

The 3 Main Types Of Small Group Medical Insurance

By CalBroker Magazine

There are three main types of Small Group Medical Insurance Fully Insured, Partially Self-Funded, and Fully Self-Funded. These terms often get tossed around in conversations about employer-sponsored health benefits, but they each represent very different ways of handling healthcare costs and risk.

Let's break them down clearly:



1. Fully Insured

This is the traditional, most common setup for small businesses.

How it works:

- The employer pays a fixed premium to an insurance carrier.
- The insurance carrier is responsible for:
 - Paying employee medical claims
 - Managing the health plan
 - Bearing the financial risk
- Employees typically pay part of the premium through payroll deductions and may have copays, deductibles, and coinsurance.

Advantages:

- Predictable monthly costs for the employer.
- The insurance company takes on all the risk.
- Simple to manage - the insurer handles claims, compliance, and plan design.

Disadvantages:

- Less flexibility in plan design.
- Premiums can increase annually based on group health trends, not necessarily your company's actual claims.
- Usually more expensive than self-funded options.

Compliance Risks:

- Minimal — the insurance carrier is responsible for:
 - Ensuring ACA essential health benefits are covered.
 - Filing with state insurance departments.
 - Handling premium rate reviews and network adequacy.
 - Generating required ACA reporting (though you may still have to file Form 1095-C if you have 50+ employees).

Administrative Risks:

- Low — the carrier manages claims, networks, customer service, and regulatory filings.
- The employer mainly handles payroll deductions and premium payments.

2. Partially Insured / Level-Funded

This is a hybrid between fully insured and self-funded – a growing option for small to midsize businesses looking for more control and potential savings.

How it works:

- The employer pays a fixed monthly payment (similar to a premium) that covers:
 1. Administrative costs
 2. Stop-loss insurance (limits the employer's financial risk)
 3. A claims fund (for paying actual employee healthcare claims)
- At the end of the year:
 1. If actual claims are lower than expected, the employer may get a refund or credit.
 2. If claims exceed expectations, stop-loss insurance kicks in to cover the overage.

Advantages:

- Potential for savings if employee claims are low.
- More flexibility in plan design and wellness programs.
- Fixed, predictable monthly costs with protection against catastrophic claims.

Disadvantages:

- Some financial risk if claims are higher than expected (though stop-loss limits this).
- More administrative involvement than fully insured plans.

Compliance Risks:

- Employer shares legal responsibility with the TPA and/or insurance carrier.
- Must comply with:
 - ACA employer mandates
 - CalCOBRA / COBRA continuation requirements
 - HIPAA for claims data handling
 - ERISA because these plans are typically self-funded at their core

- PCORI fees (Patient-Centered Outcomes Research Institute fees for self-funded plans)

Administrative Risks:

- Medium — more moving parts:
 - You need to coordinate with a TPA for claims processing.
 - You're still ultimately responsible for reporting requirements like 1095-C (if applicable).
 - You have to carefully monitor your stop-loss insurance coverage and claims fund.
 - May need to file Form 5500.

3 Fully Self-Funded

This is when the employer takes on the full financial risk of providing health benefits – typically more common in larger companies, but occasionally used by smaller firms with healthy, predictable employee groups.

How it works:

- The employer:
 - Directly pays employee healthcare claims as they are incurred.
 - Either manages the plan in-house or hires a third-party administrator (TPA) to handle claims processing, provider networks, compliance, and customer service.
- Employers typically buy stop-loss insurance to protect against very large individual or total group claims.

Advantages:

- Full control over plan design, benefits, and costs.
- Potential for significant savings if claims are well-managed.
- Avoids many state-mandated benefits (self-funded plans are federally regulated).

Disadvantages:

- High financial risk and cash flow variability.
- Requires more administrative oversight and expertise.
- Potential for large unexpected claims without proper stop-loss coverage.

Compliance Risks:

- High — the employer takes on full responsibility for:
 - ACA mandates (offering minimum essential coverage, affordability, etc.)
 - ERISA requirements (including SPD — Summary Plan Descriptions, claims procedures, fiduciary duties)
 - HIPAA Privacy & Security
 - CalCOBRA / COBRA administration
 - PCORI fees
 - Nondiscrimination rules (the plan can't discriminate in favor of highly compensated employees)
 - Form 5500 filing

Administrative Risks:

- High — you need to:
 - Hire a TPA to manage claims and compliance.
 - Handle cash flow for claims funding.
 - Secure stop-loss insurance and monitor it carefully.
 - Maintain accurate records and reporting.
 - Implement clear internal processes for compliance and privacy.

Which is Best for a Small Business?

- Fully Insured: Best for small employers wanting simplicity and predictable costs.
- Level-Funded: Great for small-to-midsize employers seeking potential savings, with limited risk exposure.
- Self-Funded: Best suited for larger employers or small businesses with very healthy groups and a strong cash position.

Final Thoughts

The key takeaway:

- Fully insured = peace of mind, simplicity, less risk.
- Level-funded = balance of savings and manageable compliance risk (with the right partners).
- Fully self-funded = high potential savings, but high compliance, financial, and administrative risk.