

A photograph of two women in professional attire standing in a modern office with large windows. The woman on the left is wearing a white blazer over a light blue shirt and is holding a black notebook. The woman on the right is wearing a dark blazer over a striped shirt and is also looking at the notebook. The background shows a bright, airy office space with glass railings and windows.

2019/2020
INSIGHTS REPORT:
**HEALTH INSURANCE
INDUSTRY SALES FORCE
COMPENSATION SURVEY**

Growth in Compensation Levels for Health Insurance Sales Representatives Reflects the Need for Qualified and Knowledgeable Sales Teams

Executive Summary

The recently published *BDO Health Insurance Industry Sales Force Compensation (HISC) Survey* provides an in-depth look at compensation levels, plan designs, and pay practices for sales positions. Health insurance companies heavily rely on the BDO sales force survey to assess market pay and compensation practices.

Companies regularly re-evaluate their sales incentive plans to ensure they reflect various internal and external influencers, such as the following:

Internal drivers of change include:

- ▶ Company and/or sales strategy redirection (e.g., types of products, channels, or customer base).
- ▶ The availability of internal sales talent and types of sales roles.
- ▶ Revisions to strategic and financial goals.
- ▶ Systems available to support the sales team (e.g., ability to track opportunities, performance dashboards, and total rewards tracking).

External considerations include:

- ▶ New and/or changing markets and products.
- ▶ New players in the competition for business.
- ▶ Available talent pool.
- ▶ Current market pay levels, competitive mix of pay, type of incentive plans (commissions vs. sales bonuses), types of metrics used in the market, and aggressiveness of goals.

This Insights Report highlights key findings from the full survey report, which addresses many compensation issues and questions, such as:

- ▶ How have pay levels changed over the last five years?
- ▶ What are the key influencers of pay levels among sales roles?
- ▶ What factors impact the decisions regarding the amount of pay that should be at risk?
- ▶ What type of sales incentive plan(s) should be used? Are companies using sales bonuses, commissions, or a combination of both?
- ▶ How strong is the pay-for-performance relationship of sales incentive plans?

The survey data can provide meaningful insights to help companies make decisions about how to appropriately incentivize their sales force and drive high performance while maintaining reasonable turnover levels.



GROWTH IN PAY LEVELS

Over the last five years, median actual total cash compensation (TCC; salary plus bonuses) for senior- and junior-level sales representatives increased by annualized rates of 6.4% and 7%, respectively (see figure 1), which drove up total increases by approximately 30% during that period.

Sales departments face significant marketplace challenges, including steady increases in healthcare expenditures, medical cost inflation, and new legislation mandating minimum medical-loss ratios.¹ The increases in pay levels for sales representatives reflect how these challenges drove the need for qualified and knowledgeable sales teams.

A contributing factor to the significant overall five-year growth rates in TCC was an increase in incentive pay from 2018 to 2019 for senior- and junior-level sales representatives. While salaries remained somewhat flat, median actual TCC jumped 14% for both positions (see figure 2).

A detailed review of pay data revealed that incentives increased across multiple market segments, from national accounts to small groups. When comparing year-over-year pay for a consistent subset of Florida-based Medicare sales representatives, for example, the survey showed increases of 77% in average total incentives expressed as a percentage of base salary.

FIGURE 1

MEDIAN ANNUALIZED GROWTH IN PAY OVER FIVE YEARS (2014-2019)

