



The need for a State-level Exchange

TALKING POINTS

- Under current law, exchanges are not optional. If a state fails to take the necessary steps to begin creating exchanges to serve the individual and/or small group markets by January 1, 2013, the PPACA law requires the Department of Health and Human Services to create and operate exchange options for state residents instead.
- Allowing for a federal fallback exchange for state residents and business owners would give the federal government unprecedented control over the not only the state's private insurance market, but also its public health assistance programs like CHIP, Medicaid, the High Risk Pool and associated state-level expenses.
- If a federal exchange were created the federal government, not the states, would establish enrollment/disenrollment and other plan functions details normally under state control today.
- Each state's population is different, with diverse needs and interests. Creating exchanges at the state level will allow for variations and innovations to accommodate the specific needs of Idaho residents. State-level exchanges will also provide residents with customized and timely consumer protections, patient advocacy and more effective customer service than a national exchange operated by federal regulators ever could.
- State-level exchanges also ensure that state officials have complete control over associated spending. PPACA does establish federal start-up grant funding for state-based exchanges, and requires that each exchange must be self-sustaining by January 1, 2015, but there will be ongoing administrative costs, which will, in all likelihood, be borne by the state.
- If a federal exchange is created for the state of Idaho, state premium taxes would no longer be collected. The premium tax is currently the 4th largest revenue source for the State of Idaho; if the premium tax is no longer collected the state would lose a significant amount of budgeted revenue.
- If the state government retains control over its exchange's administration and design, it can make responsible choices about what type of exchange infrastructure that best suits the state in terms of budget and the needs of its specific population.

- If a state-level exchange is created the state will have more control as to which carriers will provide the health insurance plans in the exchange. It has been stated that if a federal exchange is created there will only be three options; Medicaid, a for-profit carrier and a non-profit carrier. In a federal exchange there is a high probability that Idaho's local carriers would no longer be selling individual or small group plans.
- If a federal exchange is created in Idaho it can exclude licensed agents that advocate and service the needs of Idaho consumers. This would result in the loss of over 2,500 agents and their staff. In addition to the loss of jobs it would also mean a loss of income tax revenue which would be a major loss to the state budget.
- In a state-level exchange the state can include the use of licensed agents to enroll consumers and also create the requirements that will need to be met in order to sell in the exchange. By using licensed and certified agents within the exchange it will protect the consumers of Idaho by providing them with an advocate that will guide them through the complex task of choosing the appropriate and affordable coverage.
- IAHU believes that in order for someone to sell insurance through the exchange they should have to be licensed, carry E&O insurance, be certified and be compensated. This will allow them regulated by the state of Idaho.
- The creation of state-level exchange should assure a competitive marketplace both inside and outside of the exchange to avoid adverse selection within the exchange.
- If PPACA is overturned, we can include language in Idaho's state-level exchange law that repeals the exchange or requires that Idaho review the law to determine if this is a course of action we wish to continue to follow.



National Association of Health Underwriters

America's Benefits Specialists

Professional Insurance Agents, Brokers and Advisors *How They Get Compensated and What They Do*

Insurance brokers go by many names—they may be called producers, brokers, underwriters, agents or advisors. For the consumer, the more common term would be broker. But the best description of what brokers do when it come to insurance is serving as professional advisors.

Why should I use a professional insurance advisor?

Health insurance is an extremely complex product. Before deciding which policy is best, one has to consider the network of medical providers, the scope of what you want to cover and the details of levels of coverage, including the cost. Many plans also have the option of tax-favored Health Savings Accounts as added incentives to use health care services wisely.

Health insurance is, in fact, financial protection—defying a one-size-fits-all approach. All of these decisions and factors make the professional insurance advisor's role increasingly important to individuals and business owners in finding cost-saving measures and coverage options. Advisors provide and service insurance products while educating and advising you on how to manage risk and make informed insurance choices.

Many small employers can't afford to have this level of expertise in-house and simply do not have the time that it requires to administer a comprehensive, compliant benefits package for their employees. In the complex regulation arenas of PPACA, HIPAA, COBRA, FSAs, HSAs and HRAs, professional agents spend a great deal of time helping their clients understand the regulations, complex products and compliance issues.

