The Impact of Commissions on Group Benefit Pricing

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In the world of providing financial advice and financial products to clients, commission rates have been an integral part in the pricing of these products. For the most part, comission rates are highly regulated by their respective authorities; However, in the realm of group benefits, they are not. Advisors have a significant degree of latitude in charging commission rates not found in other financial products.

Business Owners are largely unaware of this and more importantly, the significant impact commissions can have upon their group benefit pricing. Within group benefits, the advisor is free to charge what they want and are only governed by their ability to explain various rates in the context of claims and the benefits provided. One of the trends I have observed is the charging of a flat commission rate, which tends to be out of proportion to both the work done, and the size of the group. Your failure as a business owner, to be aware of these cost factors, can have profound impact upon the benefits you provide your employers and the price you pay.

Let me provide you with some context: I recently acquired a client of approximately 75 employees. In this instance the former advisor had attached a flat 10% commission rate to the Group Benefit Plan. When the group was small and possessed few employees, the effort to provide them with Group Benefits would have been considerable relative to the overall premium paid by the group. However, as time elapsed and the company grew, this commission rate no longer reflected the time and effort needed to provide them with good service. In the advisor's year of having them as a client, their commission income would have been $19,935!

For the Client, this commission rate resulted in an Adjusted Loss Ratio (ALR) of 70.6%. This means for every $100 premium paid, $29.40 went to run the insurance company back office and pay the advisor. Simply put, only $0.71 of every dollar was available to provide benefits for the employees of that company, including you. Frankly, that is not right.

After our assessment, we affected an adjustment to this commission rate using the standard crown scale. This declining percentage based upon the increasing size of the group and the premium they pay, has resulted in a change to the ALR that has improved this number to just under 80%. The insurance company has enough money to provide the wealth of services and systems required to fund the risk and provide the benefits to the employees. It also means we have enough money to provide the necessary client support services related to information presentations, problem resolution, contract pricing negotiations and market surveys.

Most importantly, the client has more money to utilize for benefits for their employees and savings in their budget. In their specific circumstances the current benefit renewal has resulted in a 17% reduction in their 2015 premium. While other factors such as claims and the increasing size of the company influence the rate reduction and change to the ALR, the change in the advisors commission accounted for approximately 35% of this reduction. An informed and happy client is always the best outcome

"Providing thoughtful & effective benefit's design starts with a conversation"

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