National Association of Health Underwriters

America's Benefits Specialists

The Patient Protection and Affordable Care Act's Medical Loss Ratio Requirements

Myths and Realities about the Impact on Health Insurance Consumers and Professional Health Insurance Agents and Brokers

Myth: Health plan profits are the cause of higher health care spending. MLR implementation will put a stop to gouging by insurance companies.

Reality: The latest Yahoo! Finance quarterly corporate financial data shows the following:

- The health insurance industry's average profit margin is 4.40%. This ranks the health insurance industry 143 out of 215 different industries.
- Within the health care sector, the health insurance industry ranks 12th out of 16.

Myth: MLR implementation will make insurance premiums more competitive.

Reality: Insurance markets vary considerably from one state to another. In rural states, for example, some carriers that currently provide coverage in remote areas will be unable to meet the MLR requirements and will exit the market, leaving consumers with fewer choices. Furthermore, the administrative costs of marketing a new plan in a state will be prohibitive given the MLR requirement, so companies will have no incentive to enter a new state and offer consumers new health plan choices.

Myth*: It's the cost of health insurance that's the problem, and agent and broker commissions only contribute to high insurance premiums. The MLR is the only way to contain premium costs.*

***Reality**:* Actually, agent and broker commissions have nothing to do with how health insurance premium rates are determined. Premiums are set by a wide variety of factors, the most of important of which is the cost of medical care. The agent and broker commission is a set fee tacked on to the premium at the end of the process, similar to state and federal taxes. The commission is never part of the insurance carrier's revenue stream, but is merely a pass-through expense. It is billed that way both as a consumer convenience and as a means of complying with state premium tax and consumer-protection laws.

There is also no evidence that the MLR requirements will lower health insurance premiums. In the states that have already tried loss ratio caps, premiums and health care costs are not lower and health care quality is not better. Instead, these requirements actually discourage health plan investments in programs that generate long-term medical care cost savings and improve health care quality. Also, many administrative functions performed by insurers, such as providing customer service lines and processing claims, are largely fixed costs. These fixed costs are a very small percentage of the premiums of higher-cost policies, so the new MLR requirements may perversely incent carriers to offer higher premium plan choices rather than lower cost options.

Myth: Excluding commissions from the MLR calculation will be a windfall for insurers and consumers will be hurt.

***Reality**:* The cuts in commissions due to the implementation of MLR have already hurt consumers. In every state, as a direct result of the new law's MLR provisions, health insurance agency owners are reporting that they are reducing services to their clients, cutting benefits and eliminating jobs just to stay in business. In some instances, they are simply closing their doors. In rural areas, many agents report that they are no longer able to travel to clients' homes and offices to walk them through the application process. In all parts of the country, the hours agents and brokers can afford to spend resolving billing and claims issues have been drastically cut. The current law puts American consumers, businesses and families at risk. As it stands now, they will be left without advocates to assist with coverage or claims problems and without professional advisors to assist in finding the right plan that fits their needs at a cost they can afford.

Myth: Buying insurance is a lot like buying an airline ticket, and health reform will make shopping for coverage even easier. Why should anyone pay an agent or broker to help them?

Reality*:* Purchasing health insurance as an individual or as a business owner is one of the most important financial decisions you can make. It's nothing at all like buying a plane ticket! An airline ticket is a one-time purchase that takes you to a known destination. The variables for how you get there may cost you time and frustration, but that's all. Health insurance is a complex financial product, and price alone does not determine the best coverage choice. Family coverage can be particularly complicated when family members have different health concerns. What may be best for one family member is not the best for another. If someone purchases the "wrong" plan, he/she may not have coverage for needed services, to see their preferred doctor, or to go to their preferred hospital.

