

## Scenario #6 - Ernie Smith, independent insurance agent

Ernie has been an insurance agent, working on his own, for twenty years and wants to retire within the next two years, at age 63. His doctor has told Ernie that he will need at least one hip replacement soon. He will have to hire a temporary worker to help him with the business while he recovers.

He sells all lines of insurance: life, health, property & casualty, long-term care, etc. but is wondering with the elections coming up how his health insurance business will fare. He works with ten insurance companies so that he can offer his clients choice. He specializes in small businesses and acknowledges that it is getting harder to find affordable plans for his clients.

One other change in Ernie's business is the Internet. Many people now bank, shop, and sign up for all manner of insurance and other programs online. The "e-insurance" business, Ernie fears, might well put his personal, face-to-face livelihood in jeopardy. He worries that much of the advertising he sees on these Web sites is misleading, making the "fine print" even smaller.

While Ernie believes that everyone should have basic health care coverage, if the insurance companies were eliminated, his income of \$85,000/year would take a big hit. He is selling the HSA program to some of his clients, but feels compelled to tell them the downside as well as the affordable rates of the program. Experts are concerned that people will be moved to delay getting necessary care in order to keep the most money possible in their savings accounts.

### **From U.S. Department of Labor – Bureau of Labor Statistics**

The median annual earnings of wage and salary insurance sales agents were \$43,870 in May 2006. The middle 50 percent earned between \$31,640 and \$69,180. The lowest 10 percent had earnings of \$24,600 or less, while the highest 10 percent earned more than \$115,090. Median annual earnings in May 2006 in the two industries employing the largest number of insurance sales agents were \$46,210 for insurance carriers, and \$42,950 for agencies, brokerages, and other insurance related activities.

Many independent agents are paid by commission only, whereas sales workers who are employees of an agency or an insurance carrier may be paid in one of three ways: salary only, salary plus commission, or salary plus bonus. In general, commissions are the most common form of compensation, especially for experienced agents. The amount of the commission depends on the type and amount of insurance sold and on whether the transaction is a new policy or a renewal. Bonuses usually are awarded when agents meet their sales goals or when an agency meets its profit goals. Some agents involved with financial planning receive a fee for their services, rather than a commission.

Company-paid benefits to insurance sales agents usually include continuing education, training to qualify for licensing, group insurance plans, office space, and clerical support services. Some companies also may pay for automobile and transportation expenses, attendance at conventions and meetings, promotion and marketing expenses, and retirement plans.

Independent agents working for insurance agencies receive fewer benefits, but their commissions may be higher to help them pay for marketing and other expenses.

### **Small employer group coverage**

According to a 2007 study, about 59% of employers at small firms (3-199 workers) in the U.S. provide employee health insurance, compared to 99% of large employers. The percentage of small firms offering coverage has been dropping steadily since 1999. The study notes that cost remains the main reason cited by small firms who do not offer health benefits.

The types of coverage available to small employers are similar to those offered by large firms, but small businesses do not have the same options for financing their benefit plans. In particular, self-insuring the benefits is not a practical option for most small employers.

States regulate small group premium rates, typically by placing limits on the premium variation allowable between groups (rate bands). Insurers price to recover their costs over their entire book of small group business while abiding by state rating rules. Over time, the effect of initial underwriting "wears off" as the cost of a group regresses towards the mean — the average health status of the group eventually moves towards that of an average group. The process used to price small group coverage changes when a state enacts small group reform laws.

Insurance brokers play a significant role in helping small employers find health insurance, particularly in more competitive markets. Average small group commissions range from 2 percent to 8 percent of premiums. Brokers provide services beyond insurance sales, such as assisting with employee enrollment and helping to resolve benefits issues.

For many small employers, years of premium increases have given them few options: Raise the amount workers pay, drop coverage or reduce benefits. "When they hit us with another 25% increase for this year, we had to re-evaluate," says Howard Chanin, president and co-owner of 17-employee Butler Mortgage in Kissimmee, Fla. Chanin asked his workers whether they'd rather have higher deductibles or higher premiums. They wanted the lower premiums. So the annual deductible — the amount workers pay, in addition to premiums, for medical care before their insurance coverage begins — went from \$500 a year to \$2,500. "We're taking it year by year," Chanin says.

### **The Underinsured**

- There are 17 million people **with** coverage, but that coverage will not pay for the treatments necessary to fight cancer and other very serious diseases.
- More than an estimated total of 61 million adults, or 35 percent of individuals, ages 19 to 64, had either no insurance, sporadic coverage, or insurance coverage that exposed them to high health care costs during 2003.

Relative to those with more adequate insurance, the underinsured were significantly more likely to go without care because of costs. In fact, they reported rates of cost-related, forgone care close to those of the uninsured.