

WHITEPAPER

# Navigating Rising Health Insurance Costs

How Self-Funded Plans Help Employers  
Take Control and Reduce Expenses

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**As healthcare costs continue to climb, employers face mounting pressure to provide competitive benefits while controlling expenses. This white paper examines self-funded health plans as a strategic alternative to traditional fully insured coverage—one that delivers both cost savings and operational control.**

Self-funded plans allow employers to pay directly for employee claims rather than fixed insurance premiums, typically reducing total healthcare spending by 10-15% through eliminated carrier profit margins, avoided state premium taxes, and reduced administrative overhead. Beyond cost reduction, self-funding provides real-time claims visibility, customizable benefit design, and data-driven decision-making capabilities that fully insured plans cannot match.

With nearly one in three mid-sized employers now using self-funded plans,<sup>1</sup> this approach has evolved from an enterprise-only strategy to a mainstream solution for organizations seeking greater transparency, flexibility, and financial control over their healthcare benefits.

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# The Escalating Healthcare Cost Crisis

American healthcare costs have reached unprecedented levels, and the immediate outlook presents daunting challenges. Employers are bracing for health plan cost increases of about 9.5% in 2026, according to an estimate from Aon.<sup>2</sup> Even organizations that have already adjusted benefits to control expenses will face the steepest premium increases witnessed in 15 years, according to a Mercer's comprehensive survey of more than 1,700 employers.<sup>3</sup>

Last year, the average U.S. employer invested more than \$19,000 per employee for family coverage, while employees shouldered approximately \$6,000 in contributions. Combined, these figures total \$25,572 for average family premiums—representing a dramatic 52% increase over the past decade, as documented by the Kaiser Family Foundation.<sup>4</sup>

For companies operating with tighter margins and greater sensitivity to cost fluctuations, escalating costs have transformed healthcare benefit management from a routine administrative function into a strategic imperative.

Organizations that continue to rely on conventional insurance arrangements find themselves at the mercy of industry-wide premium increases, with limited visibility into their actual healthcare spending and minimal control over cost management strategies.

## Turning Cost Pressures into Opportunity: The Case for Self-Funded Plans

With health care costs rising, employers face a clear choice: continue paying higher premiums to traditional insurance carriers—or take control of their health benefits through self-funded health plans.

Self-funded coverage is a health plan model where employers pay directly for medical claims incurred by employees—typically managed by a specialized third-party administrator—instead of paying fixed premiums to a traditional insurance company. This approach delivers two powerful advantages:

### Greater Control

Self-funded plans give employers direct oversight of their benefits strategy. Unlike traditional insurance, where employers are limited to carrier-designed packages and receive little transparency into how dollars are spent, self-funding provides real-time visibility into claims data, utilization patterns, and cost drivers. Employers can customize benefit structures to meet their workforce's specific needs and make informed decisions about plan design based on actual data—not insurer assumptions.

### Lower Costs

Traditional insurance carriers typically apply 25-30% of premium dollars toward overhead expenses, including administrative costs, reinsurance, reserves, and profit margins. Self-funded plans reduce this overhead to 20% or less. You pay only for the claims your employees actually incur, plus administrative fees—eliminating the built-in profit margins and broad risk pools that drive up fully insured premiums.

Rather than accepting predetermined annual increases at renewal time, self-funded arrangements give employers both the transparency to understand their healthcare spending and the flexibility to manage it strategically.



# How Self-Funded Medical Coverage Works

The mechanics are straightforward:

## Direct Claims Payment

Employers set aside funds to pay employees' medical claims as they occur rather than paying fixed premiums to an insurance company. This means they are funding actual healthcare costs—not subsidizing an insurer's profit margin or risk pool.

## Stop-Loss Insurance Protection

Stop-loss insurance limits financial risk in self-funded plans. Individual stop-loss protects against one employee's catastrophic claims, while aggregate stop-loss shields the overall plan if total claims exceed a set threshold.

## Third-Party Administration

A Third-Party Administrator (TPA) handles claims processing, network management, compliance, and reporting—navigating complex requirements like ERISA, HIPAA, ACA, and state-specific regulations so employers don't have to.

