Reprinted from Employee Benefit News ebn

What brokers should expect when it comes to compensation disclosure

Employers are about to ask employee benefits brokers some uncomfortable questions. The recently passed Consolidated Appropriations Act (CAA) of 2021 requires employers to obtain from their benefits broker a detailed and complete disclosure of compensation and services provided. Employers are about to discover just how much their broker is earning and – more important – what the employer is receiving in exchange.

BY NELSON GRISWOLD

The new Consolidated Appropriations Act (CAA) of 2021 requires brokers, advisers and consultants to disclose to their employer clients all the compensation they expect to receive and detail the services they will provide. The goal is complete compensation transparency that allows employers to better understand broker incentives and gauge conflicts of interest.

A broker's compensation disclosure form, done properly, will reveal what a company is paying and, more important, *receiving* for the money being paid. Because most brokers' primary compensation is commission paid by the insurance company, employers largely have ignored how much their broker is paid.

When brokers disclose who pays them, how they get paid and how much they get paid, employers will have some pointed questions for them.

There are two questions that brokers should expect HR to ask after seeing the disclosure form.

First: Are you providing *full* compensation transparency

Let me be blunt. Brokers hate this law. During a recent webinar for our industry explaining the new compensation disclosure requirements, every question was a form of "how do I get around this awful new law?"

Many brokers will seek to avoid disclosing their full compensation due to a long-held belief that they don't deserve it. Over the years, numerous brokers have said some version of, "I'm not worth what I'm getting paid." (To be fair, the problem is that the insurance carriers deny brokers any power to make any real improvements for their clients.)

Many brokers will provide the bare minimum of information, avoiding full disclosure of their compensation, because let's face it, broker comp is like an iceberg: The commission (or PEPM fee) is just the compensation above the water line. *Below* the water line lies the commission multiplier, bonus commissions, back-end commissions, new business and retention bonuses, and non-financial compensation and perks.

Brokers also should expect HR to be surprised at how much they're making, especially with full disclosure. This focus on broker comp is likely to tip the fact that brokers who are paid a percentage of the premium as commission by the carrier will get a raise every year that premium goes up.

That's a pay raise equal to the rate hike (e.g., 8% increase to the employer, 8% raise to the broker).

HR is likely to consider the number of pay raises their employees have *missed* because the insurance company increased premiums. But when premiums go up the *broker* gets a raise?! Expect HR to decide that isn't *fair*.

Benefits broker compensation disclosure will lead employers to ask, "Just what results are we getting for all that we're paying?"

Second question.
The second question to anticipate is: What are you going to deliver for the money?

A top-five brokerage's response to a RFI issued by a large Florida school district included a list of capabilities and resources, running three full single-spaced pages. The list included numerous subject matter experts, all manner of technology, and lots of services and programs for HR.

But despite all the broker activity and other deliverables, there was a glaring omission: results.

Despite over $200,000 in fees, there was no promise of higher quality care, reduction in employee out-of-pocket expenses, or decrease in cost for the employer.

The new compensation transparency requirements will focus employers' attention on how much they're paying brokers just to deliver an annual rate increase on, at best, the same healthcare plan. This will create a huge opportunity for next-generation benefits advisers.

These innovative advisers are moving forward-thinking clients beyond the status quo model of employer healthcare with its unsustainable annual rate hikes. Providing them with advanced strategies to finance and manage their healthcare, these next-gen advisers are delivering results that insurance companies and status quo brokers claim are impossible, like higher quality healthcare, no employee deductibles, and employer cost reductions.

And next-gen advisers are putting their compensation at risk to guarantee results.

As the word spreads, employers will begin searching compensation disclosure forms for these kinds of meaningful results and compensation guarantees. Expect compensation transparency to disrupt the broker and healthcare status quo. **EBN**

Photo: Getty Images

Nelson Griswold is Chairman of the NextGen Benefits Network.