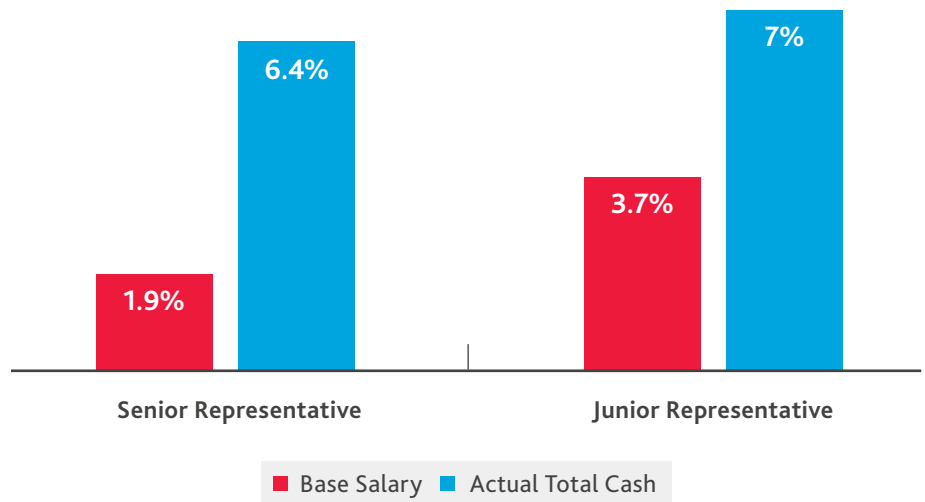
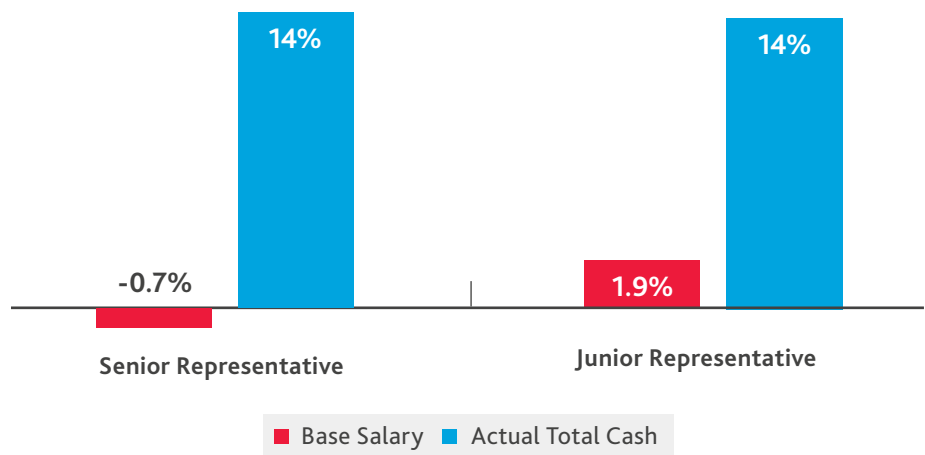


FIGURE 2

MEDIAN CHANGE IN PAY FROM 2018-2019



¹ Health & Medical Insurance in the US, IBISWorld, June 2019.

KEY INFLUENCERS OF PAY LEVELS

The structure of sales roles in health insurance companies reflects each company's go-to-market strategy.

- ▶ **Client relationship management:** There are several ways to manage client relationships and sales. For instance, companies may structure the sales representatives' positions as:
 - New sales only, in which the primary responsibility is to sell products to new clients.
 - Account management only, which focuses on retention or renewals and, to some degree, penetration of current accounts.
- New sales and account management, which is responsible for both account management and sales to new accounts.
- ▶ **Markets:** Sales roles may focus on specific target markets, such as individual, small groups, large groups, or national accounts.
- ▶ **Products:** Sales teams may sell health insurance, specialty products, or both.

FIGURE 3

TOTAL CASH COMPENSATION COMPARISON BY NATURE OF SALES ROLE

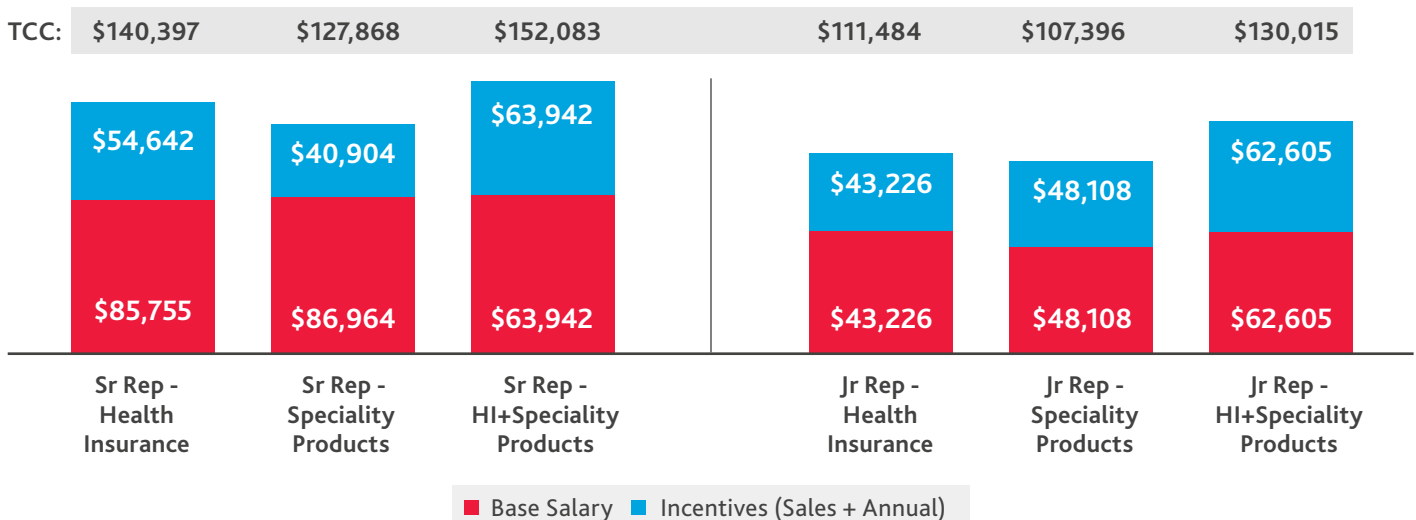
Nature of Sales Role	2019 Median Total Cash Compensation		
	Senior Representative	Junior Representative	Jr as % of Sr
New Sales	\$179,844	\$112,109	62%
Account Management / Renewals	\$152,308	\$115,653	76%
Sales and Account Management	\$132,828	\$73,698	55%