There are different types of TPAs, including:

- **Large carrier ASO (Administrative Services Only) plans** from companies like CVS Health, Cigna, or Elevance, which provide administrative services while you retain financial risk
- **Independent TPAs** that specialize exclusively in self-funded plan management

## Benefits



### Cost Savings

You pay only for actual claims plus administrative fees—not insurance company profit margins, broad risk pools, or inflated reserves. When claims run lower than expected, savings flow directly to your bottom line rather than disappearing into a carrier's budget.



### Complete Customization

Design benefits that match your workforce demographics and needs—not a carrier's one-size-fits-all package. Add wellness incentives, adjust copays, choose specific coverage options, and modify plan features based on what your employees actually use.



### Data Transparency and Actionable Insights

Access detailed claims data that fully insured plans keep hidden. Your TPA provides visibility into utilization patterns, high-cost conditions, pharmacy trends, and cost drivers—allowing you to identify outliers, spot emerging issues early, and make data-driven decisions about plan adjustments, wellness programs, and cost-containment strategies.



### Strategic Control

Make real-time adjustments instead of waiting for annual renewals. Review performance quarterly, implement mid-year changes when needed, and pivot your benefits strategy based on actual results—not carrier projections.

## In a Self-Funded Plan ...

- The employer pays claims as they happen
- They may hire a TPA to process claims
- If claims get extremely high, stop-loss insurance kicks in to cover the rest

This gives the employer more control and potential savings than a fully insured plan, but also more financial risk, which is mitigated by stop-loss coverage.

Self-funded allows you to save money by giving the TPA—your eyes and ears behind a HIPAA wall—visibility into and the ability to control inefficiencies that are otherwise just a costly black box to the employer.

## A Closer Look at a Self-Funded Plan

Meet Thrive Industries, a 100–employee company that switched to self-funding with a \$50,000 individual stop-loss limit per employee.

### How It Works Day-to-Day

Throughout the year, Thrive Corp pays employee claims directly as they occur—doctor visits, prescriptions, lab work, and routine procedures. Their TPA processes each claim, and Thrive pays only the actual cost plus administrative fees. No insurance company profit margins. No subsidizing other companies' claims.

### When Stop-Loss Kicks In

One employee needs emergency surgery costing **\$300,000**.

Thrive Corp pays **\$50,000** (their individual stop-loss limit)

Stop-loss insurer pays **\$250,000** (everything above the limit)

### The Bottom Line

For the year, Thrive's total costs looked like this:

Routine claims  
across all employees

**\$400,000**

High-cost claim  
(their portion)

**\$50,000**

**Total \$300,000**

Under their previous fully insured plan, Thrive would have paid \$700,000+ in premiums—regardless of actual claims. By self-funding, they saved \$250,000 while staying protected from financial catastrophe.

