

True Confessions: Thoughts We're Afraid to Say Aloud

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In fifth grade at PS 67 in South Buffalo, N.Y., I experienced a lesson I will never forget. One day our regular teacher called in sick and a substitute arrived to take her place. She was very strict and nobody liked her. As we lined up to exit school at the end of the day, the entire class erupted in a derogatory chant, expressing our feelings about her.

The next day our "real" teacher returned; the principal joined us, and we gathered in a circle. We were asked to admit whether we participated in the obnoxious outburst. The question was first posed to me. I openly confessed. As the query proceeded around the room, not one other kid spoke up. While I had been but one participant in the chorus of voices, I was singled out and suspended for the day. To my surprise, speaking the truth merited the only consequential punishment given.

Apparently, I am impervious to these types of lessons because today, many years removed from that incident, I still speak the truth. People around me sometimes cringe. In an industry undergoing enormous transformation, I believe this is essential. It doesn't serve us well to maintain the status quo and sweep our concerns under the rug. If we share our secret musings and engage in thought-provoking, uncomfortable scrutiny, we may be able to affect real change — the kind that is necessary for our industry to evolve.

Republican Rep. Paul Ryan (Wis.) seems caught in a similar process. He was willing to step up and say that to fix Medicare, huge structural changes are needed. I don't entirely agree with his approach, but I admire his courage. He is voicing an unpopular sentiment, but isn't it true? A fundamental change **MUST** take place, or the system will collapse. Yet because Ryan was the first to truly put a stake in the ground, he's been pilloried for it.

Three heartfelt truths

The time is right to take a risk and place a few stakes of my own in the ground. Here are the thoughts I've been keeping to myself:

- 1. Our industry's inefficiencies contribute to the challenges of a broken health care system.**
We live in a world insulated from reality in terms of normal cost and market dynamics. If we landed on this planet from another place and tried to come up with a way to distribute health insurance, we couldn't devise a more chaotic method than the one that currently exists. We have upwards of 65,000 agents and brokers working town by town, city by city, and state by state to deliver services to millions of companies and individuals. Our past successes are largely relationship-based, and we believe we know our customers better than anyone else. That may be correct, but I suspect that many agents also understand they no longer have the capability to best serve their clients with the information, analytics and technology today's small and mid-sized employers require. I cannot think of another mature industry with such fragmented distribution. It prevents firms from gaining scale to reinvest in solutions that might truly impact downstream costs.

To date, technology has played a very small role in terms of employee benefits distribution and management; it's been sizzle with virtually no steak. There will be a huge generational migration of agents out of the industry over the next 10 years. That will be a great start. Many more sole

proprietors and tiny, often part-time benefits agents need to leave the space to allow for client consolidation. Bigger firms with operational scale can reinvest in people with new skills, technology and application development to drive efficiency and analytics, as well as, hopefully, real innovation.

2. **Medical Loss Ratios (MLR) offer political cover to address long-standing issues with agents' commission structure.**

Our industry prospered over the past decade at a time when our clients struggled most to afford health insurance. Not until the recent, gut-wrenching recession did benefits agents see revenue compression because of unemployment and employer bankruptcies. Otherwise, we actually benefitted from rising premiums because, historically, our share has always been based on a healthy percentage of their costs. I know I'm not the only one who experienced great discomfort at this dynamic, because others have readily confessed their concern. I also know many agents reduced commissions to share in some of the pain.

But there's another issue: whether an agent did a fantastic job or a satisfactory one, the end result was often identical. Long before the acronym MLR was invented, carriers wanted to address commission structures and variability in agent effectiveness, but they were hesitant to segment agents by size and efficacy for fear of losing business. Reform legislation served as a catalyst to affect change. Depending upon geography and carrier, agents and brokers are often being segmented based upon their perceived value to the carrier. This will force continued and rapid industry consolidation. Make no mistake, this is essential for our downstream survival. Our industry is in tremendous need of technology-driven innovation. I am convinced we are on the cusp of a renaissance of solutions that will dramatically impact our collective value in the marketplace. But to do so, the weaker elements need to be expunged, although this process may be painful for many.

3. **The formula for voluntary benefits needs refinement.**

As our margins come under pressure, brokers are turning to voluntary benefits to enhance revenue streams. In the past, a distinct separation existed between agents who sold core benefits products and those who sold voluntary products, which employees access through their place of work, but pay for themselves. Today, most agencies promote both, and progressive leaders are integrating core and voluntary products in compelling ways. While I believe voluntary options play an important role in the benefits mix, with some current offerings, there is far too little product and far too big a commission. I have echoes of the same discomfort I felt when our bank accounts grew as clients struggled to pay health insurance premiums. We need a new approach to voluntary benefits — a formula providing a solution that better meets the needs of policy holders, while providing a reasonable return to agents. And this, I suspect, is right around the corner. Competition among agents and carriers will evolve product design and efficiency.

So now you have my confessions. I've uttered my truths. Provoking anger is not my intent; stimulating change and real innovation is. My hope is not to land in the principal's office, but if I do, I've been there before. And the journey I took led me to this place, this profession, this moment. Perhaps our world is ready for this honesty; I'm just first in line. What are you willing to say aloud when your turn arrives?