The design of sales jobs influences how sales representatives are paid. The HISC Survey findings revealed the following:

- ▶ Sales roles that focus on new sales or account management are paid more than roles that combine new sales with account management (see figure 3).
- ▶ Sales representatives who sell health insurance and specialty products are paid more than those who sell one or the other (see figure 4).
- ▶ Not only is selling a broader product suite advantageous for sales representatives, but it also benefits the company by strengthening customer relationships over the long term.

FIGURE 4

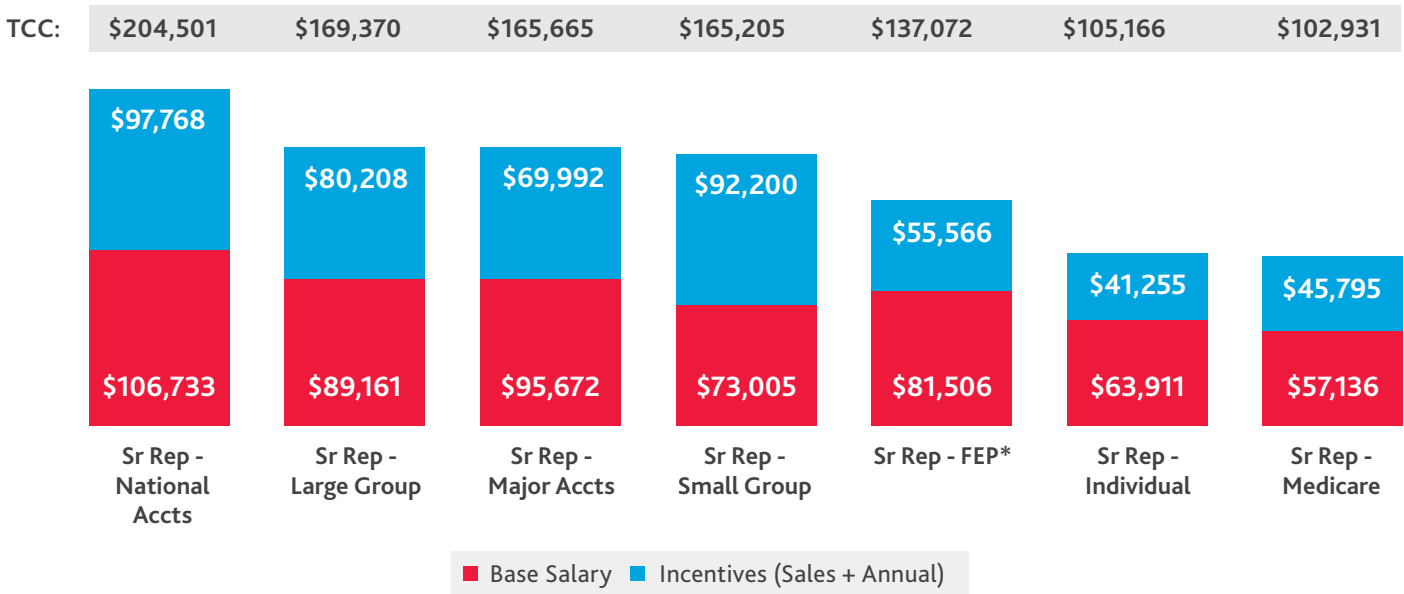
TOTAL CASH COMPENSATION COMPARISON BY NATURE OF SALES ROLE



Sales representatives who focus on national and major accounts are the most highly paid team members (see figure 5). This finding is typical across most industries because major and national accounts are usually managed by seasoned sales professionals with years of experience who are skilled in:

- ▶ Sales and account management processes that are complicated and require more training.
- ▶ Selling cycles that are typically longer for national, major, and large group segments.
- ▶ Strong client relations and well-honed management skills that are needed to retain large accounts.

