Issue Brief
Findings from HSC

THE ROLE OF HEALTH INSURANCE BROKERS:

Providing Small Employers with a Helping Hand

by Leslie Jackson Conwell

Insurance brokers play an important role in helping small employers find affordable health coverage for their workers and dependents. While there are costs for using brokers, an examination of the role of brokers in 12 nationally representative communities by the Center for Studying Health System Change (HSC) indicated that brokers provide valuable services to small firms, such as obtaining prices for coverage, explaining benefits to employees and problem solving for employers. In some markets, brokers also helped educate employers and employees about state policy initiatives to expand coverage. In contrast to the notion that brokers merely make insurance more costly, these findings suggest brokers can provide important benefits to small employers, plans and policy makers.

The Role of Brokers

Health insurance brokers are a common feature of the small group health insurance market. At least half of small firms (those with two to 50 workers[1]) obtain health benefits through brokers or agents.[2] In addition, most health plans view brokers as an extension of their marketing efforts. Despite brokers' prevalence, their role often is unclear to those outside the health insurance industry. Yet, a better understanding of how these intermediaries interact with employers and health plans can help policy makers develop effective policies to expand insurance coverage for workers in small firms.

The cost of coverage is a major impediment for small employers.[3] Administrative expenses—including brokers' commissions—contribute to the high cost of insurance since small firms have fewer people over whom to spread such fixed costs. Because brokers' commissions can be a significant component of administrative costs,[4] policy makers occasionally have proposed regulating brokers' commissions to make insurance more affordable. It is unclear, however, whether reducing or eliminating these commissions would lower premiums because health plans probably would take over many of the services currently provided by brokers and pass along the cost to employers.

During site visits to 12 communities in 2001-02 as part of the Community Tracking Study (CTS), researchers examined the costs and benefits of using brokers as well as brokers' changing role in the small group market. Through interviews with brokers and representatives of health plans and small business associations, researchers explored the types of services brokers provide to health plans and small employers.

Understanding Commissions

Health plans reported that brokers are influential in directing business to them. In highly competitive insurance markets, such as Orange County,

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FAQs: Understanding Brokers

What is a broker?
Brokers typically are independent agents who receive commissions from an insurer for selling insurance products. Brokers usually work with multiple insurers, while *agents* have an exclusive relationship with a single insurer. A *general agency*, also known as a wholesale distributor or broker's broker, serves as an intermediary between brokers and insurers. The general agency distributes multiple insurers' products and works directly with brokers.

Who uses brokers?
While brokers' clients can range from individuals to very large firms, brokers most often work with employers with two to 50 employees.

How much does it cost to use a broker?
Health plans typically pay brokers' commissions. Commission rates vary across and within markets. Rates within HSC's 12 sites ranged from 2 percent to 8 percent and often are lowered as group size increases. Plans usually build commissions into the premium rates charged to firms, regardless of whether a firm used a broker.

Calif., and Seattle, health plans reported that brokers provided more than 90 percent of business referrals from the small group market. Some insurers relied almost exclusively on brokers by distributing their small group market products through general agencies (see box). Even in less competitive markets, brokers often had a significant role. For instance, although Anthem dominates the Indianapolis small group market, plan respondents stressed that brokers are key to their distribution strategies.

Typically, brokers receive commissions from health plans in exchange for selling insurance products. Plans usually consider commissions to be part of fixed administrative costs for all small firms, so they build them into the premium. In that way, all small firms cross-subsidize the cost of using brokers even if they don't use them, thus providing a powerful incentive for small firms to do so.

There was some variation across markets in the commissions reported by respondents, ranging from 2 percent to 8 percent. In two markets, state regulations influence commissions. New Jersey's 1992 individual and small group market reforms attempted to make health insurance more affordable by requiring health plans to pay at least 75 cents of every premium dollar on medical expenses. In response, health plans cut commissions. In New York, small group market reform in 1993 limits health maintenance organizations' (HMOs') broker commissions to 4 percent of premiums.

In addition to variation across markets, commissions can vary significantly within a market, reflecting health plans' differing business strategies and changes in market conditions. Plans attempting to expand market share tend to pay higher commission rates to encourage referrals. As an example, one small health plan in Indianapolis paid brokers a 10 percent commission, even though commissions there typically ranged from 6 percent to 8 percent. The underwriting cycle also influences a plan's commission rates, with plans paying higher rates during the phase of the cycle when they are trying to attract new business and lower rates during the following phase, when firms are seeking to restore profitability.

Some health plans find that paying brokers' commissions does not fit into their business strategy. For example, only one health plan in the markets studied chose not to pay commissions, relying instead on internal sales staff. But that plan—Blue Cross Blue Shield of Central New York—dominates its market and is able to maintain its market share. This is very much an exception among commercial insurers. Traditionally, group and staff-model HMOs have not paid commissions, but this is changing as well. For example, in an effort to be more competitive with commercial insurers in the small group market and attract greater market share, Kaiser Permanente in Orange County and Univera in Syracuse now pay commissions.

