

Staying in Touch

Developing a Relationship with Your Broker or Consultant

Staying abreast of changing health care industry regulations and handling time-consuming details involving health plan decisions can be trying tasks for an employer. A broker or consultant can help by acting as a liaison between the employer and insurance companies, managing the details of benefit plans, and keeping a watchful eye on legislative issues that could affect the plan.

Just like any other relationship built to last, the ideal partnership between an employer and a broker or consultant should be based on comfort and trust. But it's important that the employer also has realistic expectations about what his broker or consultant can do.

The Options

There are basically three different types of outside sources an employer can go to for help with benefits, and all must be licensed to sell life and health insurance. "You cannot go out and talk about insurance products and solicit insurance in the state of Virginia without being a licensed life and health agent," says Chris Nagle, a senior benefits consultant with Rutherford Benefit Services in Richmond.

The first source is a "captive" agent, who usually represents one insurer and receives commissions from that insurer. The captive agent solicits employers directly and provides various levels of service after the business has been secured.

The second source is a broker. The broker seeks information from a multitude of companies and helps the employer compare products and choose a health care benefits program that best suits their needs. The broker then receives a commission from the insurance company that the employer chooses. "A broker generally provides services to an employer beyond the scope of the carrier," says Jean Dick, employee benefits manager and senior vice president of Marsh USA, Inc., in Richmond. "Some of those services might include things such as legislative compliance advice and information, financial analysis and industry benchmarking. A broker's services can be comprehensive enough to literally be an extension of the company's human resources department."

Insurance companies often build broker commissions into the insurance

premiums—particularly for small groups under 100 lives—so there is no reason why the employer shouldn't go ahead and utilize the expertise of a broker. The employer must sign an agent of record letter. "The agent of record letter is an official release of information and appropriate payment from that carrier to the assigned broker on behalf of the client," Dick says.

Consultants serve in much the same capacity as brokers; however, they must have a consultant's license that enables them to collect fees from the client they represent. "One distinguishing difference between a broker and a consultant may be the manner in which they are compensated," Dick says. "Generally, a broker is compensated through commissions added to the rates, and a consultant is compensated on a fee-for-service arrangement." Consultants generally charge for their time and their expenses and estimate the number of hours a project will take.

"From my perspective, the services Marsh USA provides their clients can be defined both as a broker and a consultant," Dick says. "It depends on the needs of the client. We have clients that range from 200 employees to those with nearly 4,000 employees. We work with our clients throughout the year providing consulting services such as financial analysis, financial reports, contribution strategy, administrative support, benchmarking, compliance and regulatory issues in addition to assisting them with the renewal analysis and marketing programs, which are the broker functions of our services.

"Very large employers—and some smaller—have different analysis needs and work with consulting firms like our sister organization William M. Mercer," Dick continues. Generally, these are fee-based projects that can be ongoing but provide a different outcome. "For example, a large employer with more than 5,000 lives may wish to have an analysis conducted on the 'value' of their benefit program," she says. "This would enable them to analyze how they compare with similar organizations and determine the market value of the benefit program they provide their employees. Other times, we work in concert with Mercer to provide the right services to the client depending on their needs and desired outcome."

The middle market employers (with 200 to 2,000 employees) often use firms that do a mixture of brokerage and consulting. "Typically the middle market has their broker do things on commission," Nagle says. "But it's really getting to the point where the client makes the decision on how they want to pay for brokerage or consulting services. And the important thing is to make sure the client understands how they are paying for their services and what they are actually paying for."

Smaller companies often prefer to have brokers that work for commissions. However, it is the employer's specific needs that determine which type of expertise they need.

Bringing in a Broker

A good broker can be a valuable asset, particularly for those employers who do not have specific staff members to make health care decisions. "With a good broker, the employer doesn't have to learn all the intricacies of the employee benefits industry, compare plans, negotiate with carriers or deal with the day-to-day service issues," says Martin Weber, president of Weber, Marshall & Associates in Newport News. "The employer also doesn't have to hire somebody to do it. Most companies under 100 people can't afford to hire a single-source human resources person with all of this expertise."

