | | | Total self- insured | Stop-loss coverage rate |
|-------------------------|------------------------------|-----------------------|--|------------------------|-------------------------------|
| | No stop- loss coverage | Stop-loss coverage | | | |
| 2-99 | 1,621 | 198 | | 1,819 | 10.9% |
| 100-199 | 2,656 | 563 | | 3,219 | 17.5% |
| 200-499 | 2,758 | 857 | | 3,615 | 23.7% |
| 500-999 | 1,413 | 524 | | 1,937 | 27.1% |
| 1,000-1,999 | 939 | 339 | | 1,278 | 26.5% |
| 2,000-4,999 | 758 | 196 | | 954 | 20.5% |
| 5,000+ | 622 | 76 | | 698 | 10.9% |
| Total | 10,767 | 2,753 | | 13,520 | 20.4% |

Source: Form 5500 health plan filings.

Lower stop-loss coverage for smaller plans is not consistent with the notion that smaller plans face greater financial risks and should thus be more likely to purchase stop-loss coverage. Part of the explanation may relate to the fact that stop-loss coverage with the sponsor (rather than the plan) as beneficiary need not be reported on Form 5500; smaller employers may be more likely to designate the firm as the beneficiary than larger employers. The lower prevalence of stop-loss insurance among small plans may also reflect market realities: insurance companies may not offer stop-loss insurance to small employers, or only at very high rates.

Analysis of Form 5500 Health Plan Filers Matched to Financial Data

Focusing on the set of Form 5500 health plan filers that could be matched to financial information in Capital IQ, Table 21 presents 2009 information on company size as measured by revenue, market capitalization, net income, and number of employees. The table shows that companies offering fully insured health plans tend

to be smaller on all these dimensions than companies offering self-insured or mixed-funded health plans. Companies offering mixed-funded health plans tend to be the largest. These results are generally consistent with the 2011 Report's findings for 2008.²⁶

Table 21. Characteristics of Companies Matched to Form 5500 Health Plan Filings, by Funding Mechanism (2009)

| | | All | Fully insured | Mixed | Self-insured |
|---|--------|--------|---------------|--------|--------------|
| Revenue (in \$ millions) | 25 pct | 189 | 93 | 787 | 340 |
| | Median | 819 | 304 | 2,705 | 1,194 |
| | 75 pct | 3,740 | 1,331 | 8,767 | 4,974 |
| | # Obs | 4,603 | 2,054 | 1,024 | 1,525 |
| Market capitalization (in \$ millions) | 25 pct | 213 | 107 | 760 | 341 |
| | Median | 889 | 394 | 2,553 | 1,383 |
| | 75 pct | 4,108 | 1,470 | 10,682 | 5,100 |
| | # Obs | 3,907 | 1,741 | 876 | 1,290 |
| Net income (in \$ millions) | 25 pct | -11 | -15 | -4 | -5 |
| | Median | 18 | 5 | 79 | 32 |
| | 75 pct | 144 | 54 | 423 | 200 |
| | # Obs | 4,622 | 2,061 | 1,030 | 1,531 |
| Number of employees | 25 pct | 753 | 377 | 2,893 | 1,204 |
| | Median | 2,906 | 1,146 | 8,254 | 3,931 |
| | 75 pct | 12,500 | 4,784 | 30,525 | 14,900 |
| | # Obs | 4,104 | 1,818 | 920 | 1,366 |

Source: Form 5500 health plan filings and Capital IQ data.

Table 22 presents three metrics of the financial health of matched companies. The Altman Z-Score is an index summarizing five financial measures that are used to predict bankruptcy risk. A company with a Z-Score greater than 2.99 is considered to be in a "safe" zone, one with a score between 1.8 and 2.99 in a "grey" zone and a company with score less than 1.80 to be in a "distress" zone.²⁷ Companies offering different types of plans appear to have comparable levels of Z-Scores. Put differently, the risk of insolvency, as measured by a Z-Score, does not appear to be related to the choice of funding mechanism.

When measured on two other metrics of financial health that involve ratios of cash or income to total debt, the results are mixed. At the median, fully insured firms have more cash flow relative to total debt than other firms, but lower operating income relative to debt than mixed-funded or self-insured firms. The distributions of financial metrics are more dispersed for fully insured firms than for other firms: generally, the

²⁶ The 2011 Report's 2008 numbers are not directly comparable to this report's 2009 tables because of the switch to statistical year tabulations. See the Technical Note on page 4.

²⁷ Altman, E.I. (1968). "Financial Ratios, Discriminant Analysis and the Prediction of Corporate Bankruptcy." *Journal of Finance* 23(4): 589-609.

25th percentiles are lower and the 75th percentiles are higher.²⁸ Again, these findings are generally consistent with the 2011 Report's findings for 2008.

