

Protect Commissions to Ensure Access to Agents

By Janet Trautwein

The Senate will soon consider a bill that promises to save thousands of jobs and make it easier for Americans to secure high-quality, affordable health insurance coverage.

The *Access to Independent Health Insurance Advisors Act* (S. 2068) would modify the way that the federal health reform law calculates health insurers' administrative costs by excluding agents' commissions.

Such a change may seem arcane. But without it, thousands of insurance agents would be put out of work -- and millions of Americans would find it more difficult to obtain affordable coverage.

The federal health reform law dictates that insurers devote at least 80 percent of premium dollars to medical claims in the individual and small-group markets -- and 85 percent in the large-group market. Firms that don't reach these "medical-loss ratio" (MLR) thresholds must rebate consumers the difference.

The idea is to limit potentially wasteful spending on overhead and ensure that consumers get good value for their premium dollars. Unfortunately, agents and brokers are becoming collateral damage in the federal government's war on insurers' administrative costs.

Commissions shouldn't really be classified as administrative expenses for health insurers. They're actually paid by consumers. Insurance carriers simply serve as pass-through conduits for commission fees.

Here's how it works. A customer writes one check to the insurer, and the insurer immediately remits the portion of that check representing the commission back to the agent. It's neither income nor an expense for the insurance carrier.

Tabbing these commissions as administrative costs for insurers would be like forcing restaurants to count tips that customers leave for their waiters on credit cards as business expenses.

The misclassification of commissions has had swift -- and disastrous -- consequences. Many insurers immediately slashed spending on commissions when the MLR rules took effect last year.

The U.S. Government Accountability Office found that agent commissions have fallen by as much as 50 percent since the passage of the federal health reform law.

Agents can't afford to stay in business without commission income. And the exodus is already beginning.

A recent study by the Bureau of Labor Statistics found that the number of health insurance agents and brokers decreased by 3.3 percent nationally within the first few months of the enactment of the new MLR rules.

That's bad news not just for the American employment situation -- but for ordinary consumers and small businesses, too.

These folks have come to depend on agents to help them navigate an insurance marketplace that will only grow more confusing as the provisions of health reform take root.

According to a 2010 study from the Kaiser Family Foundation, eight in ten individuals reported shopping around for their insurance policy. More than a third -- 37 percent -- found that securing a suitable policy was difficult.

Agents alleviate these difficulties.

A 2010 survey from the Society for Human Resource Management found that smaller organizations were more likely than large firms to depend on brokers. Some 84 percent of firms with fewer than 100 employees used brokers to help them comply with the new healthcare law. Nearly the same share of companies with 100-500 employees relied on brokers -- and 74 percent of organizations with workforces of 500-2,499 people did so, too.

The service those brokers provide extends well beyond the initial sale. Agents routinely go above and beyond the call of duty for their customers.

One customer recounted how his broker "answered my call (on Christmas), called the manager at the insurer on his cell, and after an hour or so of back and forth determined the ER made a clerical error . . . she spent her holiday taking care of me."

Speaking of her state, Kansas Insurance Commissioner Sandy Praeger said, "There is still a need to provide one-on-one advice and explanations in order for Kansans to receive the best coverage for their needs. That's where agents should come into play." Florida Insurance Commissioner Kevin McCarty, and the current President of the National Association of Insurance Commissioners, has similarly said that his colleagues must "take definitive action to preserve the role of agents in giving consumers advice in purchasing health insurance in this increasingly complex regulatory environment."

Indeed, the skills and knowledge agents possess are more essential than ever. Excluding commissions from the medical-loss ratio will ensure that they can continue providing the stellar service on which individuals and small business rely.

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