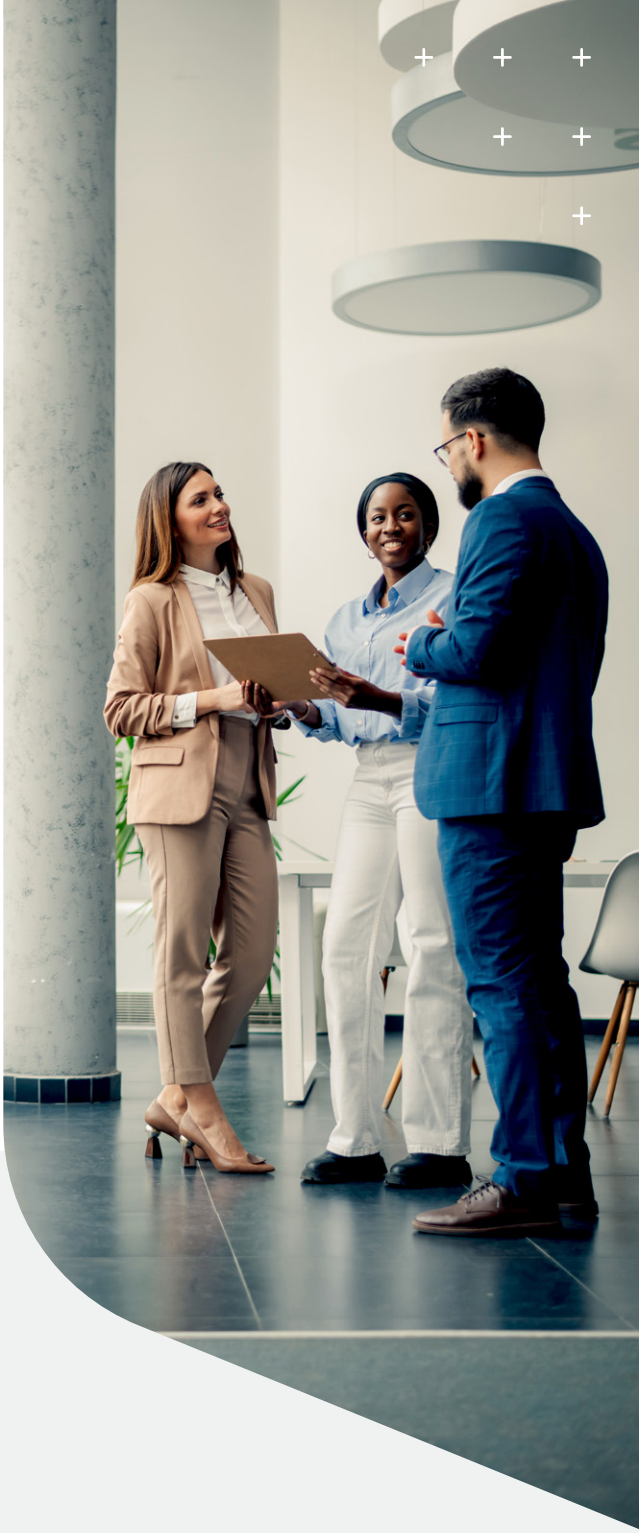
Should **Self-Funding Healthcare** Be In Your Company's Future?



For a lot of employers, especially SMBs, the question to move from fully insured health plan to a self-funded plan continually resurfaces at renewal time. It's a big decision, and the choice depends less on a company's size than many HR leaders assume.

The question whether an employer should self-fund its health care plan was the focus of a recent conversation on IMA's *On the Pulse* podcast with Mona Martin, HR leader at Dunn Aero Systems, an airplane parts manufacturer in Wichita, Kansas. Martin has spent years managing health plans through rising costs, catastrophic claims, and pharmacy situations most HR teams only face once or twice in a career. She believes self-funding can work at for almost any company, but the tradeoffs shift depending on many variables, including company size.

Finding the Right Size

Self-funded plans can work for employers of any size, but Martin sees the sweet spot between 200 and 250 employees. These employers are large enough to spread risk yet small enough to stay nimble. A 2025 KFF survey found that 37% of covered employees at companies with 10 to 199 employees are already in a level-funded plan,[1] which blends the savings of self-funding with a low stop-loss threshold that keeps costs closer to the predictability of a traditional plan. It's often the on-ramp to self-funding for smaller, more risk-averse employers.[2]

Martin's advice for employers considering the switch is to commit at least three years before deciding whether the plan is viable. Self-funding rewards patience. The savings compound over time, but a single rough year early on can spook a company into reversing course before the model has a chance to prove itself.

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What You Give Up

A change in cash flow is the biggest adjustment employers must manage. A fully insured plan means a fixed premium every month. A self-funded plan means costs track actual usage, so a bad month or a large claim shows up directly on the books. Most executives will hear about the rare company that took a big hit in a self-funded year and worry it will be them. Martin says over time savings generally outweighs volatility, which is why she preaches patience.

