

## Self-Insurance: What Is It and When to Do It?

### LESSON DESCRIPTION (Background for the Instructor)

In this lesson, students will learn about self-insurance and when it might be appropriate to self-insure themselves. Self-insurance by both employers (e.g., self-funded health care plans at workplaces) and by individuals (e.g., deductibles and elimination periods on insurance policies) will be explored. Students will also enhance their math skills by completing case study problems that include a self-insurance component.

The lesson includes five activities that instructors can select from. In these activities, students will:

- ◆ View the videos *Insurance 101: Deductibles* and *Elimination Period for Disability Insurance* and answer debriefing questions about self-insurance by individuals
- ◆ Analyze case study questions about a fictional person's insurance decisions
- ◆ View the video *Reasons to Consider Self-Funding: Understanding Self-Funded Health Care Plans and Stop Loss Insurance* and answer debriefing questions about self-insurance by employers
- ◆ Play the 10-question *True or Trick?* game to identify correct information about self-insurance
- ◆ Conduct a *Web Quest* to learn about situations where self-insurance may be appropriate

The lesson also contains 10 assessment questions (5 multiple choice and 5 True-False), learning extensions (i.e., suggested learning activities beyond the scope of the lesson plan), and references and resources.

### INTRODUCTION (Background for the Instructor)

Risk is a fact of life and includes car accidents, illnesses, and natural disasters. Self-insurance (a.k.a., self-funding) is the process of personally bearing financial losses arising from the risk of negative life events such as disability, long-term care, and property damage. Self-insurance can be planned proactively (i.e., deliberately choosing not to purchase insurance) or happen on a “de facto” basis (i.e., simply not having insurance when needed). Regardless of how insurance is not available to transfer the risk of financial loss to, individuals and employers are self-insured when they, alone, are responsible for all or part of financial losses (e.g., a damaged car and a sick employee, respectively) that inevitably happen in life. Individuals and employers should, ideally, only self-insure when they have money set aside to cover potential losses.

A key factor in the use of self-insurance as a risk management technique is the potential size of a loss and the financial resources of an individual or company. For example, a driver might elect to self-insure a minor fender-bender with a \$500 deductible on auto insurance collision coverage, but carry \$300,000 of liability coverage (or even a \$1 million umbrella policy) in the event of a lawsuit resulting from an accident. Some insurance coverage is also required, such as auto insurance required by states (state liability loss limits vary) and homeowners insurance required for those with a mortgage.

Individuals and companies are most likely to self-insure when losses are *relatively small and somewhat predictable* (e.g., based on past claims data). A goal of self-insuring is the potential to realize cost savings by setting aside money (that may or may not be paid out in claims) versus paying premiums to an insurance company as a fixed expense where the money is gone forever.

Ideally, self-insurance should be coupled with savings that is commensurate with the amount of money that people without insurance could be “on the hook” for. Accumulating this amount of money can sometimes take decades. For example, it might take a couple that needs life insurance 30 years to save up the face amount of a \$500,000 life insurance policy. Most people don’t have six-figure sums sitting around so they transfer the risk of loss to an insurance company to protect their finances and avoid bankruptcy as a result of an accident, illness, or natural disaster. Therefore, self-insurance is not a viable option in many cases.

## **Self-Insurance by Companies**

When companies self-insure to provide health insurance for their workforce, the employer collects premiums from employees and assumes the responsibility of paying the medical expenses of employees and their dependents. Monies for potential health care costs are placed in a designated account instead of paying a fixed premium to an insurance company for a fully insured plan. Typically, employers contract with a third party administrator to arrange a network of health care providers and to process claims. Most self-insured employers also purchase stop-loss insurance with a cap on high dollar amount claims as a safeguard against catastrophic medical expenses (e.g., multiple employees with a cancer diagnosis).

Many employees do not know that they are in a self-insured health care plan because they still receive a health insurance card with the familiar name of a third-party administrator (e.g., Cigna and Blue Cross/Blue Shield). They are also expected to pay deductibles and copayments and file claims for reimbursement as they would in a fully insured plan. Under the federal ERISA law that governs self-insured plans, companies are not required to disclose to employees that they are self-insured and that there is no state government assistance (e.g., state laws about “surprise” out-of-network providers) available in the event of claims disputes. Over 60% of covered [workers](#) are enrolled in [self-insured](#) health care plans. Self- insurance is most frequently seen in large corporations with high health care costs and a large risk pool.

Companies typically become their own insurers and self-insure for one or more of the following reasons:

- ◆ To customize a health insurance plan for the specific health care needs of their employees
- ◆ To maintain control over money placed in the reserve account (for potential health care claims) that would otherwise be spent to pay insurance premiums; i.e., they pay money only for actual claims
- ◆ To control costs by avoiding or reducing federal and state health insurance premium taxes and fees
- ◆ For access to company claims data (subject to federal law) for efficiency in health plan management

Not surprisingly, companies with self-insured plans have a strong interest in maintaining a healthy work force and may offer workplace wellness programs, onsite health care clinics, and telemedicine services.