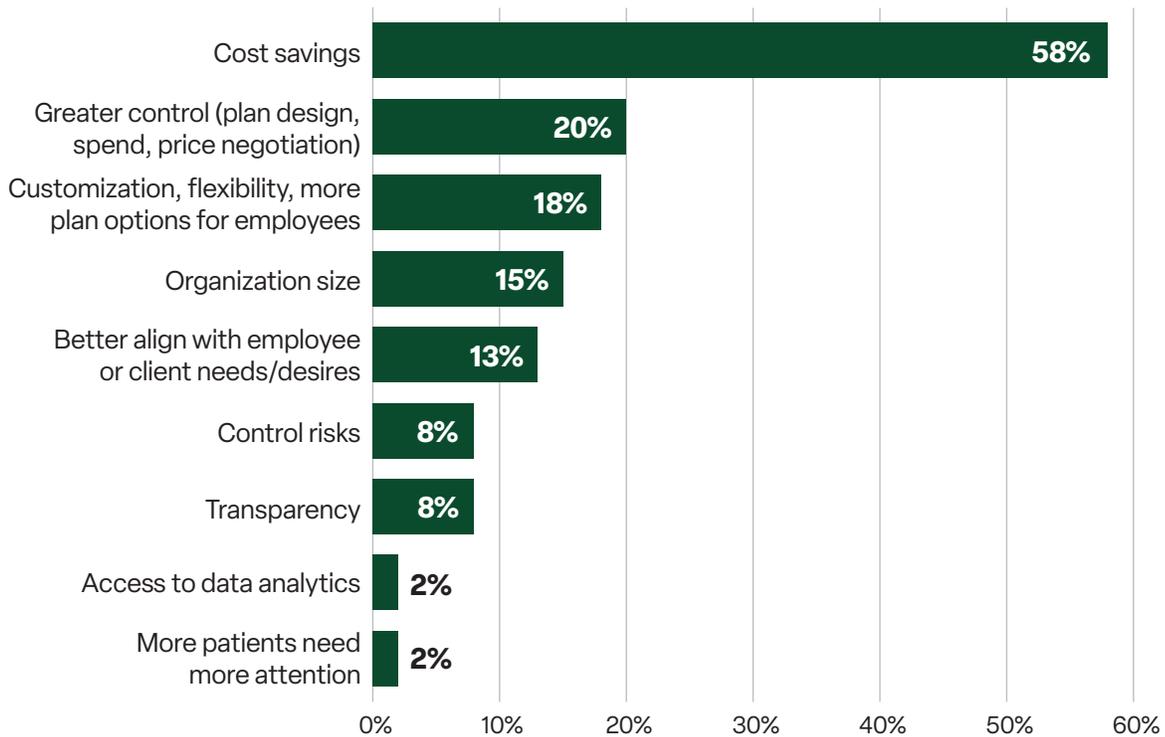
## Key Takeaways

- The employer assumes risk for regular claims
- Stop-loss insurance limits an employer's exposure to high medical costs: individual stop-loss covers one employee's catastrophic claims, and aggregate stop-loss protects if total claims for all employees exceed a set threshold
- Self-funded plans save money if claims are lower than expected, but stop-loss protects against major financial hits

## By the Numbers: Self-Funding Adoption and Results

According to a survey of 119 employers conducted by market research firm, The Noise Doctors, cost savings consistently ranks as the top driver for switching to self-funded plans, followed closely by greater control and plan flexibility.

### What was the primary reason your organization decided to offer self-funded medical plans?

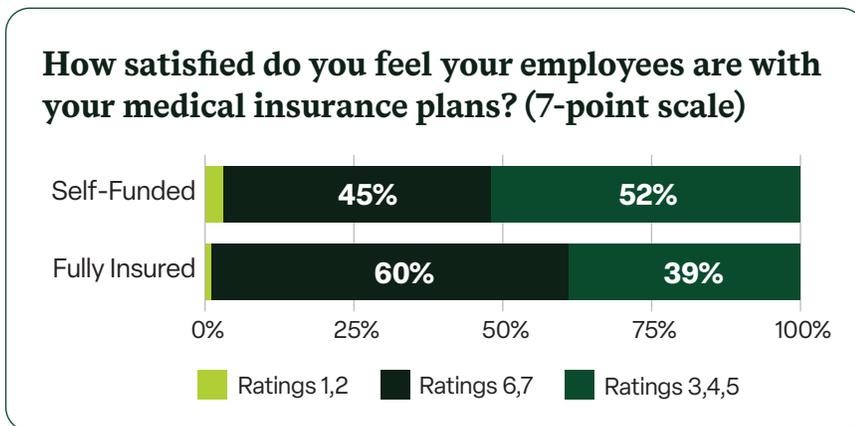
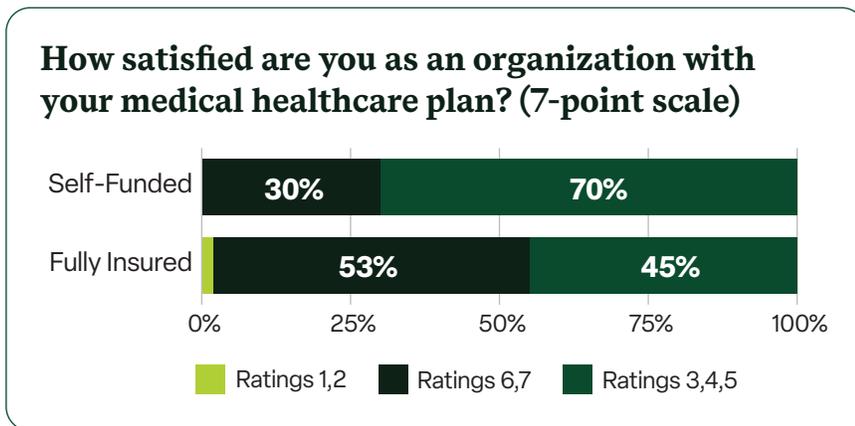


