

Is Your Benefits Broker Leading You Astray?

By Jim Edholm

Group benefits brokers will tell you that their services come free. As a broker I make that point regularly. There aren't any additional costs for a group plan when you buy via a broker instead of directly from the carrier.

Brokers receive commissions to keep your account functioning smoothly. That's good for you, the broker and the carrier. But another form of broker compensation gets precious little attention — bonuses. Unlike commissions, bonuses primarily benefit the broker and insurance carrier.

Bonuses typically reward the broker for:

- **Placing new business with the carrier.** The more products sold and the more accounts placed with a carrier in a given year, the bigger the broker's bonus.
- **Total business with the carrier.** The more business, the bigger the bonus, both in amount and as a percentage of total premiums. All else being equal, brokers with \$6 million in premiums with a carrier are paid more than twice the bonus of brokers with \$3 million in premiums.
- **Percentage of last year's business renewing with the carrier.** The greater the share of a carrier's business the broker renews, the greater his bonus.

Let's assume a broker placed all of his new health insurance account in a given year with Carrier A, with whom the broker already has a large book of business. Because of the dynamics of the bonus arrangements, this broker gets the maximum possible bonus from that carrier.

Now assume you're that broker's client and it's renewal time. What happens if he moves you to another carrier?

Commission rates of all major carriers are about the same, so his commission wouldn't change much. But his bonus on your account would completely disappear! Since this broker has all his business with one carrier, he won't get a bonus from any other carrier.

How big can bonuses be? For example, one prospective client of mine spent \$123,648 on dental insurance in 2005. The commissions were \$5,330 and the bonuses were \$6,787! That firm's broker would be cutting his income by more than 56% to move the account to another carrier. That same employer's broker got paid \$18,589 in health-insurance commissions, plus an additional 37 percent, or \$6,953, in bonuses,

If your business has fewer than ten employees, you probably needn't worry, since most business is written through intermediaries. If you have more than 100 employees, ask your broker for Form 5500, which spells out compensation. If you're between ten and 100 employees, ask your broker what percentage of total income his practice gets from bonuses vs. commissions. (At our firm it's less than 3% because we regularly move our clients from carrier to carrier to save

premium cost; we feel we owe them that.) When you ask, watch his expression. Shock or surprise may indicate that he's getting more than he'd like you to know.

In Massachusetts, carriers' relative competitiveness changes every 2-3 years. Carriers that were "hot" in 2002-04 aren't hot now; the icy cold ones then thus look pretty good now! Been sitting with the same carrier all that time? You may be a victim of the "bonus boogie."

Conversely, remember that larger companies (more than 75-100 employees) should change carriers less often, as frequent carrier switching is considered a negative underwriting characteristic, raising your costs. It's a balancing act.

Invite another broker to quote periodically. Doing so every year is overkill — you should show some loyalty to the broker who services you --- but occasionally it's not a bad idea to get a newcomer's input on your benefits. But if you do, make sure from the start that retention bonuses aren't motivating him to put your interests below his!

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