## **Self-Insurance by Individuals**

Individuals self-insure when they assume all or part of the financial risk of a loss. Following are examples:

- ◆ Raising the deductible (amount paid out-of-pocket before insurance benefits begin) on car insurance
- ◆ Dropping collision coverage on a very old car with a low Kelly Blue Book value
- ◆ Choosing high-deductible health insurance (vs. lower premium coverage) to reduce premium costs
- ◆ Selecting a long elimination period (time period between a covered event and the first benefit payment)
- ◆ Avoiding extended warranties on appliances and electronics and paying for repairs, if needed

Some types of insurance are required and cannot be self-insured. Examples include auto insurance required by states, health insurance required by the federal government Affordable Care Act, and homeowners insurance required for those with a mortgage. In other cases, insurance may not be required but is smart to have anyway. Homeowners insurance, for example, covers *liability claims* as well as *property losses*. Most people don’t have sufficient assets (6- and 7-figure sums) to self-insure both of these potential risks.

**Note:** Related information about insurance can be found in the following lesson plans:

Standard 9.1.12.G.2 lesson plan *Protecting Your Future: Property and Liability Insurance*

Standard 9.1.12 G.3 lesson plan *How Health Insurance Works*

Standard 9.1.12 G.5 lesson plan *The Costs and Benefits of Renter's and Homeowner's Insurance*

## OBJECTIVES

Students will be able to:

- ◆ Describe self-insurance and give two examples (e.g., self-insured employer health plan and deductible).
- ◆ Define the terms deductible and elimination period and describe why they are a form of self-insurance.
- ◆ Describe three ways that individuals practice self-insurance in their financial decision-making.
- ◆ Describe three reasons why companies might decide to self-insure employee health care costs.
- ◆ Compare and contrast self-insured health care plans and fully insured plans.

## NEW JERSEY PERSONAL FINANCIAL LITERACY STANDARD

- ◆ Standard 9.1.12.G.6: Explain how to self-insure and how to determine when self-insurance is appropriate.

See <http://www.state.nj.us/education/aps/cccs/career/FLFAQ.htm#gradcredit> and

<http://www.state.nj.us/education/cccs/2014/career/91.pdf> for information about Standard 9.1

## TIME REQUIRED

45 to 180 minutes (depending upon student progress and content depth and number of activities used)

## MATERIALS

- ◆ YouTube Video (2.30): *Insurance 101: Deductibles* and debriefing questions
- ◆ YouTube Video (1:21): *Elimination Period for Disability Insurance* and debriefing questions
- ◆ *Self-Insurance Case Study Questions* activity handout
- ◆ YouTube video (2.43): *Reasons to Consider Self-Funding: Understanding Self-Funded Health Care Plans and Stop Loss Insurance* and debriefing questions
- ◆ *True or Trick?* activity handout
- ◆ *Web Quest: When Should You Self-Insure?* activity handout
- ◆ *Self-Insurance Quiz* (ASSESSMENT)

*Teachers are encouraged to use as many of the student learning activities as time permits to provide a fuller understanding of self-insurance. The activities can also be used for extra credit assignments, homework, or after-school activities.*

## **PROCEDURE**

1. Ask students to explain what self-insurance is and to think of real life examples where they, or people they know, self-insured against a possible financial loss. Explain that there are basically four ways to handle risks with potential financial losses: 1. Avoid a risk completely (which is often not practical; e.g., not driving), 2. Reduce the severity of a loss (e.g., wearing seat belts), 3. Assume some of the loss personally (i.e., self-insurance), and 4. Transfer the risk of loss to an insurance company.

*Answers will vary. Students may or may not realize that the deductible on an auto insurance policy is a type of self-insurance where people assume a specific amount (e.g., \$500) of dollar loss. They may need to be prompted to consider this. They may also mention the need for an emergency fund to hold money that may be needed to pay for out-of-pocket costs.*

2. **Activity 1:** Show the videos *Insurance 101: Deductibles* and *Elimination Period for Disability Insurance* and ask students to work in small groups to answer the questions listed below. Debrief the activity. Below are answers to the *Deductible and Elimination Period Questions* handout questions:

### **What is the purpose of an insurance policy?**

To provide protection against financial losses to policyholders in exchange for payment of a premium.

### **What types of losses are not meant to be covered by insurance?**

Relatively small losses such as a flat tire and a new door than can be paid out-of-pocket by consumers. Insurance coverage is meant for large, financially devastating losses.

### **What is a deductible?**

The portion of a loss (e.g., \$500) that people with insurance pay out-of-pocket before insurance coverage begins. Example: \$1,000 claim - \$500 deductible paid by the insured = \$500 insurance benefit.