Advisors are highly trained and licensed insurance professionals who will guide you through the complex task of choosing appropriate coverage at an affordable price. They are dedicated to serving the long-term interests of consumers. As importantly, they are required to meet continuing-education requirements each year to ensure that they are well-versed in the latest laws, regulations and product options in the market.

How does an advisor get compensated? What is his/her incentive to give me superior service?

Insurance advisors have strong financial and professional incentives to give their clients a lifetime of quality products and service. **Brokers are hired by the client and it is the client's decision to continue working with a broker or find another one.** As an individual or as a business owner, you don't pay any more for health insurance purchased through a broker than you would if you purchased the coverage directly from an insurance company. **Insurance carriers set aside a small portion of the premium to pay brokers a commission, which covers not only the selling of the plan but much of the servicing required.**

Rarely are brokers/advisors salaried employees of the insurance companies whose products they sell. In such cases where they are employees, they are more apt to be called agents or representatives, and they also will indicate that they represent the company that employs them.

Usually, advisors are independent agents who sell the products of many companies. **Most advisors are compensated on a commission basis—a percentage of the premiums you pay your insurance company. In most instances, commissions are higher the first year of a policy. Brokers usually receive a much lower commission level each year upon renewal of the policy.**

Commission rates vary based on the insurance carrier, the market area, the type of policy and other factors. **It is very unusual for first-year commissions to exceed 10% of the premium paid. Renewal commissions are more often five percent or less.** A recent trend in small-group insurance commissions is for the commission to be a flat amount paid per covered employee per month.

Commissions are higher in the first year to offset the higher acquisition costs for new business. **Just about every business has higher costs when a sale is made. In the insurance market, acquisition costs include prospecting, marketing costs, advertising, face-to-face client meeting expenses, employee meeting expenses and the extra time needed to investigate the needs of a client, conduct meetings and the like.**

Unlike many industries, insurance requires ongoing service. Most health insurance policies have rates that are reviewed each year. As such, an insurance advisor has the obligation to review the insurance company's annual rate adjustment, advise the client and seek alternative policies, if deemed appropriate by the client. **Renewal commissions are paid even if an employer makes significant changes in ensuing years as long as coverage remains with the same insurance carrier.**

During the year, a health insurance broker also intervenes on the client's behalf if there are questions regarding the terms of the policy. Also, small employers often rely on their insurance brokers to answer questions and address issues that would be handled by the human resources department of a larger employer.

Some brokers are compensated on a fee basis directly from employers. However, this type of arrangement is more common for large employers with more than 150 employees. **In some states, a broker that is paid by commission is not allowed—by law—to charge a separate fee for any services provided.**

What Are Typical Insurance Advisor Services?

An advisor will guide you through the complex task of choosing appropriate coverage at an affordable price. Here is a sampling of the services that insurance advisors provide on a daily basis:

- Work with you to evaluate your needs for insurance coverage
- Explain the details of different insurance plans
- Make specific recommendations and tailor plans to suit your special needs and budgets
- Submit new applications to the insurance company when a plan is first written by the insurance company and when new employees are hired and eligible for the plan

- Review all enrollment information for accuracy and completeness to ensure that health plan is appropriately rated and that your employees are properly enrolled with the insurance company
- Assist employers on an ongoing basis with plan enrollments, terminations of coverage, changes to coverage, additions of new dependents and compliance with insurance company requirements
- Serve as your advocate and advisor in dealing with insurance companies, doctors and hospitals, and government agencies involving claims, services and regulations
- Help you as a business owner communicate benefits packages to employees and demonstrate how various provisions can complement personal and government financial plans
- Advise clients about changing state and federal laws, rules and regulations that affect their health and employee benefits plans
- Advise individual employees regarding benefits available to them
- Advocate on behalf of employees regarding claim denials
- Review your plans periodically to update coverage and limit costs
- Advise employers regarding trends in health insurance and employee benefits and shop for new or more competitive plans, as requested

The American health care system truly needs competent professional advisors in the field. These professionals play many essential roles in their interactions with consumers, employers, health insurance companies, doctor offices, etc. **However, their primary role is the ability to communicate complicated information in a manner that consumers and employers can understand so that they select the health plan that best fits their needs.**