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Introduction
The Insurance Industry is one of the oldest industries in the world. Insurance is a product that transfers risk from an individual or business to an insurance company.

The industry is highly regulated, with each State/Province having its own laws. Not only does each state have its own rules and regulations, producers (agents, brokers, and employees) must be licensed in every state they wish to do business in, for the Insurance Product Group they wish to sell.

There is a special category of insurance called Medicare insurance. Medicare is a US Government provided program that provides insurance for people 65 and older.

This document covers the commission related requirements of the typical Medicare Insurance Broker/Agency. These agencies can also be called Field Marketing Organizations (FMO).

There are four parts of Medicare, Part A, B, C and D. Part A (Hospital Insurance) covers hospital, home health care, hospice, and skilled nursing facilities. This portion of Medicare is usually provided at no cost to the member, since most people either worked themselves or had spouses that worked and paid taxes. Part B (Medicare Insurance) is provided as an option to eligible members, who pay an additional cost. Part B covers physician and outpatient hospital care, as well as, some other services, such as lab and radiology tests. There is also available Part D for Prescription Drugs.

The Centers for Medicare and Medicaid Services (CMS), a component of the Department of Health and Human Services (HHS), administers Medicare, Medicaid, the State Children's Health Insurance Program (SCHIP), and the Clinical Laboratory Improvement Amendments (CLIA). Along with the Departments of Labor and Treasury, CMS also implements the insurance reform provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA). The Social Security Administration is responsible for determining Medicare eligibility and processing premium payments for the Medicare program.

The Different Parts of Medicare
The different parts of Medicare help cover specific services:
Medicare Part A (Hospital Insurance)
Helps cover inpatient care in hospitals
Helps cover skilled nursing facility, hospice, and home health care
Medicare Part B (Medical Insurance)
Helps cover doctors' and other health care providers' services, outpatient care, durable medical equipment, and home health care

Helps cover some preventive services to help maintain your health and to keep certain illnesses from getting worse

Medicare Part C (also known as Medicare Advantage)
Offers health plan options run by Medicare-approved private insurance companies
Medicare Advantage Plans are a way to get the benefits and services covered under Part A and Part B
Most Medicare Advantage Plans cover Medicare prescription drug coverage (Part D)
Some Medicare Advantage Plans may include extra benefits for an extra cost

Medicare Part D (Medicare Prescription Drug Coverage)
Helps cover the cost of prescription drugs
May help lower your prescription drug costs and help protect against higher costs in the future
Run by Medicare-approved private insurance companies.

Medigap (Medicare Supplement Insurance)
Helps cover gaps in original Medicare coverage

Can be bought from a private company. Cannot be bought in combination with a Medicare Advantage Plan.

Part A and Part B are generally known as “Original Medicare”. This is designed to pay around 80% of the costs. Medicare supplement insurance can be bought by paying premiums, to cover the other 20%. Medicare Advantage plans are not supplements but replace Original Medicare and also require premiums. Medicare Advantage plans are offered by approved carriers known as Medicare Advantage Organizations (MAO).

Concepts
Policy:
A Policy is the contract underpinning an insurance carrier‟s relationship with a customer. A policy specifies terms such as type of
insurance coverage, beneficiary, duration, insured amount, premiums and premium frequency. The policy would also lay out all terms
related to the use and termination of the policy. A Customer can have many policies of different product types with a firm.
Premium
Premium is the agreed up amount paid by the policy holder for the coverage offered by a policy. This is typically paid monthly or yearly to
the carrier. Premium payment is required for continued coverage. Premiums are the key transaction by which commissions are paid to the
producer.

Book of Business
Book of business is generally defined as all the active policies managed by a particular producer. This book of business can be bought and sold among producers.
Annual Enrollment Period
There is a short enrollment period around fall and that is when most applications are received; this is known as the Annual Enrollment Period (AEP).
Rapid Disenrollment
If an insured cancels a policy within a 3 month period it is considered a rapid disenrollment. Commissions will be charged back in that case.
Staff
Most insurance sales agents employed in wage and salary positions work for insurance agencies. Although most insurance agents specialize in life and health or property and casualty insurance, a growing number of "multi-line" agents sell all lines of insurance. Approximately 1 out of 3 insurance sales agents are self-employed.

The industry has employees, agents, agencies and brokers who sell its products. Employees are often new agents in training and telemarketers. Independent agents and brokers are also compensated but are considered non-employees or 1099 contractors. Often employees and agents have different contracts within their company, while selling the same products. These participants are paid using different rate schedules per their contracts. Companies need to track this attribute or „Agent Level‟ and will need to use it during calculation. Many other attributes will be needed for these participants as well, such as Agent ID, W2/1099 information, Licensing data, Salary, Agent Status (select, New), and Manager data for a start. See the below functional section for these attributes.

- Employee Agent – Independent Agent
- Telemarketer - Broker
- Alliance Partner - VP
- General Managers (Agency Broker Companies/Networks)
- Managers (possibly management team)

Captive Agencies (agencies who sell a single company‟s products only) quite often have employees who are licensed, selling that company‟s products. These employees are paid directly by the agency, not by the parent company of the agency. Sales and services are recorded in the name of the agent who owns the office. The agent is the only person incented by the parent company though most often the agent‟s employee‟s license and continuing education classes are tracked by the parent company.