### **Why do insurance policies include a deductible feature?**

Deductibles are used so insurance companies can provide protection from devastating losses at an affordable premium cost.

### **How do deductibles work on health insurance?**

Policyholder must meet (reach) a specified deductible amount for the year and then it no longer applies.

### **How do deductibles work on property (e.g., auto and renters) insurance?**

Policyholders must pay the deductible amount (e.g., \$500) for each claim. For example, with a \$500 deductible and three claims in one year, a policyholder would pay a total of \$1,500 in deductibles.

### **How do deductibles affect the cost of insurance premiums?**

The relationship is as follows: the higher the insurance policy deductible, the lower the insurance premium. Conversely, the lower an insurance policy deductible is, the higher the insurance premium will be.

## **What is disability insurance?**

A type of insurance that provides regular income if you are unable to work due to an accident or illness.

## **What is an elimination period?**

An elimination period is the time period between when a disability initially starts (e.g., the date of a person's injury in a car accident) and when benefit payment begins. Elimination periods can be as short as several weeks and as long as a year.

## **How does an elimination period affect the cost of disability insurance policy premiums?**

The relationship is as follows: the longer the elimination period (e.g., 6 months vs. 3 months), the lower the insurance premium. Conversely, the shorter an insurance policy elimination period is, the higher the insurance premium will be.

## **How are deductibles and elimination periods in insurance policies similar?**

These two insurance policy features both require out-of-pocket payments (in the event of a claim) that policyholders should set money aside for in a designated emergency fund.

3. **Activity 2:** Distribute the *Self-Insurance Case Study Questions* activity handout. Ask students to work together in small groups to do the math calculations required to answer the case study questions.  
Answers to the questions are provided below under the case study description.

**Carly Ryan is 24 and employed full time. She owns a 12-year old used car worth \$1,000 and has car insurance with a \$500 deductible on collision coverage that will pay to repair or replace her car (up to its current value) if it is damaged in an accident. Due to her young age and residence in a densely-populated state (NJ), her annual auto insurance premium is \$2,700. She is exploring strategies to reduce this premium by several hundred dollars. Carly also recently attended a workplace seminar and learned about disability insurance and how important it is to protect against the loss of a person's future earning ability. She has a monthly student loan payment and pays \$600 a month to live in a rented house with four roommates. Carly's grandmother, Ana, 68, is also considering an insurance purchase: a long-term care insurance (LTC) policy that will help pay expenses if she needs to go into a nursing home or needs assistance with activities of daily living like dressing and eating. Like disability insurance, LTC policies come with a choice of elimination periods.**

## **If Carly has three auto accidents within one calendar year, how much must she pay out-of-pocket for deductibles?**

Carly must pay a total of \$1,500 in deductibles: a \$500 deductible for each of the three auto accidents.

## **What else could happen to Carly as a result of her three car accidents?**

If she is deemed to be at fault, she could receive points on her driving record. The number of points is based on various traffic violation codes. Accumulating points can be very costly. Her insurance company would most likely raise her insurance premiums and could even cancel (or choose not to renew) her policy.

**Carly's employer provides a high-deductible health insurance plan with a \$1,500 annual deductible. How much must Carly pay out-of-pocket if the medical expenses from her car accidents total \$2,000?**

With a \$1,500 deductible, Carly must pay the first \$1,500 of covered expenses herself before insurance kicks in. Many employers with high-deductible health insurance plans offer health savings accounts (HSAs) to help employees save for out-of-pocket health care expenses such as deductibles and copayments.

**What would happen if Carly did not have the money to pay the car insurance and health insurance deductibles?**

Her insurance policies will not pay benefits until she pays the deductibles first. Ideally, Carly would have a HSA or other designated emergency savings account with which to pay the deductibles. If not, people often use credit cards, take out loans, or borrow money from family members or friends to get quick cash.

**Given her three accidents, Carly is considering lowering her deductible to \$250. What are the pros and cons of doing this?**

Assuming that a \$250 deductible is even available from her insurance company and her car insurance policy is not cancelled due to the three previous accidents, an advantage to Carly of lowering the deductible would be less money required to be paid out-of-pocket in the event of another accident. A disadvantage would be the increased cost of her car insurance premium with a lower deductible. The lower an insurance policy deductible is, the higher the insurance premium will be for a given amount of coverage.

**Carly is considering eliminating collision and comprehensive coverage from her car insurance policy. What are the pros and cons of doing this?**

The car is only worth \$1,000. A popular car insurance industry rule says that, if premiums exceed 10% of the value of the vehicle, there is a good case for dropping collision and comprehensive because the potential payout is very low in comparison to the premium that is being paid (i.e., value of the car minus the deductible). Since the car is worth \$1,000 and Carly has a \$500 deductible, Carly would only receive \$500 if the car was totaled or had a claim. Using the 10% rule, if her collision and comprehensive premiums cost \$50 or more a year (virtually a certainty with a \$2,700 premium), dropping coverage would be a wise decision. The downside, of course, is that there will be no insurance coverage for car damage.