FIGURE 5
PAY DIFFERENCES BY MARKET SEGMENT



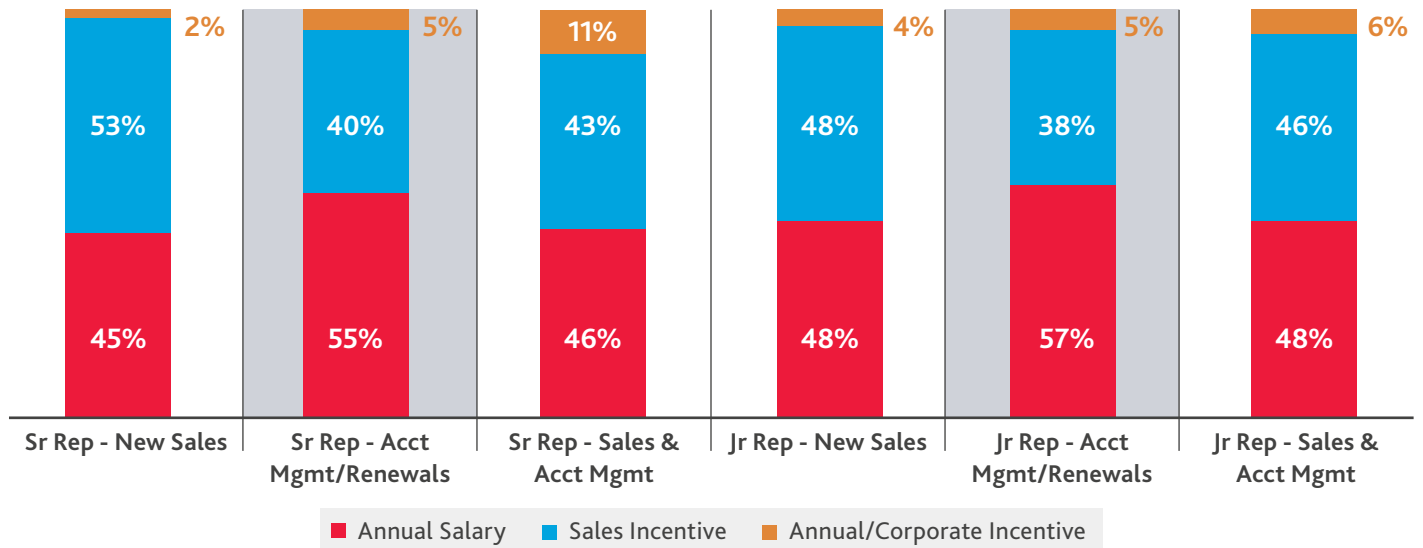
*Federal Employee Program



KEY INFLUENCERS OF MIX OF PAY

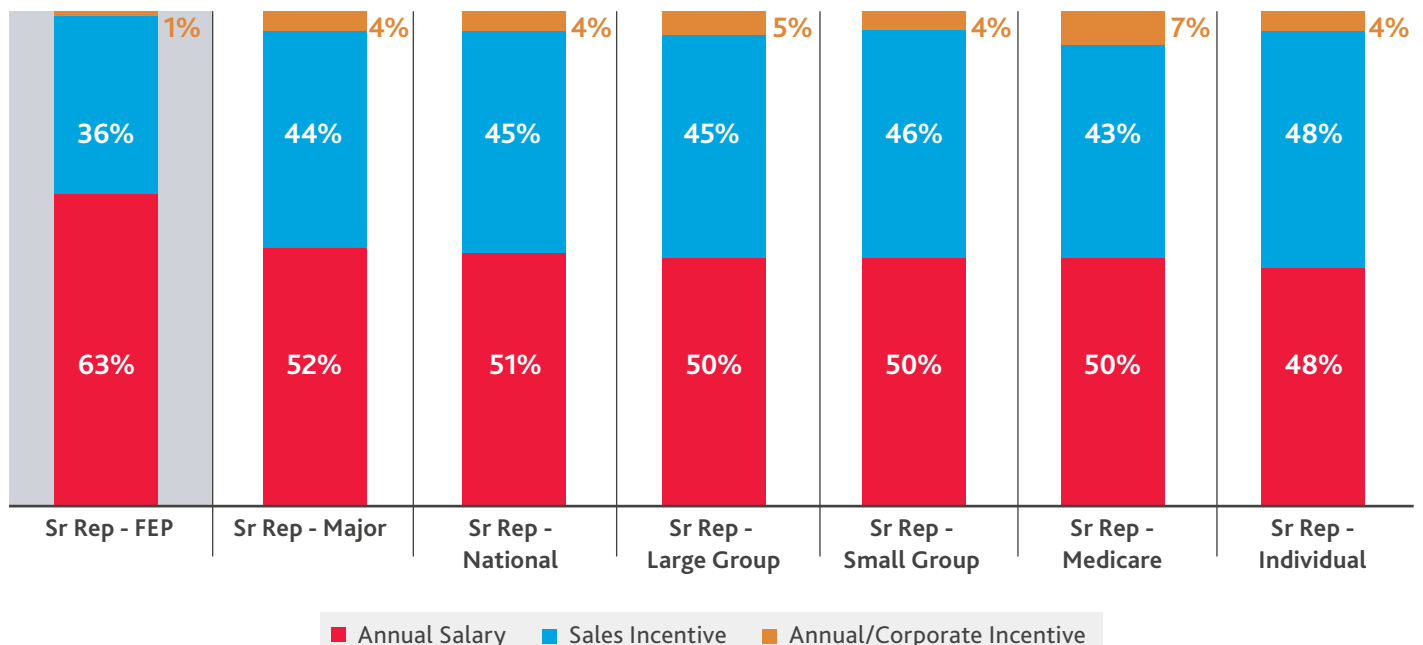
The mix of pay refers to the amount of pay allocated to base salary and the amount allocated to incentives. Compensation plans are typically more leveraged (more of their pay allocated to incentives) when sales representatives have a high impact on their sales results. Therefore, direct sales representatives tend to have more leveraged pay plans than account managers (see figure 6).