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Transactions
The transactions and data driving commissions are the following
New Policies
Policy Renewals
Policy Cancellations

Business Process
New applications for customers are signed up by producers and passed on to the broker/agencies. The agencies verify the quality of the application and confirm whether they have been on other policies before. After that, they pass on the application to one of the carriers they represent. Carriers then convert the application to a policy or reject the application.

Carrier firms then calculate commissions on the premium, due to the producing agency based on the published schedule and provide it back with a report giving the detail of the payments. Subsequent premiums are also collected by the carriers and the carriers calculate
any commission due on these premiums and pass it on to the producing agency. Carriers may commissions to the agency for the full year (Lump Sum) or they may pay monthly (PMPM). Carriers may also may commissions on a regular Calendar basis and prorate commissions appropriately or on an anniversary basis, when the policy is renewed.

The producing agency then splits the calculated commission with the actual agent who wrote the policy based on prior agreements. In addition agencies may have internal support staff that manage a set of brokers, and they may get overrides on the commissions paid to agents.

Commissions can be calculated weekly, bi-weekly, twice-monthly, monthly or quarterly.

Challenges
Calculating commissions in a broker agency can be quite challenging. There are some major areas of concern:

Data input
The broker agency tends to work with anywhere from a couple of carriers to up to 30 or so. All these carriers, provide a periodic check of commissions due. With the commissions check they provide a report that gives the detail of premiums and commission payments that make up the overall check.

These reports tend to come in all different shapes and forms; everything from mailed hard copy reports, faxed documents, fixed length text files, spreadsheets, downloadable files, XML files, etc. And each carrier has their own different format and method. It is quite a challenge to re-enter all this data into the agencies computers before commissions to the agents can be calculated.

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Compliance

Since this is a government program with massive reach in the marketplace, it is highly regulated. Information used in the entire process has to be retained for compliance purposes. History including commission calculations should be retained in the system and should be recoverable.

Reconciliation

Carrier commission calculations can be wrong sometimes. The agency has the responsibility of recalculating the due commissions and reconciling the results with commission payments received from the carriers. This requires the agency to do the same complex commissions calculations using the multi-attribute commission rate schedules as the carriers, but they have to maintain the schedules for all the carriers they do business with.

Splits

Commission payments have to be primarily split between the agency and the writing agent. Many times commission payments have to be split between multiple agents. In addition support staff for external agents may also get a split. Overrides may have to be paid for sales managers. The broker agency has to calculate these splits accurately and pay them for each policy premium.

Plans

These plans demonstrate various features of the QCommission product used in the Medicare Insurance Broker/Agency firms. These plans are not intended to be comprehensive; they demonstrate the suitability of QCommission for similar plans.

External Agent Commission Plan

This plan is applicable to external agents writing policies.

New Policy Commission

This incentive is paid every month. Agents get credit for any new approved policies.

The commission is calculated as a flat amount based on guideline amounts set by the government. The commission amount is a flat amount that is paid one-time on approved policies indicated by the carrier. These rates change annually.Different Medicare related products may pay different amounts of commission.

First-time Medicare Recipient Commission

This incentive is paid every month. Agents get credit for any approved policies, where this is the very first time the insured has been enrolled in Medicare.

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The commission is calculated as a flat amount based on guideline amounts set by the government. The commission amount is a flat amount that is paid one-time on approved policies indicated by the carrier.

Renewal Policy Commission
This incentive is paid every month. Agents get credit for policies that are renewed at the end of the policy year.

The commission is calculated as a flat amount based on guideline amounts set by the government. The commission amount is a flat amount that is prorated across the number of months in the policy at equal amounts.

Commission Chargeback
This calculation can reduce commissions. This is applied against any policy that qualifies as Rapid Disenrollment.Specific policy paid commissions are deducted from current period payout, if the specific policy is affected.

Additionally processing fees can be deducted by the agency from the commissions, under different circumstances.

Internal Agent Commission Plan
This plan is applicable to employee agents writing policies.

New Policy Commission
This incentive is paid every month. The employee get credits for any new approved policies that he/she brought in. Employees already get salaries and this is just considered an additional incentive for policy related work.

The commission is calculated as a flat amount. The commission amount is a flat amount that is paid one-time on approved policies indicated by the carrier.

Referral Commission Split
This incentive is paid every month. Employees can get a referral commissions for policies they refer to other agents.

This commission is typically simple. For example, the referring agent is paid a flat amount on a New policy. But if the referred policy is written up, then the writing agent has to give up the commission necessary to pay this referral commission. So the commission in essence is split up between two agents.

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Business Development Manager Plan
Business development managers manage a set of agents and provide them marketing and operations support.

Business Development Manager Override
The business development manager gets credit for all commissions paid to the agent. The commission is an override typically of a small percentage on those commissions. E.g. BDM gets an override of 5% on all agent commissions. But it can be a flat amount for every policy that the agents are getting credit for.

Resources Contact Info
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