Health plans occasionally use commission rates to discourage brokers from referring

bad risks or market segments with above-average utilization of services, known as adverse selection. For example, some plans pay no or very small commissions for business sold to the smallest groups, which often have the highest potential for adverse selection. In Miami, health plans would not pay commissions for groups with fewer than 10 people. This is counterintuitive because health plans usually decrease commissions as group size increases to reflect the lower cost of marketing to larger firms. This attempt to discourage business referrals based on the size of a group is in violation of the federal small group market reform, known as the Health Insurance Portability and Accountability Act (HIPAA). The Centers for Medicare and Medicaid Services, which is charged with enforcing HIPAA, has condemned these practices and has encouraged states to take appropriate actions against such activities.[5]

Benefits for Employers and Plans

Brokers help employers determine a price range and desired benefits and obtain premium quotes from insurers. Often brokers will "spreadsheet" the different options for an employer to compare and contrast the rates and the benefits packages. Once employers select a product, most brokers then assist them in explaining benefits options to employees, completing enrollment forms and ensuring enrollees receive the necessary documentation, such as a description of benefits and member cards.

Brokers' services often continue after enrollment. Small employers usually do not hire employees solely to handle benefits issues. Instead, employers tend to view brokers as their benefits staff, relying on them for assistance when employees have problems, such as denied claims or service issues.

HSC found less consistency in brokers' role when insurance policies came up for renewal. Some encourage firms to renew their contracts and explain changes in premiums or benefits proposed by the plan. If the proposed premium increase is unusually high, brokers explore other options for the employer, repeating the steps taken earlier. In contrast, other brokers view their job as conducting an annual search for the lowest-cost insurance for their clients.

Health plans also benefit from brokers' activities via business referrals and other factors. Health plans can save money on marketing efforts by employing a smaller internal sales force. By helping small firms complete applications, brokers improve accuracy and reduce the need for plans to request additional information. In Orange County, some plans have distributed their underwriting policies to brokers, thus limiting the number of premium quotes to which a plan must respond. Brokers occasionally provide equally important but less tangible benefits. For instance, PacifiCare respondents in Orange County described how brokers educated small employers about the health plan's position during a highly publicized contract termination between the plan and the area's largest provider system.

Working with brokers also has a downside for plans. Plan respondents complained that brokers funnel communications, which limits plans' ability to speak directly with potential clients and establish direct relationships with employers. Plan respondents also said some brokers were sources of miscommunication between plans and employees, and that some brokers were not knowledgeable about the insurance products they were selling.

Brokers' Changing Role

Although nearly all observers reported that brokers were mainstays of their markets, advances in information technology could bring about changes. Small employers will have more opportunities to purchase insurance online, either through brokers who have established Internet sites or directly from health plans. This could result in greater competition between brokers and plans.

Some people have drawn a parallel to the airline industry, where the growth of online ticket sales led airlines to stop paying travel agent commissions. But purchasing health insurance is more complicated than buying a plane ticket: significant variations exist in provider networks, covered benefits and cost sharing. Sorting out these nuances and meeting with sales representatives from various plans has a high opportunity cost for employers. Many firms prefer to rely on brokers to work with insurers, explain the options and help make a decision.

Changing market conditions have resulted in the need for fewer brokers in some communities and more in others.

Brokers' relationships with plans and employers have the potential to be an asset in policy makers' attempts to expand coverage.

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Other forces that could change the role of brokers:

- **Market Conditions**. Changing market conditions have resulted in the need for fewer brokers in some communities and more in others. Consolidation among health plans in Greenville, S.C., reduced the number of insurance options, thus lessening employers' need for brokers. And in Seattle, plans have begun to contract selectively with the brokers who are most knowledgeable about plans' product array and most effective in bringing more business to plans.

  In Orange County and Syracuse, in contrast, employers were increasing their use of brokers and demanding more account services, such as administration of Consolidated Omnibus Budget Reconciliation Act (COBRA) requirements for terminated employees wishing to continue health insurance coverage.

- **Public Sector Involvement**. In some communities, brokers have begun to play an important role in educating employers and employees about public insurance programs. For example, in Syracuse, brokers have referred eligible families to Medicaid and the State Children's Health Insurance Program. Although brokers are not paid for these efforts, this work generates goodwill with employers, who can direct their low-income employees to health insurance options for dependents.

  Attempts to exclude brokers from public initiatives have caused problems in some communities. Legislators in Florida and California sought to create purchasing cooperatives for small employers and bypass brokers to avoid paying commissions. Brokers' strenuous protests, however, led Florida policy makers to establish them as the sole distribution outlet. California's cooperative tried to educate small employers about the cost of using brokers by making commissions a separate line item on employers' invoices, but abandoned this policy because of brokers' hostility and small employers' continued preference for using brokers' services.

Despite some changes, brokers remain entrenched in the small group insurance market. While they provide useful benefits to small employers, these services, along with increasing costs for health care, new technology and pharmaceuticals, contribute to the high cost of health insurance in the small group market, causing some small firms to be priced out of offering health insurance.

Policy makers often assume brokers simply add to the already high cost of health insurance. But this conventional wisdom may be too narrow: while brokers are an expense, they do provide important benefits to health plans and employers, and these relationships have the potential to be an asset in policy makers' attempts to expand coverage. ●

Notes

1. The Health Insurance Portability and Accountability Act (HIPAA) defines small firms as those with between two and 50 employees.
2. Marquis, Susan M., and Stephen H. Long, "Who Helps Employers Design Their Health Insurance Benefits?" *Health Affairs*, Vol. 19, No. 1 (January/February 2000).
3. The Kaiser Family Foundation and Health Research and Educational Trust, *Employer Health Benefits: 2001 Annual Survey*, The Henry J. Kaiser Foundation (2001).
4. Hall, Mark A., "The Role of Independent Agents in the Success of Health Insurance Market Reforms," *Milbank Quarterly*, Vol. 78, No. 1 (March 2000).
5. Correspondence dated July 14, 2000, to the National Association of Health Underwriters.

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