FIGURE 6
MIX OF PAY BY SALES ROLE



Sales representatives' target market segments have little impact on pay mix. The one exception is sales representatives who focus on the Federal Employee Program (FEP) market. Their plans have the least pay-at-risk (37%), which is likely due to the strong emphasis on account management (see figure 7).

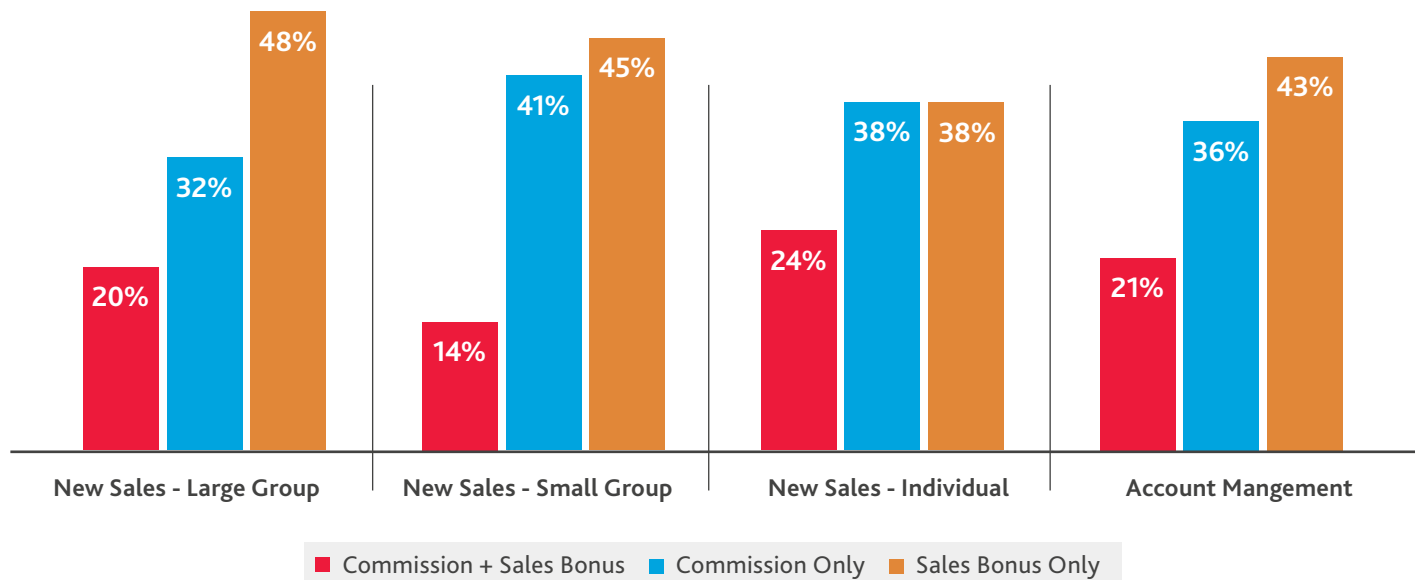
FIGURE 7
MIX OF PAY BY MARKET SEGMENT (5-YEAR AVERAGE)