**What are the pros and cons for Carly of a 3-month versus a 6-month elimination period on disability insurance?**

The longer the elimination period (e.g., 6 months vs. 3 months), the lower the disability insurance premium. Conversely, the shorter an insurance policy elimination period is, the higher the insurance premium will be. Carly should consider factors such as the size of her emergency savings and the number of "sick days" (if any) available from her employer to pay her for days that she is unable to work.

**What are the pros and cons for Ana of a 3-month versus a 6-month elimination period on long-term care (LTC) insurance?**

The same as for Carly with disability insurance: The longer the elimination period, the lower the cost of a LTC policy premium and vice versa. Ana should consider her savings reserve when making this decision.

4. **Activity 3:** Explain that you are shifting topics from self-insurance by individuals to self-insurance by companies to provide health insurance benefits for their employees. Show the video *Reasons to Consider Self-Funding: Understanding Self-Funded Health Care Plans and Stop Loss Insurance* and ask students to work together in groups to answer the questions below. Debrief the activity. Below are answers to the *Employer Self-Insurance Questions* handout questions:

### **What percentage of covered employees are in self-funded health insurance plans?**

The video mentioned over 58% of workers in 2011, up from 40.9% of workers in 1998. In 2018, over 60% of workers were in a self-funded (self-insured) plan where employers keep the premium payments made by workers, contract with a third-party plan administrator, and pay the actual cost of claims themselves.

### **What is the difference between a self-funded (self-insured) plan and a fully-funded plan?**

With a self-funded plan, employers keep the premium payments made by workers, contract with a third-party plan administrator, and pay the actual cost of claims themselves.

With a fully funded plan, employers pay premiums to an insurance company which pays health care providers for plan participants' claims. These premiums are a fixed cost that must be paid regardless of how many claims are made.

### **Give two reasons why employers are choosing to self-fund (self-insure) employee health care costs.**

Following are reasons for employer self-insurance that were mentioned in the video:

- ◆ To only make payment for actual claims rather than pay a fixed cost to an insurance company
- ◆ To protect business assets (employers can select the amount of money to put in a reserve fund)
- ◆ To control costs (self-funded plan employers avoid paying some insurance taxes and fees)
- ◆ To create customized plan designs (i.e., provide benefits that meet actual employee needs)
- ◆ To maintain complete control of their employee claims data (to plan future health care costs)

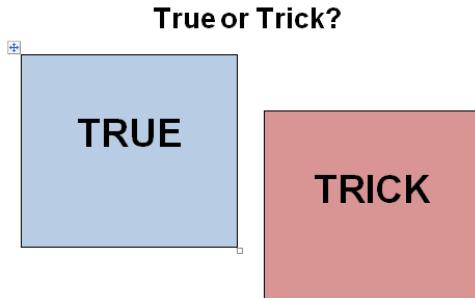
### **What is stop-loss insurance on a self-funded (self-insured) employer health insurance plan?**

As the name implies, stop-loss insurance is insurance that employers purchase for their self-funded (self-insured) plans to safeguard themselves against catastrophic medical expenses and "stop their losses." Some examples are having several workers or family members diagnosed with cancer or experiencing premature births of their children. Stop-loss policies reimburse employers for claims above a specified dollar limit.

### **Do you know if your parents have a self-funded (self-insured) health insurance plan?**

*Answers will vary among students. Most will probably not know. Encourage students to ask their parents to learn if the topic of self-insurance affects them personally (beyond the deductible on their car insurance).*

5. **Activity 4:** Distribute the *True or Trick?* activity handout to have students identify true and false information about self-insurance. Read each question and have students decide whether the statement is correct (hold up a *True* card) or false (hold up a *Trick* card). The *True* and *Trick* Cards should be printed on different color index cards or sheets of paper. See the sample below, Debrief each question using the descriptions of the correct answers found below.



**Self-insured employer health plan claims are paid entirely from a company's annual earnings.**

**TRICK**

Self-insured plans typically include a combination of premiums paid by employees and employer contributions. The money that is collected is earmarked for future health care claims and held in a special trust fund until it is needed.

**Self-insurance is especially advantageous for small employers with relatively few employees.**

**TRICK**

Large employers have more resources to handle the costs and administration associated with having a self-insured health care plan. They also have a large risk pool (i.e., more employees to collect premiums from) and are also more likely than small employers to generate sufficient reserves to handle potential health care costs. Small employers have fewer resources available to pay a third-party administrator to manage a self-insured health care plan and a smaller risk pool (i.e., fewer contributing employees).

**More than half of American workers with employer-provided health insurance are in a self-insured plan.**

**TRUE**

In 2018, more than three in five covered workers were participants in a self-insured plan. Many do not even know it because employers are not required to tell them and the process of receiving payment for health care services is very similar to that of a fully-funded plan. Participants will receive an insurance card to present to health care providers and pay deductibles and copayments.