The areas of health care benefits and employee benefits are very specialized, and it is difficult for employers to stay up-to-date on the latest state and federal insurance regulations, as well as the latest health care trends. "Today employers want to deal with full-time professionals in our industry who can advise the employer about what's going on in the health care industry, including legislative issues; managed care issues; and laws such as COBRA, HIPAA, and the Family Medical Leave Act," Weber says.

In addition, employers may need assistance in offering competitive benefits.

"Different employers have different needs," Weber says. "Some are concerned with price, while others are not. For example, some of the professional industries are now competing for employees through employee benefits instead of pay."

Another reason employers bring in brokers is to gain more clout and purchasing power. If a company with 250 employees is having service problems with its carrier or is experiencing large rate increases, that employer may not have the clout to effect change. However, a broker may be able to leverage a large book of business with a particular carrier in order to get service issues straightened out or moderate a high renewal rate.

The initial meeting between the employer and the broker is a very important get-acquainted meeting. The broker should be asking questions and finding out about the employer's business and their needs. "When I first meet a client, I pre-qualify the potential relationship by asking some questions and trying to establish a rapport and a degree of comfort and trust," says William Donahoe, vice president of CBIZ-MT Donahoe and Associates in Columbia, Md. "The initial process is to understand each

other's positions and understand what the employer's needs are."

Once the broker understands the employer's business and budget, he ventures out into the insurance carrier marketplace, looking for plans that are good choices for the client. "The essential role of a broker is to go out into the marketplace and obtain the product offerings appropriate for the client and then at that point to assist the client with making an informed decision about what would be the best product for their particular needs," says Donahoe.

After selecting several insurance company prospects for the client, the negotiation process begins. "We're pretty avid negotiators for our clients," says Weber. "We work with insurance companies, competing with price, benefits and features to get our clients the absolute best financial and benefit features available." This includes looking for not only the lowest cost but also the best quality. "Lowest cost is almost never synonymous with best quality," he points out. "This negotiating is an opportunity for us to ensure that our clients have the best products with the most competitive rates."

The insurance company compensates the broker to be a conduit between the employer and the insurer. Therefore, once a plan has been chosen, the broker continues to service the client in anticipation of problems that may develop. "Once the plan is installed, we have a very structured method of following up with all of our clients every month to ensure that there are no problems, to check if there are any questions, and to ask if there are any materials or supplies that they need," says Weber. "We're usually in touch with them on a monthly basis."

"All too often, the broker is the employer's best friend," says Clinton E. Miller, Jr., president of Financial Concepts of Virginia in Vienna. "A broker is someone to consult with to avoid problems and a person to get help from when problems occur."

A few months prior to renewal every year, the broker should ask the client for updated census data on the benefits plans and discuss the whole bid process with the employer's benefits and financial goals considered. Changes within companies or different plan designs may come up, but unless there is a major reason to change plans, such as a major rate increase, it is not a good idea to change plans every year.

Working with a Consultant

Much of the work the large consulting firms do is project based, according to Dick. The jumbo employers are buying knowledge that is based on analysis and conclusions from their own group's data. "For example, a huge multi-state employer may need an

evaluation of HMOs across the country in areas where its employees are located,” she says. “Mercer has a database that evaluates an HMO—tells you whether it has NCQA accreditation, whether it pays providers fee-for-service or capitation, what hospitals are in its network, etc. This process profiles the value of the cost effectiveness of the HMO.”

Employers can also hire broker/consultants on a fee basis for a specific project, or they can put them on retainer to be available for questions. “The broker/consultant can say ‘here is the scope of the project, and here’s the estimated hours and costs, and at the end I’ll walk away, or you can put me on retainer for a certain amount per month to answer any questions you might have,” Nagle says.

