

MEMORANDUM

To: Health Connector Board of Directors
Cc: Louis Gutierrez, Executive Director
From: Heather Cloran, Director of Health Plans and Operations
Date: July 10, 2017
Re: Recommendation for Broker Commission Schedule Change

SUMMARY

This memorandum recommends that the Board of Directors (Board) authorize the Health Connector to revise its medical broker commission schedule beginning on January 1, 2018. Dental broker commissions are proposed to remain at current levels. As part of the change, carriers will be asked to count brokered business sold on-exchange toward the broker's existing book of business with the carrier, allowing this business to accumulate toward any current or future broker incentive programs. The last review and revision to the broker commission schedule by the Board was made for the 2014 plan year. The purpose of this change is to provide a competitive payment structure to brokers who are licensed to sell health and dental products in Massachusetts and who have been registered and certified through the Health Connector. This update ensures that the Health Connector is a competitive market participant and is serving the populations set forth in our mission to improve access to high quality health care and encourage greater efficiency and competition in the health insurance market.

BACKGROUND

Licensed brokers are strategic advisors to small employers and frequently manage one of the highest expenses of a small employer: health insurance. They assist employers in navigating the complexities of the health insurance and other employee benefits. Brokers can help assure that the Health Connector fulfills its long-standing commitment to ensuring small businesses have information and support to select plans that best meet their employee and business needs. Additionally, brokers provide expertise and guidance on compliance with both state and federal regulations, assist their clients with communications, and education to their employees and provide support related to many human resource activities. To that end, it is imperative that brokers are compensated fairly for the work they do to support our members.

Data suggests that brokers in the Commonwealth are currently unlikely to use the Health Connector's small group platform to guide clients. For groups with 1-50 employees, the Center for Health Information and Analysis (CHIA) reports that 489,385 individuals are covered on fully-insured, commercial medical plans in the Commonwealth¹. Of this total population, the Health Connector insures only 6,389 individuals or 1.3 percent of the small business market. According to two large carriers in Massachusetts, most of this population hires a broker to assist with plan selection. One of our largest carriers reports that

¹ CHIA Enrollment Trends Data, March 2017

approximately 80 to 90 percent of small groups use a broker.² Broker usage is reversed on-exchange. Approximately 15 percent of the small medical groups sold on the Health Connector use a broker³.

Given the low broker utilization of the current platform, the Health Connector solicited feedback from the Broker Advisory Council (BAC) (a group of brokers that convenes periodically to provide the Health Connector with policy and marketplace insight), carriers, and other stakeholders as to why brokers have been reticent to sell business on the exchange:

- Stakeholders cited a lack of parity between commissions paid by the Health Connector compared to commissions paid directly by carriers as a barrier for selling on exchange.
- Another challenge cited by brokers is the fact that carriers do not count groups sold through the exchange towards a broker's bonus or incentive program.
- Stakeholders noted the unique commission structure present in the market for "microgroups" (fewer than five employees). For these groups, some carriers do not pay commissions directly; rather, intermediaries pay brokers (often charging a separate fee to the employer group for their services).

To increase broker utilization, thereby extending the Health Connector's value proposition to the broader market, the Health Connector should increase commissions to create more parity with off-exchange commissions and negotiate with carriers to include broker's sold business to incentive and bonus programs.

**RECOMMENDATION TO APPROVE THE REVISED BROKER COMMISSIONS SCHEDULE,
EFFECTIVE JANUARY 1, 2018**

The Health Connector has completed a market analysis of broker commissions for the largest small group carriers, has reviewed projected membership numbers, and cost models to propose a revised broker commission schedule that positions the Health Connector as a competitive, attractive platform for brokers. The last market review of commissions was done in 2013 for the 2014 plan year. The Health Connector should move to a model of reviewing commissions more frequently as carriers review and revise commissions on an annual basis.

Figure 1. Large Market-Share Carrier Commission Comparison

² From Tufts Health Plan – Premier and Blue Cross Blue Shield of Massachusetts, April 2017

³ March 2017 Health Connector Data

Direct Carrier Payments	Microgroup (subscribers)	Microgroup Commission (PSPM)	Small Group (subscribers)	Small Group Commission (PSPM)
Medical				
CCA (current state)	1-9	\$10	10+	\$23
THP-Premier	1-4	*\$10	5+	\$25
HPHC	1-9	^T *\$23	10+	\$28
NHP	1-4	*\$10	5-19	\$23
			20-50	\$32
BCBSMA	2-4	\$10	5+	\$28**
Fallon	1	\$10	2+	\$20
*Paid by H.S.A./S.B.S.B.				
^T HPHC pays commissions on a few legacy small group cases that were once larger				
** BCBS pays \$28 on Gold, Platinum and Diamond brokers				

The Health Connector’s launch of the new District of Columbia Health Benefit Exchange (DCHBX) platform provides the Health Connector the opportunity to meaningfully impact the small employer market, which would benefit from having ready access to a competitive array of affordable plan offerings. A revised broker commissions schedule in a largely brokered market gives the Health Connector the best opportunity to grow membership and enable small groups to find health plans with comparable benefit design to the average small group plan, but with options that may cost up to approximately 30% less.

As such, the Health Connector recommends revising our current commission schedule (currently \$10 PSPM for groups with 1-9 employees and \$23 PSPM for groups with 10 or more) to the proposed commission schedule outlined below beginning January 1, 2018 with the ability to revise or renew as necessary on an at least annual basis. This will enable the Health Connector to work within the mature small group market to become more competitive and to compete more effectively with current market participants as we work to fulfill our mission in the small group space.

Figure 2. Proposed 2018 Health Connector Broker Commission Schedule

Product	Group Size	Current Commission Rate	Proposed 2018 Commission Rate
Medical	1 to 4	\$10 PSPM	\$10 PSPM
	5 to 9	\$10 PSPM	\$20 PSPM
	10 to 25	\$23 PSPM	\$28 PSPM
Dental	All Group Size	\$6 PSPM	\$6 PSPM

The Health Connector modelled the budget impact of increasing commission using potential enrollment increases. If the new platform was exceptionally successful in 2018, and broker enrollment business doubled, the Health Connector would spend an additional approximate \$75,000 in broker commissions compared to increased enrollment projections at the current commission schedule. The Health Connector assesses carriers an administration fee of 2.5 percent of premium for all small groups sold. The fee will remain at 2.5 percent in 2018. This update enables the Health Connector to be competitive and viable

within the small group market, thereby more effectively delivering needed value and competition to Massachusetts small business community and the health insurance landscape more broadly.