**It is often a wise decision for homeowners to self-insure for homeowner's insurance.**

**TRICK**

It is almost always better to purchase homeowner's insurance than to self-insure. First, mortgage lenders will require homeowner's insurance equal to at least the mortgage amount to protect their investment. Second, homeowner's insurance provides liability protection as well as benefits to repair or rebuild a home. It would be difficult and costly to purchase these protections separately.

**Self-insurance should only be done by individuals when they can afford to personally pay for potential financial losses.**

TRUE

Individuals can usually afford to self-insure for small losses by using their current income or accumulated savings. For any potential risks of financial loss above what they can comfortably afford personally out-of-pocket, insurance should be purchased to transfer the risk of loss to a third party (i.e., insurance company) with “deeper pockets.”

**One way that individuals can increase their self-insurance is to make their auto and homeowner’s insurance policy deductibles larger.**

TRUE

When policyholders increase their deductible, they are self-insuring for a larger amount (e.g., a \$500 deductible vs. a \$250 deductible), which will lower their insurance policy premium payment.

**One way that individuals can increase their self-insurance is to make their disability insurance elimination (waiting) period shorter.**

TRICK

Policyholders will self-insure themselves less with a shorter elimination period because the insurance company will pay benefits sooner (e.g., in 3 months versus in 6 months with a longer waiting time).

**Stop-loss coverage is additional insurance that employers buy in the event of high claims.**

TRUE

The purchase of stop-loss insurance caps off the amount of money that employers would, otherwise, have to pay for large catastrophic health care claims incurred by their employees (e.g., cancer treatment) and/or employees’ dependents (e.g., a very sick newborn child).

**Employers with self-insured health care plans have a strong incentive to maintain a healthy workforce.**

TRUE

Keeping employees healthy through workplace wellness programs, company gyms, and other benefits can result in lower health care claims. Some self-insured employers are also experimenting with telemedicine and on-site clinics as alternatives to doctor’s visits and trips to hospital emergency rooms.

**When the cost of comprehensive and collision auto insurance is more than 50% of the value of the potential payout on a car being insured, the car owner should drop this coverage.**

TRICK

The correct percentage is 10%, not 50%. Applying the 10% rule, if a car is worth \$2,500 and has a \$500 deductible, the potential payout would be \$2,000 if the car was totaled as a result of an accident. If the collision and comprehensive part of the total auto insurance premium in this scenario cost \$200 (10% of \$2,000) or more annually, car owners should consider dropping this coverage, especially if they have adequate emergency savings to repair or replace their car. The reason is that the potential payout on older, low-value cars is very low (based on the current book value of the car) in proportion to the amount of the premium payment that is being charged for coverage.

- 6. Activity 5:** Distribute the *Web Quest: When Should You Self-Insure?* activity handout and ask students to work together in small groups to find information about situations where it is wise or unwise to self-insure for financial losses that are caused by risks in life. Debrief the activity with the entire class.

*Answers will vary. Students will likely find articles describing higher deductibles and longer elimination periods as forms of self-insurance. They might also find articles about the wisdom of self-insuring for different types of risk (e.g., life, homeowner's, long-term care, and auto self-insurance). A key point to make is that it may take a long time (e.g., 3 to 4 decades) for people to accumulate enough money to be able to self-insure. To have enough money to self-insure, most people need to save and invest regularly over an extended period of time. Until then, insurance policies can cover the risk of financial losses.*

## CLOSURE

Ask students if they have any remaining questions about self-insurance. Remind students that self-insurance is a major financial decision that should be made proactively after careful consideration of potential risk exposures and personal/family financial resources. There is a big difference between purposely deciding to self-insure against potential financial risks (e.g., death of a spouse) with adequate emergency reserves and simply going without insurance and hoping that “bad things don’t happen.”

## GLOSSARY

**Claim-** A request for payment from an insurance company to cover financial losses.

**Collision Coverage-** Insurance coverage that pays to repair or replace a car if it is damaged in a collision with another car or an object such as a telephone pole or fence.

**Comprehensive Coverage-** Insurance coverage that pays to repair or replace a car if it is damaged by vandalism, riots, fire, theft, explosions, falling trees or rocks, objects kicked up by or falling off other cars, storms, and accidents with animals (e.g., a car being struck by a deer).

**Deductible-** For *property* insurance, a flat dollar amount (e.g. \$500) or percent of insured home value (e.g., 1% to 5% of the insured value of a home) that a policyholder must pay per loss before insurance benefits begin. For *health* insurance, a specific dollar amount that must be paid out-of-pocket annually before benefits begin. After policyholders pay the full deductible amount, it no longer applies.

**Disability Insurance-** Insurance that provides monthly income (up to a specified limit) when a policyholder is unable to work due to an accident or illness.