The broker/consultant has the ability to analyze the specific data of the employer and compare that to industry standards through benchmarking, according to Dick. “This gives the employer a starting point from which to compare their programs’ components such as claims activity, plan design and statistical data with that of other employers similar in size, industry and geography. They can also produce a cost analysis of plan design changes or anticipated growth of an employer from an actuarial perspective. They assist employers in making solution-based decisions using conventional industry knowledge and analytical facts.”

There are always exceptions to the generalization that large companies use consultants and small companies use brokers. For example, a company that is currently small but is in a high growth and acquisition phase in multiple states may need the services of a consultant due to the complexity of issues it is dealing with. Other complex issues that may need the expertise of a consultant are valuing the liability of earned future retiree health care benefits, and managing and limiting that liability, as well as evaluating the impact of the aging workforce on employee benefit and compensation costs.

Employers that want to work with an expert who is not paid by insurance company commissions tend to use consultants or brokers on a consulting basis. “Consultants are fee based and are objective,” says Tom Donahue, vice president of human resources for Estes Express Lines, a self-funded employer in Richmond with about 7,800 employees.

Donahue interviewed many national and local consultants before settling on someone with whom he felt comfortable. “I used two retired managers from large group insurance companies to help me formulate a consultant request for proposal (RFP),” he explains. “I then interviewed consultants for knowledge, experience and whether I

could get along with their personality—whether they were sincere and honest.”

Donahue says his experience and ongoing relationship with his chosen consulting firm have been successful. “The consultant helped educate me about health and welfare products,” he says. “He helped write and design an RFP and prepare an analysis and comparison of the bids. He also provided good negotiations from a knowledge and understanding of the products and what competitive prices were.

“I have hired somebody to help with the workload and will continue to expand my staff, thus maybe freeing time for me to do the analytical work,” Donahue continues. “But I will always use the consultant for quick reference.”

A Reality Check

Employers should have realistic expectations of how much a broker or consultant can accomplish. Brokers and consultants can’t wave “magic wands” to reduce health care costs.

“Obviously we cannot change the actual claim history experienced by the employer,” Dick says. “We can, however, determine the cost drivers, interpret the financial data, provide benchmarks, identify ways to reduce future costs, analyze plan designs and negotiate with the vendor on fixed expenses. Our work not only provides the employer with information in which to make informed decisions, but is very effective in working with the underwriter in determining the correct claims projection for the renewal.”

Brokers can also help employers strategize for the future. “The broker should look at the programs over the next three years instead of one year because of the inflationary aspect of things,” Miller says. “For example, if the employer has a rich prescription card benefit, with the inflationary pressure in that area, it’s going to be a disaster in three years if they’re not careful. So you have to put controls in as early as possible.”

Employers should be aware that brokers are not always going to be able to shop around and find a better health plan than the one the employer currently has. “Sometimes I find myself saying to the client: ‘I have good news and bad news,’” Donahoe says. “The bad news is you got a 20 percent rate increase, but the good news is that you’re not going to have to change plans because there are no other alternatives out there. Everyone else is 20 percent higher than what you’re paying now.’ The broker will not always be able to continually improve the product and the price of the plan. They can, however, provide a reality check with the market to confirm the obvious for the client.”

Communication Is Key

Dialogue between the client and the broker or consultant is extremely important to the overall relationship. Employers should make the brokers or consultants aware of the changes in their business, such as opening new offices in different parts of the country, adding new personnel, losing a big contract or any other financial concerns. “If the broker knows the client lost a huge contract and is going to have to lay people off, the broker may help the client look at their plan design to reduce some of the employer’s costs,” Donahoe says.

Dick agrees. “That’s why we team with employers,” she says. “We have a strong relationship with clients when we understand their business and they’re open to telling us what’s important to them.”

Dialogue is a two-way street, and the broker or consultant should also be open with his clients concerning what is happening in the health care industry. “We try to educate employers on what is causing costs to go up,” says Weber. “It’s just not inflation—it’s new procedures, technology, the cost of drugs and legislative issues.”

Lack of communication is a red flag that a relationship between a client and his broker or consultant has soured.