Table 22. Financial Health of Companies Matched to Form 5500 Health Plan Filings, by Funding Mechanism (2009)

| | | All | Fully insured | Mixed | Self-insured |
|--------------------------------------|--------|-------|---------------|-------|--------------|
| Altman Z-Score | 25 pct | 1.44 | 1.22 | 1.58 | 1.56 |
| | Median | 2.66 | 2.66 | 2.66 | 2.66 |
| | 75 pct | 4.26 | 4.49 | 3.84 | 4.22 |
| | # Obs | 3,406 | 1,528 | 773 | 1,105 |
| Cash from operations over total debt | 25 pct | 0.09 | 0.12 | 0.07 | 0.08 |
| | Median | 0.36 | 0.52 | 0.28 | 0.30 |
| | 75 pct | 1.93 | 12.80 | 0.87 | 1.09 |
| | # Obs | 4,570 | 2,040 | 1,018 | 1,512 |
| Operating income over total debt | 25 pct | 0.03 | -0.08 | 0.06 | 0.07 |
| | Median | 0.20 | 0.16 | 0.22 | 0.23 |
| | 75 pct | 0.70 | 0.83 | 0.55 | 0.68 |
| | # Obs | 4,600 | 2,052 | 1,024 | 1,524 |

Source: Form 5500 health plan filings and Capital IQ data.

Longitudinal Analysis of Funding Mechanism Switching

As shown in Table 7 above, roughly 80%-85% of health plan filings could be matched to a corresponding filing in the previous year. Table 23 shows the frequency with which plans switched their funding mechanisms from one year to the next. For example, 39% of plans that were observed in both 2008 and 2009 remained mixed-funded or self-insured, 54% remained fully insured, 4% switched from fully insured to mixed-funded or self-insured, and 3% switched to fully insured. While the switching rate increased slightly from 2008 to 2009, the overall trend is toward lower switching rates. In other words, while some migration to alternative funding mechanisms remains, plans appear to now adhere to a particular funding mechanism for longer durations than they did in the early years of our analysis period.

²⁸ For fully insured plans the 75th percentile of cash from operations over debt appears relatively large because a large proportion of sponsors of fully insured plans had zero debt in 2009. The fraction of sponsors of fully insured plans without debt was 18% compared with 9% and 8% for sponsors of self-insured or mixed-funded plans, respectively. Sponsors without debt are included in the upper tail of the distribution of cash from operations over debt.

Table 23. Incidence of Year-on-Year Switching in Funding Mechanism, by Statistical Year

| Statistical year | Plans | | | |
|------------------|------------------------------|----------------------|---------------------------------|-------------------------|
| | Remain mixed or self-insured | Remain fully insured | Switch to mixed or self-insured | Switch to fully insured |
| 2002 | 40.3% | 50.7% | 4.9% | 4.1% |
| 2003 | 41.5% | 50.3% | 4.2% | 4.0% |
| 2004 | 41.8% | 50.3% | 4.2% | 3.6% |
| 2005 | 41.0% | 51.0% | 4.2% | 3.8% |
| 2006 | 40.9% | 51.8% | 3.8% | 3.5% |
| 2007 | 40.2% | 53.0% | 3.6% | 3.3% |
| 2008 | 39.5% | 53.7% | 3.8% | 3.0% |
| 2009 | 38.7% | 53.8% | 4.2% | 3.3% |

Source: Form 5500 health plan filings.

Note: Figures in the 2011 Report may differ due to the switch from plan year to statistical year.

TECHNICAL APPENDIX

The definitions of funding arrangement rely upon the fields of Form 5500 and its Schedules as outlined in Table 24.

Table 24. Data Fields Used to Determine Plan Funding Type

| Field name | Description | Source |
|---------------------------|--|------------------|
| FUNDING_ARRANGEMENT_CODE | The "funding arrangement" is the method for the receipt, holding, investment, and transmittal of plan assets prior to the time the plan actually provides benefits. Plan funding arrangement (check all that apply) <ol style="list-style-type: none"> 1. Insurance, 2. Code section 412(e)(3) insurance contracts, 3. Trust, 4. General assets of the sponsor | Form 5500, Q.9a |
| BENEFIT_CODE | The "benefit arrangement" is the method by which the plan provides benefits to participants. Plan Benefit Arrangement (check all that apply) <ol style="list-style-type: none"> 1. Insurance, 2. Code section 412(e)(3) insurance contracts, 3. Trust, 4. General assets of the sponsor | Form 5500, Q.9b |
| TOT_PARTCP_BOY_CNT | Total number of participants at the beginning of the plan year | Form 5500, Q 5 |
| SUBTL_ACT_RTD_SEP_CNT | Number of participants at the end of the plan year who are active, retired, separated, or retired/separated and entitled to future benefits | Form 5500, Q 6d |
| BENEF_RCVG_BNFT_CNT | Deceased participants whose beneficiaries are receiving or are entitled to receive benefits | Form 5500, Q 6e |
| TOT_ACT_RTD_SEP_BENEF_CNT | Number of participants as of the end of the plan year | Form 5500, Q 6f |
| WLFR_TYPE_BNFT_IND | Type of benefit and contract types. <ul style="list-style-type: none"> • A. health, • J. HMO, • K. PPO, • L. Indemnity, and other codes for stop-loss, dental, vision, life, disability, etc. More than one may be ticked. | Schedule A, Q.8 |
| INS_PRSN_COVERED_EOY_CNT | Approximate number of persons covered at the end of the plan year | Schedule A, Q.1e |

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