**Elimination Period-** The period of time (e.g., 3 months, 6 months, 1 year) between when a policyholder first becomes eligible for insurance coverage (e.g., the day that a car accident takes place and someone is injured) and when benefit payments actually begin. Elimination periods are commonly seen in disability insurance policies and long-term care insurance policies.

**Fully-Funded Employer Health Insurance-** A health insurance plan where employers pay premiums to an insurance company in exchange for health insurance coverage for their employees.

**High-Deductible Health Plan (HDHP)**- An insurance plan with higher deductibles (four-figure dollar amounts) and lower premiums than typical health insurance policies. Minimum HDHP deductibles and maximum out-of-pocket expenses are indexed for inflation annually by the IRS and are used to determine whether or not people can open a health savings account (HSA) to save for out-of-pocket expenses.

**Long-Term Care Insurance**- Insurance that provides a monthly benefit to help pay for assistance with activities of daily living (e.g., bathing, dressing, toileting, and eating) when people are unable to perform these tasks themselves. Long-term care services can be provided in a policyholder's home, at an assisted living facility, or in a nursing home.

**Policyholder**- A person who has insurance coverage and pays premiums in exchange for coverage.

**Risk**- The chance of financial loss as a result of performing daily activities and property ownership.

**Self-Insurance**- The process of personally bearing financial losses arising from the risk of negative life events instead of transferring these risks to a third-party insurance company.

**Self-Funded Employer Health Insurance**- A health insurance plan where an employer collects premiums from employees and assumes the responsibility of paying the medical expenses of employees and/or their dependents. Funds for future health insurance claims are set aside in a designated account.

**Stop-Loss Insurance**- Insurance purchased by employers that caps off the amount of money that employers would, otherwise, have to pay for large catastrophic health care claims incurred by their employees (e.g., cancer treatment) and/or employees' dependents (e.g., a very sick newborn child).

## LEARNING EXTENSIONS

If time permits, the following activities can be used to extend the depth of this lesson:

- ◆ Show the YouTube videos *Self Insurance*: <https://www.youtube.com/watch?v=P5QBjW5sJ8U> and *Self-Insurance*: <https://www.youtube.com/watch?v=e4SOKjkzoxU> to deepen students' understanding of self-insurance from an employer's perspective.
- ◆ Have students review, analyze, and summarize the infographic *Top 10 Reasons Why it Makes Sense to Self-Fund Employee Health Care*: <http://springgroup.com/self-fund-employee-health-care-infographic/>
- ◆ Have students review, analyze, and summarize the infographic *Health Plan Differences: Understanding Self-Insured vs. Fully Insured*: [https://www.onedigital.com/blog/\\_health-plan-differences/](https://www.onedigital.com/blog/_health-plan-differences/)
- ◆ Invite a local insurance agent as a guest speaker to discuss decisions that consumers need to make about deductibles and premium costs for different deductible amounts.
- ◆ Have students write a summary of what they learned about self-insurance for the school newspaper.
- ◆ Have students interview a family member to learn about the deductibles on family insurance policies.

## **ASSESSMENT: Self-Insurance Quiz**

Instructors are encouraged to use the questions below for content review or as a pre-and/or post-test to determine gains in student knowledge about self-insurance after teaching this lesson.

Correct answers to the multiple choice and True-False questions are shown in boldface type.

### **Multiple Choice Questions**

1. Self-insurance for employee health care expenses is most likely to be offered by
  - a. Small private-sector employers (less than 100 employees)
  - b. Midsize private-sector employers (100 to 499 employees)
  - c. **Large private-sector employers (500 or more employees)**
  - d. Non-profit sector employers
2. Which of the following is *not* a reason for employers to self-insure their health care plan?
  - a. **To comply with the Affordable Care Act and state health insurance regulations**
  - b. To customize a health insurance plan for the specific needs of their employees
  - c. To maintain control over money placed in a reserve account for future health care claims
  - d. To be able to access company health care claims data
3. Which type of self-insurance feature is commonly seen in a personal auto insurance policy?
  - a. Copayment
  - b. **Deductible**
  - c. Elimination period
  - d. Stop-loss limit
4. Assuming no other policy changes, when deductibles increase, insurance policy premiums generally
  - a. Increase
  - b. **Decrease**
  - c. Remain the same for a minimum of two years
  - d. Can increase or decrease, depending on the insurance company
5. Which type of insurance would people with sufficient savings available be most likely to benefit from by self-insuring?
  - a. Auto insurance
  - b. Homeowner's insurance
  - c. Health insurance
  - d. **Life insurance**

### **True-False Questions**

1. One of the main benefits to self-insurance is potential cost savings (**TRUE: Whether self-insurance is practiced by an employer health care plan or by individual consumers, the goal is to pay less to cover potential financial losses than the premiums that would otherwise be paid to an insurance company as a fixed cost whether benefits are needed or not**)

