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Outsourcing Reimagined: Strategic Actuarial Partnership for Self-Funded Employers

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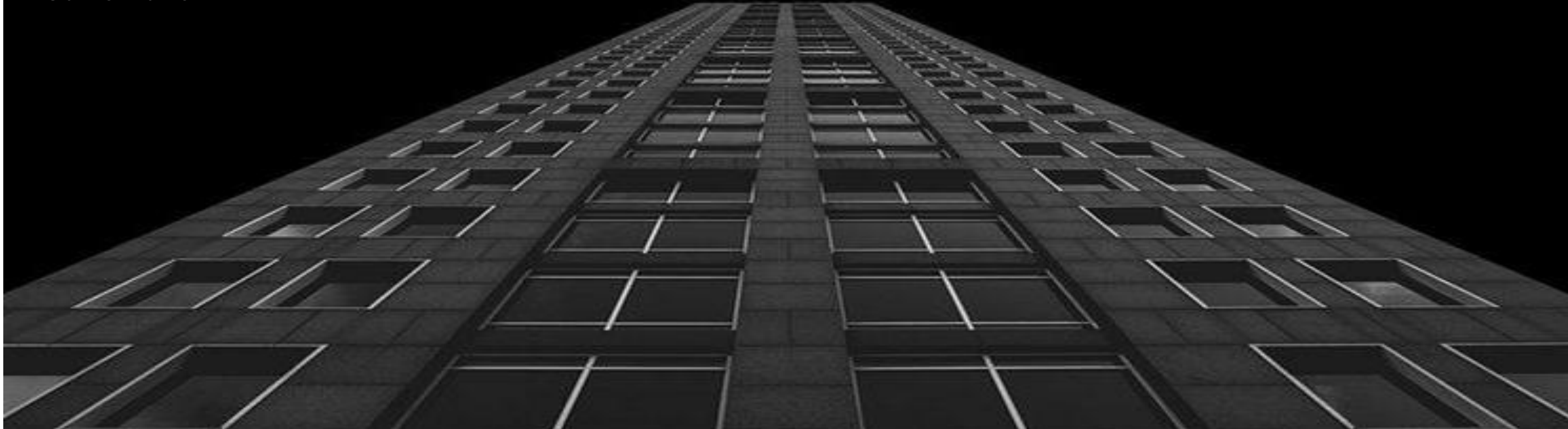

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Prominence of self-funded employers

A significant proportion of US employers are now self-funded

- Self-Funded plans are highly prevalent among US employers today
  - Self-funded health plans have become increasingly common US employers, with approximately 65%[1] of all covered workers country-wide enrolled in a self-funded plan
  - Self-funded adoption is skewed toward larger employers, with 200+ employees[2]
  - However, adoption is also expanding among small and mid-sized firms through level-funded options that reduce volatility while preserving flexibility. 45%[3] of covered workers at small firms are now in either self-funded or level-funded arrangements, reflecting growing adoption even among smaller employers
- Adoption scope
  - The shift to self-funding spans the entire economy—from agriculture and manufacturing to finance, healthcare, and government[4]
  - Self-funding is no longer limited to Fortune 500 employers—it is the dominant funding model across large organizations in nearly every sector
  - Public and private employers alike use self-funding, governed by ERISA[5], and the ability to tailor benefit design while managing cost exposure

Risks of self-funding

However, there are numerous risks that employers now bear as a result

- Various risks arise from being self-funded
  - Self-funding provides employers with greater autonomy, including the ability to tailor benefit design, more flexibly select vendors, and implement targeted cost-control measures
  - However, this comes at a cost:
    - **Increased financial risk:** Employers bear direct exposure to high-cost, unpredictable medical events
    - **Cost variability:** Annual expenses fluctuate based on employee health status and healthcare utilization, reducing predictability
    - **Cash flow impact:** Claims are paid as they occur, requiring active cash flow management and liquidity planning
- Safeguards and actuarial management are required to manage these costs
  - **Risk safeguards are essential:** Employers should consider stop-loss coverage to protect against catastrophic claims and limit financial volatility
  - **Actuarial oversight is critical:** Actuarial analysis is needed to accurately renew health plans, monitor emerging risks, and set reserves against future claims
  - **Regulatory compliance must be maintained:** Employers are responsible for adhering to compliance requirements, including timely filings, nondiscrimination rules, and benefit disclosures

The need for actuarial outsourcing

The cost of errors could lead to company insolvency

- Materiality/Impact
  - Actuarial decisions directly influence outcomes with high financial stakes—often in the 7- to 8-figure range for mid-sized employers, and substantially more for large enterprises
  - As a result, precision and compliance is non-negotiable
- Cost of in-house talent
  - However, hiring an in-house actuary is expensive, typically costing more than $200,000 per annum for highly experienced actuaries[1]
  - The recruitment process is slow and resource-intensive, and in-house generalists often lack the specialized focus required. Moreover, static internal models can become misaligned with fast-changing business dynamics
- Actuarial outsourcing addresses these issues
  - Actuarial outsourcing provides employers with the expertise needed to mitigate these risks, and costs significantly less than in-house, permanent talent
  - Self-funded plans demand specialized actuarial expertise across a range of areas, including:
    - Renewal projections
    - Claims reserving
    - Stop-loss structuring
    - Vendor evaluations
    - Regulatory attestations such as creditable coverage certifications

Frequency of actuarial outsourcing

Actuarial outsourcing is designed to match workload cycles

Employers need actuarial input at key points in the year: renewals, reserve analyses, and compliance submissions. In between, there's typically less high-complexity actuarial work required. The workload profile is hence better suited to fractional, not fixed, staffing.

Stage	Typical Frequency
IBNR Reserve Calculations	At least annually
Self-Funded Renewal Package, Risk Profiling	Annually
Stop-Loss Strategy and Analysis	Annually
Employee Benefits Cost Comparisons	Annually
Benefits Optimization Analysis	Triennially
Ad-Hoc Claims Analysis	Triennially
PBM Review Services	Triennially
TPA Discount Evaluation	Triennially
Customized Plan Design and Feasibility Analyses	Infrequently
Mental Health Parity Assessments	Rare
Non-Discrimination Testing	Rare

Impact of actuarial outsourcing

Fractional actuarial insight provides significant value in 6 primary areas:

Cross-Plan Intelligence: Outsourced actuaries serve multiple plans, offering real-time benchmarking, best practices, and regulatory insight

Efficiency: Workflows are optimized for speed, quality, and compliance

Governance: Independence enhances audit-readiness and governance

Specialization: These teams bring specialization in targeted knowledge and niche skills targeted to self-funded employers

Elastic workforce: scale up or down rapidly; ideal for peak loads or annual needs

Cost efficiency: costs are proportional to usage

In summary

Optimal risk management for self-funded employers

- Self-funding offers control but also exposes employers to financial and compliance risks
- In-house actuarial staffing is often costly, rigid, and misaligned with actual workload cycles
- Outsourced actuarial partnerships offer:
  - High-precision analysis where and when it's needed
  - Scalable expertise aligned to renewals, reserves, and compliance demands
  - Governance-ready insight grounded in cross-market experience

Thank you