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THOUGHT LEADERSHIP

Employee Benefits Actuarial Outsourcing

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Focus

Self-Funded Employers

Prominence of Self-Funded Employers

Self-funded health plans have become increasingly common among US employers, with approximately 65% of all covered workers country-wide enrolled in a self-funded plan. Self-funded adoption is skewed toward larger employers with 200+ employees, however adoption is also expanding among small and mid-sized firms through level-funded options that reduce volatility while preserving flexibility. 45% of covered workers at small firms are now in either self-funded or level-funded arrangements.

The shift to self-funding spans the entire economy – from agriculture and manufacturing to finance, healthcare, and government. 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, and the ability to tailor benefit design while managing cost exposure.

Risks of Self-Funding

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.

Risk safeguards are essential: employers should consider stop-loss coverage to protect against catastrophic claims. Actuarial oversight is critical for accurately renewing health plans, monitoring emerging risks, and setting reserves against future claims. Regulatory compliance

must also be maintained, including timely filings, nondiscrimination rules, and benefit disclosures.

The Need for Actuarial Outsourcing

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. Precision and compliance is non-negotiable.

However, hiring an in-house actuary is expensive, typically costing more than \$200,000 per annum for highly experienced actuaries. 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 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, and regulatory attestations such as creditable coverage certifications.

Frequency of Actuarial Outsourcing

Employers need actuarial input at key points in the year: renewals, reserve analyses, and compliance submissions. In between, there is 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
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Impact of Actuarial Outsourcing

Fractional actuarial insight provides significant value in six 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

- 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, and governance-ready insight grounded in cross-market experience.
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