2. It is a wise decision to self-insure for car insurance (**FALSE: The first and foremost reason not to self-insure is that drivers are required by state law to have car insurance. A secondary reason is that car insurance provides liability coverage for drivers who are sued for injuries caused to others in an accident as well as coverage for damages to a car. It would be very difficult and expensive for drivers to self-insure for both risks, combined, as auto insurance policies provide coverage for**)
3. Stop-loss insurance protects employers with self-insured health care plans from the risk of incurring catastrophic expenses (**TRUE: Employers purchase stop-loss insurance to control their downside risk in the event of multiple and/or very high-cost claims. Stop-loss policies are typically issued on an annual basis without guaranteed renewal, giving employers a strong incentive to maintain a healthy workforce with wellness programs, on-site clinics, telemedicine, and other services**)
4. Self-insurance for employee health care expenses is a good option for every employer (**FALSE: Employers must have a stable cash flow to cover administrative costs and unpredictable health care expenses. They also need a sufficiently large and diverse risk pool of employees to pay premiums to help fund their specially designated health care self-insurance account**)
5. Self-insured homeowners probably don't have enough savings to protect themselves in case someone is injured at their home (**TRUE: Homeowners who think about self-insuring typically think only about saving up for the value of their house. They often forget that a homeowner's insurance policy also provides liability coverage, which is often \$300,000 or \$500,000, depending on the policy limits**)

## REFERENCES AND RESOURCES

*Can You Self-Insure for Long-Term Care* (Forbes):

<https://www.forbes.com/sites/nextavenue/2016/05/06/can-you-self-insure-for-long-term-care/#5c5b99414ce3>

Deductible (HealthCare.gov): <https://www.healthcare.gov/glossary/deductible/>

Elimination Period (Investopedia): <https://www.investopedia.com/terms/e/eliminationperiod.asp>

*Fully-Insured vs. Self-Insured (Self-Funded) Health Plans* (People Keep):

<https://www.peoplekeep.com/blog/fully-insured-vs-self-insured-self-funded-health-plans>

*Health Insurance: Should You Consider Self-Insuring?* (American Express Open Forum):

<https://www.americanexpress.com/us/small-business/openforum/articles/health-insurance-consider-self-insuring/>

*Self-Insured Group Health Plans* (SIIA): <https://www.sii.org/i4a/pages/index.cfm?pageID=4546>

*Should I Self-Insure My Home?* (Obrella): <https://www.obrella.com/insurance-faq/should-i-self-insure-my-home/>

*Should You Buy Life Insurance or Be Self-Insured?* (Policy Genius):

<https://www.policygenius.com/blog/life-insurance-vs-self-insurance/>

*What Does It Mean to Self-Insure?* (The Balance): <https://www.thebalance.com/what-does-it-mean-to-self-insure-2386103>

*When Should You Self-Insure? (Can I Retire Yet?)*: <https://www.caniretireyet.com/when-should-you-self-insure/>

# **Deductible and Elimination Period Questions**

After watching the videos on deductibles and elimination periods, work together with other students to answer the following questions:

**What is the purpose of an insurance policy?**

**What types of losses are not meant to be covered by insurance?**

**What is a deductible?**

**Why do insurance policies include a deductible feature?**

**How do deductibles work on health insurance?**

**How do deductibles work on property (e.g., auto and renters) insurance?**

**How do deductibles affect the cost of insurance premiums?**

**What is disability insurance?**

**What is an elimination period?**

**How does an elimination period affect the cost of disability insurance policy premiums?**

**How are deductibles and elimination periods in insurance policies similar?**

# **Self-Insurance Case Study Questions**

## **Instructions:**

Form a small work group. Read the case study below and answer the questions that follow.

**Carly Ryan is 24 and employed full time. She owns a 12-year old used car worth \$1,000 and has car insurance with a \$500 deductible on collision coverage that will pay to repair or replace her car (up to its current value) if it is damaged in an accident. Due to her young age and residence in a densely-populated state (NJ), her annual auto insurance premium is \$2,700. She is exploring strategies to reduce this premium by several hundred dollars. Carly also recently attended a workplace seminar and learned about disability insurance and how important it is to protect against the loss of a person's future earning ability. She has a monthly student loan payment and pays \$600 a month to live in a rented house with four roommates. Carly's grandmother, Ana, 68, is also considering an insurance purchase: a long-term care insurance (LTC) policy that will help pay expenses if she needs to go into a nursing home or needs assistance with activities of daily living like dressing and eating. Like disability insurance, LTC policies come with a choice of elimination periods**

**If Carly has three auto accidents within one calendar year, how much must she pay out-of-pocket for deductibles?**

**What else could happen to Carly as a result of her three car accidents?**

**Carly's employer provides a high-deductible health insurance plan with a \$1,500 annual deductible. How much must Carly pay out-of-pocket if the medical expenses from her car accidents total \$2,000?**