Well-managed self-funded plans typically reduce total healthcare spending by 10% to 15%, with savings coming from multiple sources:

- **State premium taxes avoided:** 2-3% (self-funded plans are exempt)
- **ERISA preemption of state mandates:** 5-10% (you're not required to cover state-mandated benefits that may not fit your workforce)
- **Eliminated carrier profit margins:** 3-5%
- **Reduced administrative overhead:** 3-8%
- **Multi-state uniformity:** For companies with employees across state lines, one consistent plan eliminates the administrative complexity and cost of managing multiple state-compliant policies

## Flexibility Drives Satisfaction

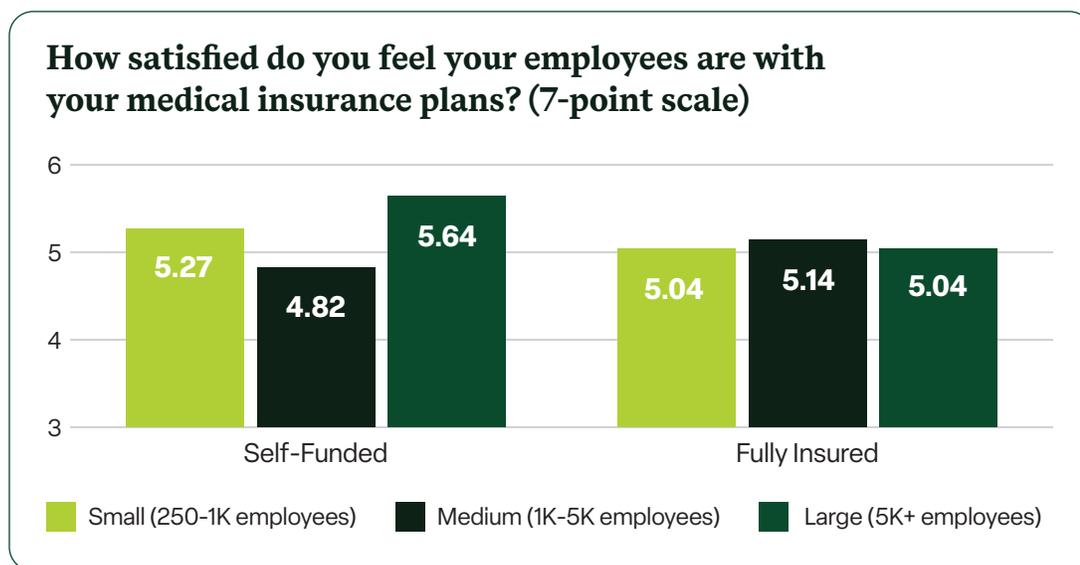
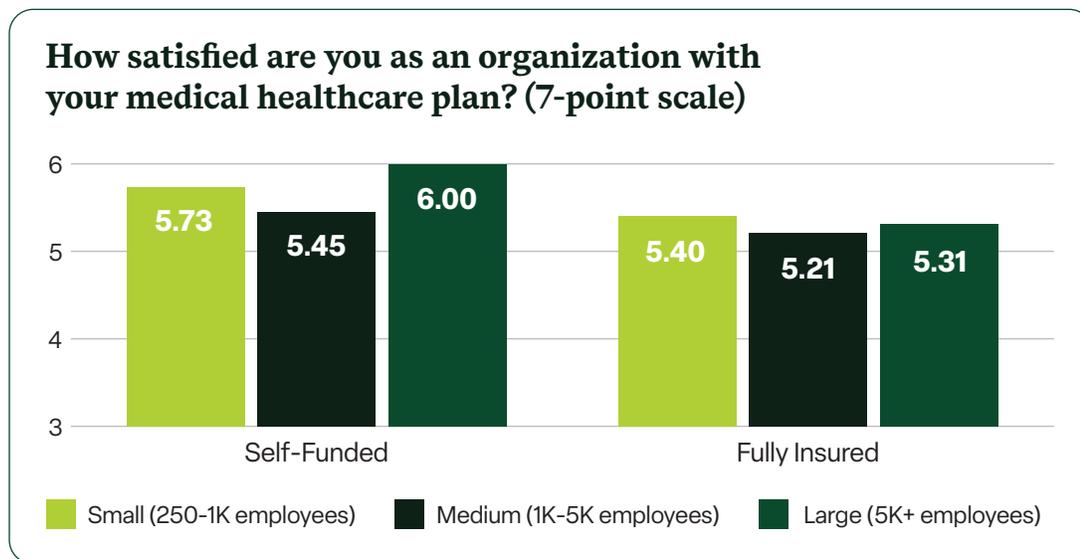
Beyond the bottom line, employers gain the flexibility to design benefits around what their workforce actually needs, rather than accepting one-size-fits-all insurance packages. The same survey reveals employers who choose self-funded plans report higher satisfaction with their health benefits compared to those with fully insured plans, and they also perceive greater overall satisfaction among their workforce.