Moreover, unlike airline tickets, the purchase of health insurance typically includes considerable assistance after the sale. Insurance brokers assist consumers with plan selection, insurance billing and claim filing, and contract interpretation. Brokers often intercede on behalf of clients to obtain payment for services that may not be typically or otherwise covered under a plan, i.e., services that may be new or deemed experimental. For employers, brokers often serve as an extension of the human resources department and design comprehensive benefit programs, provide employees with information about the selected plans, process enrollees and handle compliance matters, as well as service employee claims concerns. Finally, as health insurance is typically purchased on an annual contract basis, agents and brokers help save their clients significant money each year by ensuring that they are getting the best value for their dollar at renewal time; and if there is an issue with renewal premiums, they assist them in finding alternate coverage.

Myth: Insurance agents work for the health insurance companies, so their commissions should be considered an administrative cost.

Reality: The vast majority of health insurance policies in this country are sold and serviced by independent agents and brokers. Independent health insurance agents and brokers do not work for health insurance companies. They run their own businesses, hire their own employees and pay all of their own office expenses, such as rent, utilities, workers compensation, and professional liability insurance. All of their business expenses are paid through the commission revenue they receive. To be in business, each state requires agents and brokers to take an examination, maintain a license and complete continuing education requirements. Agents and brokers are highly regulated by their state insurance departments, and they have a legal responsibility for the performance of products they sell and the advice and assistance they provide to their clients.

Myth: Insurance brokers could just charge clients separate fees for their services.

Reality*:* Sometimes, agents are permitted to charge a fee, particularly to very large employers that do not purchase traditional coverage but instead self-fund their employee benefit plans. However, there are state laws that prohibit charging separate fees for all services provided to individual health insurance consumers, as well as to most traditional employer group plans. Most state laws require agent and broker commissions to be part of the premium for premium tax collection purposes. Also, state anti-rebating laws and producer licensure requirements help make the commission payment structure the national standard.

An embedded commission structure does benefit consumers. It provides customers with advocacy services at the very times they most need it—when they face medical and/or financial trouble—but with no worries about what these services might cost. If, for example, consumers had to pay hourly fees, during a medical crisis a consumer would likely wind up spending more in service "fees" per billable quarter-hour than what they currently spend on the commissions embedded in their premium over the life of their policy. Under the current system, there is NO additional charge to the client for any service the client needs at any time he or she needs it.

Myth: Insurance broker commissions are an administrative expense for health insurance carriers.

Reality: Commissions have been included as a small part of every single health insurance policy premium payment for more than 100 years. This payment structure is a consumer convenience, but it is also required by a myriad of state-level licensing, consumer-protection and tax laws.

Not one penny of independent agent/broker commission ever goes to a health insurer's bottom line. Instead it is a pass-through fee that goes directly from consumers to their health insurance agent. The health insurance companies don't hire health insurance agents and brokers—individual employers and consumers do. Only the individual consumer or employer can decide whether to keep or fire their agent.

Myth: Insurance brokers earn 20% and more in commissions for each policy that they sell.

Reality: Most of the higher commission rates written about in the press at this level are for products other than health insurance. There are some select areas of the country where an agent may receive commissions in this range for individual health insurance policies only, but commissions are typically much lower. For individual policies, the payment is typically in the seven to 10% range for the initial year the policy is sold, and much less in the outlying years. For small-employer plans, the commission typically rates range from two percent to eight percent, depending on the size of the company and the state insurance market. For larger employers, the commission is often less than three percent. Also, in many cases, the agent is not paid on a percentage basis, but instead receives a small flat monthly fee for each primary insured individual per month. Most of the time, if an insurer is allowed by state law to vary a health insurance premium based on medical status, the agent only receives a commission on the based preferred rate, offered to the healthiest enrollees, regardless of the health status of their client(s). Furthermore, agent and broker commissions are often based only on the initial amount of the health insurance premium. The amount of any annual premium increase is usually not factored in to their overall commission.

Myth: Insurance brokers are big business and they make too much money. The MLR requirements are needed to reign in their huge salaries.

Reality: There are approximately 500,000 health insurance brokers nationwide, and they work in every community. For the most part, they operate Main Street small businesses rather than Wall Street-type firms. Their mean annual wage in 2010, according to the federal Bureau of Labor Statistics, was $62,520.