**What would happen if Carly did not have the money to pay the car insurance and health insurance deductibles?**

**Given her three accidents, Carly is considering lowering her deductible to \$250. What are the pros and cons of doing this?**

**Carly is considering eliminating collision and comprehensive coverage from her car insurance policy. What are the pros and cons of doing this?**

**What are the pros and cons for Carly of a 3-month versus a 6-month elimination period on disability insurance?**

**What are the pros and cons for Ana of a 3-month versus a 6-month elimination period on long-term care (LTC) insurance?**

# **Employer Self-Insurance Questions**

After watching the video on employer self-insured health care plans, work together with other students to answer the following questions:

**What percentage of covered employees are in self-funded health insurance plans?**

**What is the difference between a self-funded (self-insured) plan and a fully-funded plan?**

**Give two reasons why employers are choosing to self-fund (self-insure) employee health care costs.**

**What is stop-loss insurance on a self-funded (self-insured) employer health insurance plan?**

**Do you know if your parents have a self-funded (self-insured) health insurance plan?**

# True or Trick?

## Instructions:

Answer the questions below and be prepared to defend your responses during the class discussion.

**Self-insured employer health plan claims are paid entirely from a company's annual earnings.**

**Self-insurance is especially advantageous for small employers with relatively few employees.**

**More than half of American workers with employer-provided health insurance are in a self-insured plan.**

**It is often a wise decision for homeowners to self-insure for homeowner's insurance.**

**Self-insurance should only be done by individuals when they can afford to personally pay for potential financial losses.**

**One way that individuals can increase their self-insurance is to make their auto and homeowner's insurance policy deductibles larger.**

**One way that individuals can increase their self-insurance is to make their disability insurance elimination (waiting) period shorter.**

**Stop-loss coverage is additional insurance that employers buy in the event of high claims.**

**Employers with self-insured health care plans have a strong incentive to maintain a healthy workforce.**

**When the cost of comprehensive and collision auto insurance is more than 50% of the value of the potential payout on a car being insured, the car owner should drop this coverage.**

## **Web Quest: When Should You Self-Insure?**

Use an online search engine (e.g., Google, Bing) to search for information about situations where it may be a good idea to self-insure and when it is not a good idea to self-insure. Find three articles from government agencies, trade associations, non-profit-organizations, or other sources without a commercial interest. List several key take-aways from each of the articles in the spaces below.

<b>Information Source</b>	<b>Information About Self-Insurance</b>

# ***Self-Insurance Quiz***

## **Multiple Choice Questions:**

**Circle the correct answer from among the four answers provided.**

1. Self-insurance for employee health care expenses is most likely to be offered by
  - a. Small private-sector employers (less than 100 employees)
  - b. Midsize private-sector employers (100 to 499 employees)
  - c. Large private-sector employers (500 or more employees)
  - d. Non-profit sector employers
  
2. Which of the following is *not* a reason for employers to self-insure their health care plan?
  - a. To comply with the Affordable Care Act and state health insurance regulations
  - b. To customize a health insurance plan for the specific needs of their employees
  - c. To maintain control over money placed in a reserve account for future health care claims
  - d. To be able to access company health care claims data
  
3. Which type of self-insurance feature is commonly seen in a personal auto insurance policy?
  - a. Copayment
  - b. Deductible
  - c. Elimination period
  - d. Stop-loss limit
  
4. Assuming no other policy changes, when deductibles increase, insurance policy premiums generally
  - a. Increase
  - b. Decrease
  - c. Remain the same for a minimum of two years
  - d. Can increase or decrease, depending on the insurance company
  
5. Which type of insurance would people with sufficient savings available be most likely to benefit from by self-insuring?
  - a. Auto insurance
  - b. Homeowner's insurance
  - c. Health insurance
  - d. Life insurance

## **True-False Questions:**

**Mark "T" for True or "F" for False in the space before each question.**

1. One of the main benefits to self-insurance is potential cost savings.
  
2. It is a wise decision to self-insure for car insurance.
  
3. Stop-loss insurance protects employers with self-insured health care plans from the risk of incurring catastrophic expenses.
  
4. Self-insurance for employee health care expenses is a good option for every employer.
  
5. Self-insured homeowners probably don't have enough savings to protect themselves in case someone is injured at their home.



The *Self-Insurance: What Is It and When to Do It?* lesson plan was written by Dr. Barbara O'Neill, CFP®, Extension Specialist in Financial Resource Management for Rutgers Cooperative Extension ([boneill@njaes.rutgers.edu](mailto:boneill@njaes.rutgers.edu)).

**Publication Date:** August 2018

This publication was supported with funding provided via August 2011 legislation, (N.J.S.A. 17:9-43.2.D) that authorizes New Jersey credit unions to serve as public depositories for the purpose of promoting personal financial literacy education.