# Who's Using Self-Funded Plans?

Self-funded health plans have traditionally been the domain of larger companies—typically those with 5,000+ employees—because they have the financial capacity to absorb the risk of high-cost claims. But the landscape is shifting rapidly. As of 2023, 16% of small employers and 32% of mid-sized employers have adopted self-funded plans.

What's driving this shift? Results. According to The Noise Doctors survey, across all company sizes, self-funded employers report greater satisfaction with their medical plans than fully-funded employers. Even more telling, employers offering self-funded plans—regardless of company size—perceive higher overall employee satisfaction.



When you combine cost savings, increased flexibility, and higher satisfaction rates among both employers and employees, it's clear why self-funding has moved from a niche strategy to a mainstream solution for organizations ready to take control of their healthcare spending.

# Common Myths and Barriers About Self-Funding—and Why They’re Often Overstated

According to The Noise Doctors survey, many employers shy away from self-funded medical plans due to concerns about cost, risk, or administrative complexity.

These hesitations are common—but often based on misconceptions about how modern self-funded plans actually work. Many of these perceived barriers can be effectively managed making self-funded plans a viable, flexible, and often cost-saving option.



## Unpredictable or fluctuating expenditures

Stop-loss insurance and proactive claims management help limit exposure to catastrophic claims, making costs more predictable.



## Perceived risk

With the right plan design, financial protections, and expert guidance, self-funded plans can balance risk and control without jeopardizing the business.



## Lack of in-house administrative resources

TPAs provide end-to-end support, from claims processing and pharmacy benefits to member advocacy, so employers don't need to hire additional staff.



## Older employee population

Plan designs can be tailored to address specific workforce demographics, ensuring coverage meets employee needs while controlling costs.



## Not cost-effective for our company

Self-funding isn't only for large corporations. Mid-size employers can often save money compared with traditional fully insured plans, especially when claims are lower than expected.



## Cash flow concerns

Contributions are typically based on actual claims, which can help optimize cash flow compared with paying fixed premiums to insurers.



## Limited provider network

Self-funded plans can offer access to a range of networks, including PPO, reference-based, or hybrid options, giving employees choice without limiting care.



## Lack of knowledge or understanding

Experienced partners can guide employers through every step, from plan selection to implementation and ongoing management, making self-funding approachable and manageable.

# Closing the Loop: What to Expect with Self-Funded Healthcare

Here's what matters most: your employees won't notice much difference at all. They'll see the same doctors, visit the same hospitals, and fill prescriptions just as they always have. Claims get processed the same way—just sent to a TPA instead of an insurance company. Most employees won't even realize the funding structure has changed.

## What Changes

### For employees

- New insurance cards (the most visible difference)
- Potential network adjustments depending on which provider network you select

### For employers

- Real-time cost visibility through detailed reports on claims, utilization trends, and cost drivers throughout the year
- Proactive cost management as your TPA monitors high-cost claims, alerts stop-loss carriers at key thresholds, and implements medical management to ensure appropriate, cost-effective care
- Regular performance reviews, cost-reduction planning, and authority to customize benefits based on your actual workforce data



## The Bottom Line

**Self-funding happens behind the scenes.** The savings come from eliminating insurance carrier profit margins and reducing administrative overhead—not from cutting employee benefits or shifting costs to your workforce. You gain the transparency to understand where every healthcare dollar goes, the flexibility to act on that knowledge, and the control to fine-tune your plan while employees continue receiving quality coverage that feels just like what they had before.