“I think lack of accessibility to the broker is a sign that the broker may have outgrown the client’s importance to his business,” says Donahoe. “The employer should ask: How accessible is my broker to me? Does my broker call me back? Does my broker respond to me?”

“Because we work in an industry that behaves dysfunctionally too often, brokers may not want to make that phone call and put another problem in their lap,” he continues. “The brokers who do call are showing that they care, and that’s what the client wants.”

Miller agrees. “When the broker consistently doesn’t return calls at a reasonable time; isn’t proactive in coming up with new ideas; or doesn’t say it’s time to have an employee orientation session, which prevents a lot of problems, those may be signs that things aren’t going well.”

Assessing Outside Expertise

Employers sometimes work with a broker or consultant simply because that person

called on the employer first. Or an employer might call three brokers and have them shop the market for the best price in health plans and end up working with the one that comes in with the best price.

While these ways to select outside expertise are common, they are not necessarily best. Instead, look at the association with a broker or consultant as a long-term relationship. Davenport & Company, LLC, is a Richmond-based employer with 360 employees who uses Trigon Blue Cross Blue Shield for its benefits plans and Marsh as its broker. "Marsh not only advises us at renewal time, but also helps structure our pricing as far as what the firm will take on and what is passed to employees," says Liesa Bell, senior vice president of administration. "I feel like I call them all the time; they are a tremendous resource and I very much depend upon them. Health care is all about our employees and keeping the company competitive by offering the benefits we should be offering. We've been working with Marsh for at least 20 years. Since our employees are our most vital asset, it's important that management feels good with the people that are advising us and assisting us with our benefits planning for our employees."

Reputation and references should probably be the first thing an employer examines before hiring outside expertise. Determine the stability of the firm and how long it has been in business. Does the company have a reputation for honesty and integrity? A broker or consultant should have a good clientele list with references. "The process you go about to decide who you want to work with is essentially the same process used for hiring an employee to handle your benefits," Donahoe says.

Along with that, the employer needs to make sure he is comfortable with the broker or consultant. "It comes back to the degree of comfort and trust between the client and the broker," Donahoe says. "It's establishing a relationship."

In addition, there are several other issues specific to the broker relationship that should be explored before making a final decision.

n How well can that broker service the account throughout the year? Does the broker turn it over to the insurance company agent or continue to handle the account?

n Ask about the commission rate on a project. Generally, brokers make anywhere from 2 percent for a large client to 7 percent for a smaller client. Consider whether the company is getting what they are paying for or if they are only getting quoted rates with little professional analysis.

n Make a plan as to how often that broker will meet with you. Obtain guarantees, such as how fast phone calls will be returned.

n Make sure the broker is explaining the full picture. For example, the employer should be aware that rates have the potential of going up once a final enrollment is done on the group.

n Find out the top five carriers the broker represents. The carriers will probably be categorized by size of company and which ones the broker uses for fully insured versus self-insured plans.

n Find out if the broker belongs to professional associations such as the National Association of Health Underwriters or the Virginia Association of Health Underwriters. Also find out what credentials the broker has, such as RHU (Registered Health Underwriter), REBC (Registered Employee Benefits Consultant), CEBS (Certified Employee Benefits Specialist), CHC (Certified Health Consultant) and HIAA (Health Insurance Associate of America). "These show that people have taken extra steps to educate themselves and get a level of expertise that is recognized in the industry," Weber says.

Consider the following issues when evaluating consultants or brokers acting in a consulting capacity.

- Evaluate the level of expertise of your account team and whether or not it will add value to your process and objectives.
- Clearly outline your objectives and expectations and look for a written plan of action.
- What skill set does that person bring to the table, for example, actuarial skills, underwriting, benchmarking ability, negotiations, reporting, etc.?
- What resources does the person or firm offer, for example, legislative compliance information, seminars, services and reporting capabilities?
- Does that person understand your needs as an employer?
- How does that person differentiate his or her firm from the competition?

Michelle Porter and Karen Medlin contributed to this article.

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