Risk also scales with headcount. A 100-employee company is really covering closer to 200 people once spouses and dependents are counted, and one catastrophic claim, such as a serious cancer treatment, can be enough to strain a small self-funded plan. That's why stop-loss insurance isn't optional. It caps the company's exposure, whether through a specific policy that protects against one large claim or an aggregate policy that protects against total claims running high across the whole group.

What You Gain

The upside of self-funding starts with data captured and kept. Self-funded employers get real-time, granular access to utilization data that a fully insured plan seldom provides, which makes it possible to see exactly what's driving costs and the flexibility to respond with actual plan design changes rather than guesswork.

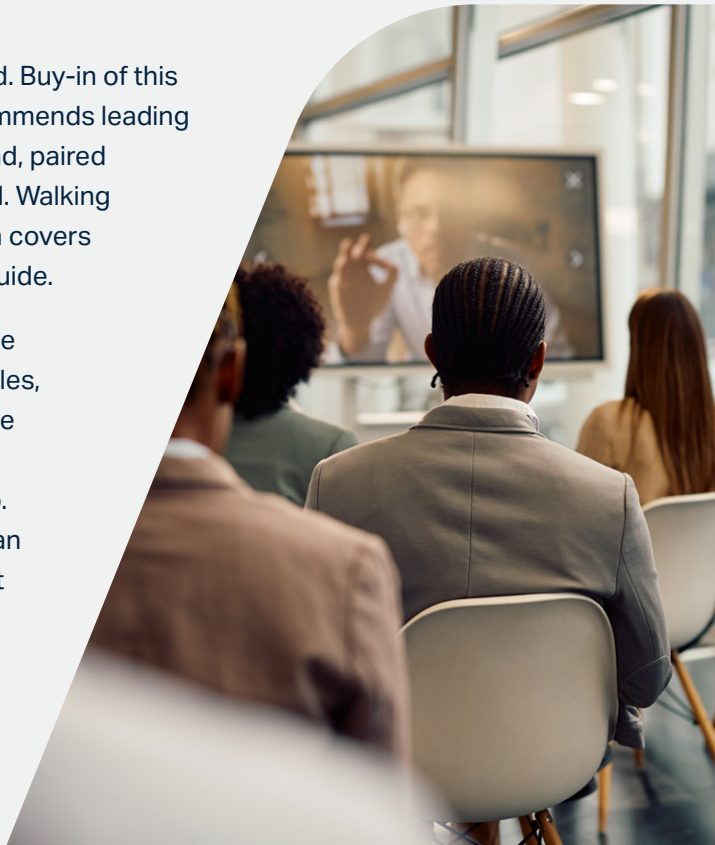
That flexibility offers tangible results. Employers can preserve drug list continuity when switching pharmacy benefit managers, so employees don't lose access to medications mid-treatment. They can approve one-off exceptions for an employee who needs something outside the standard plan. And they can use claims data to stratify costs into low, medium, and high use tiers, which makes it easier to target waste without cutting benefits across the board.

There's also a retention angle. A flexible, well-run plan gives HR something real to point to when a competitor is offering higher wages the company can't match. By Martin's math, the cost of upgrading benefits is often far smaller than the cost of replacing several skilled employees who leave for a bigger paycheck.

Communicate the Roll Out

Changing to a self-funded plan only works if employees get on board. Buy-in of this importance requires significant communication efforts. Martin recommends leading with face-to-face meetings, recorded for employees who can't attend, paired with communications that reaches an employee and their household. Walking employees through real claims scenarios and detailing what the plan covers versus what they'll owe, does more to build trust than any benefits guide.

Extensive communications efforts are especially necessary when the plan impacts employees' stake in coverage, such as higher deductibles, fewer providers, or a revised drug list. Martin's rule is to communicate the situation early, thirty to forty-five days before open enrollment when possible, and express that rising costs affect the company too. Ancillary coverage, like gap insurance or hospital indemnity plans, can also soften the impact for employees absorbing more out-of-pocket cost. For employers feeling real cost pressure, a reference-based pricing model is worth a look too, though it trades network flexibility for savings and can mean more claim denials.



What This Means for Company Leaders

Self-funding isn't really an insurance decision. It's a partnership decision. It works best when HR and the executive team are reading the same utilization data and making decisions together, and when there's real trust between the company and its broker, especially on complex issues like subrogation or an employee losing out of coverage. The technical mechanics matter, but the relationship between company leaders, and leaders and employees, are usually what determine whether a self-funded plan ultimately works.

Final Thoughts

The cash-flow volatility and added risks of self-funding are real, but manageable. Over time the savings, data, and flexibility to design a plan around what employees need outweigh the discomfort of a less predictable monthly cost. This is true for the company's bottom line and employees covered by the plan. None of that works without company-wide communication, delivered early and consistently from leadership, and without real partnership between HR, the executive team, and the broker, all reading the same data and treating self-funding as an ongoing practice rather than a one-time switch to flip and forget.

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SOURCES

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