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Why self-funded plans fall under federal ERISA law

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The Employee Retirement Income Security Act of 1974, known as ERISA, sets national standards for employee benefit plans. It covers reporting and disclosure, fiduciary responsibility, claims and appeals procedures, and the remedies available when a plan does not follow its own terms. For a self-funded health plan, ERISA is the governing framework, and understanding it is the first step in recovering overpaid claims.

Self-funded means the employer carries the risk

In a fully insured arrangement, an insurance company underwrites the policy and bears the financial risk of claims. In a self-funded plan, the employer assumes that risk directly and pays claims out of plan assets, usually with a third party administrator processing the paperwork and stop-loss coverage protecting against catastrophic cost. Because the employer is paying real dollars for every claim, every billing error is a direct loss to the plan, not a cost absorbed by an insurer.

Preemption is why federal law controls

Section 514 of ERISA preempts state laws that relate to employer-sponsored benefit plans. The Supreme Court has read this preemption clause broadly to serve the goal of a single national set of rules for benefit plans. Self-funded plans are generally not treated as insurance under state law, so they usually fall outside state insurance regulation and rely on ERISA instead. The practical result is that the plan document and federal standards, not a state insurance code, define how claims are paid and disputed.

Fiduciary duty runs to the plan

ERISA imposes fiduciary duties on the people who manage a plan and control its assets. A fiduciary must act solely in the interest of participants and beneficiaries, manage the plan prudently, and follow the plan documents. That duty does not end when the sponsor hires a third party administrator. Monitoring a service provider, confirming that plan assets pay only valid claims, and recovering money paid in error are all part of prudent administration.

The disclosure and enforcement structure

Plan administration and enforcement sit with federal regulators, primarily the Department of Labor through the Employee Benefits Security Administration. Participants must receive a Summary Plan Description that explains their rights, benefits, and the procedures for filing and appealing claims. This federal structure gives a self-funded sponsor a clear basis to demand documentation, question a paid claim, and pursue correction.

Why this matters for recovery

The combination of direct financial risk, federal preemption, and fiduciary duty is what makes recovery both possible and appropriate for a self-funded plan. The dollars belong to the plan. The sponsor has a duty to protect them. And the governing rules are consistent across states, which lets a disciplined audit and dispute process work the same way for every claim.

References

1. ERISA of 1974, Section 514 (preemption) and Part 4 (fiduciary responsibility), 29 U.S.C. 1001 and following.
2. U.S. Department of Labor, Employee Benefits Security Administration, plan administration and disclosure guidance.
3. Mercer, A primer on ERISA preemption of state laws.