# The Path Forward: Partnering with Verdegard

The healthcare landscape continues to evolve, and employers face increasingly complex decisions about how to provide meaningful, cost-effective benefits to their teams. The traditional approach of one-size-fits-all plans and impersonal administration is no longer sufficient in today's competitive talent market.

Verdegard represents a different approach—one that puts control back in the hands of employers and personal care back at the center of the employee experience.

Our integrated platform combines flexible plan designs (PPO, reference-based, level-funded, and hybrid options) with end-to-end TPA services and hands-on advocacy. When employees face healthcare decisions, Advanta Care Advocates guide them through every step—scheduling appointments, negotiating costs, coordinating follow-up care, and working to eliminate out-of-pocket expenses entirely.

Depending on the employer's situation—and how aggressively they want to manage rising healthcare costs—Verdegard can incorporate additional cost-saving strategies such as:



## Alternative Sourcing for Prescription Drugs

Leveraging biosimilars and/or international sourcing to significantly reduce the cost of high-priced medications.



## Provider Cash Network

Partnering with providers who agree to reduced, upfront cash-pay rates. This eliminates the traditional insurance claims process, lowers administrative costs for both sides, and ensures providers are paid immediately.



## Captive Solutions

Forming or joining an employer-owned insurance captive to assume part of the health plan risk reduces reliance on commercial stop-loss insurance, lowering overall stop-loss costs while maintaining strong coverage.

All of this is backed by a family of specialized partners working together to improve health outcomes and reduce costs: Birdi delivers mail-order prescriptions with competitive pricing and industry-leading turnaround times. Ray Savings Solutions provides advocacy for specialty medications and high-cost procedures. MedImpact, the nation's largest independent pharmacy benefits provider, offers comprehensive clinical services and wellness programs. Our PNOA network spans all 50 states with direct-contracted providers, while MG Insurance Agency identifies gaps and delivers ancillary benefits in one integrated solution.

For employers, this means predictable costs, reduced administrative burden, and higher satisfaction—all managed through a single partnership that simplifies contracting and eliminates complexity.

**The companies that thrive will be those that view healthcare benefits as a strategic advantage, not just a cost center.** They'll choose partners who understand that every employee's healthcare journey is personal, and every employer's needs are unique. Verdegard is ready to help you take control of your healthcare future and create a benefits experience that truly serves your people.

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<sup>1</sup> Employee Benefit Research Institute. (2024, August 29). New research finds increasing number of self-insured health plans in small and medium-sized businesses but a decreasing number in large companies since passage of the Affordable Care Act of 2010. <https://www.ebri.org/content/new-research-finds-increasing-number-of-self-insured-health-plans-in-small-and-medium-sized-businesses-but-a-decreasing-number-in-large-companies-since-passage-of-the-affordable-care-act-of-2010>

<sup>2</sup> Aon plc. (2025, September 10). Aon: U.S. employer health care costs expected to rise 9.5 percent in 2026. <https://aon.mediaroom.com/2025-09-10-Aon-U-S-Employer-Health-Care-Costs-Expected-to-Rise-9-5-Percent-in-2026>

<sup>3-4</sup> Aspan, M. (2025, September 12). Health care costs are soaring: Blame insurers, drug companies — and your employer. NPR. <https://www.npr.org/2025/09/12/nx-s1-5534416/health-care-costs-soaring-blame-your-employer>

<sup>5</sup> Employee Benefit Research Institute. (2024, August 29). New research finds increasing number of self-insured health plans in small and medium-sized businesses but a decreasing number in large companies since passage of the Affordable Care Act of 2010. <https://www.ebri.org/content/new-research-finds-increasing-number-of-self-insured-health-plans-in-small-and-medium-sized-businesses-but-a-decreasing-number-in-large-companies-since-passage-of-the-affordable-care-act-of-2010>



To learn more about how Verdegard can transform your organization's approach to healthcare benefits, visit [www.verdegard.com](http://www.verdegard.com).