TYPES OF SALES INCENTIVE PLANS

The companies surveyed slightly favor sales-bonus-only plans over commission-only or combination plans (see figure 8). Sales-bonus plans allow companies to focus on strategic priorities, such as product type, customer type, or profitability.

FIGURE 8
SALES INCENTIVE PLAN TYPES



When designing sales-bonus plans, selecting the correct performance metrics is paramount. Among companies surveyed, new sales representatives (large and small groups) reported that the top three metrics include:

- ▶ Number of new health insurance contracts sold (93% prevalence)
- ▶ Number of dental contracts sold (69% prevalence)
- ▶ Number of vision contracts sold (57% prevalence)

Clearly, most companies would focus on new health insurance contracts sold. Strategically, however, companies also encourage sales teams to sell dental and vision contracts as part of a full-service suite of insurance products.



INCENTIVE OPPORTUNITY

The HISC Survey found a strong association between pay and performance.

- ▶ Representatives who exceeded their quotas earned significantly more than those who missed their quotas.
- ▶ Those who missed their quotas earned substantially less.
- ▶ Since the amount of pay-at-risk is such a significant portion of the pay package, sales representatives who could not meet their goals were likely self-selecting out of the position. Assuming mostly better performers remain, it explains why the average payout relative to quota for all incumbents was 30% or more above target.

FIGURE 8

AVERAGE ACTUAL SALES INCENTIVES AS A PERCENTAGE OF TARGET BY QUOTA ATTAINMENT

Level of Quota Attainment	Sales & Account Management: Senior Representative	Sales & Account Management: Junior Representative
All Incumbents	137%	130%
Exceeded Quotas	178%	163%
Missed Quotas	66%	66%

Many factors dictate quota achievement, including a company's ability to set reasonable, achievable, and accurate quotas based on each representative's individual market opportunity and potential. Yet, even when set accurately and reliably, factors such as unanticipated changes in competitive pricing, the ever-changing regulatory environment, merger and acquisition (M&A) activity, and turnover can radically affect representatives' quota attainment.

When designing sales incentive plans, it is important that the plan is affordable, delivers the desired business results, and is highly motivating for sales representatives. To achieve these objectives, the following factors must be considered: the degree to which representatives exceeded their quotas and the amount of incentives delivered for high performance in excess of quotas.



Conclusions

Developing effective sales incentive plans is one of the most complex compensation design challenges for a company. Survey market data provide a starting place for establishing an effective plan design, and these data help quantify decision-making. Market research is also helpful for:

- ▶ Establishing pay levels that enable companies to recruit and retain the right talent.
- ▶ Determining the right mix of pay focusing on both industry-specific and job-specific data. For instance, incentives for sales positions can range from 10% to more than 50% of their compensation depending upon industry and role.
- ▶ Evaluating the appropriate amount of leverage for incentive plans. Ample leverage is critical for retaining the best performers. However, upside potential needs to be calibrated to provide an adequate reward without overpaying for windfalls.
- ▶ Reviewing the metrics used within the industry. Market data provides insights into industry-specific priorities and the focus areas of the competition.

However, companies' specific offerings, size, and strategies must be the primary drivers for all decision-making; this is the "art" of developing sales incentive plans. Ideally, sales incentive plans will drive behaviors that create results to ensure companies achieve their strategic objectives.

In addition to design or redesign, sales plans typically require reviews every one or two years to make sure the plans are still on track for achieving the desired objectives and results. External and internal changes are important to watch and may require updates to the incentive plan.

The following external market changes may prompt updates to sales plan designs:

- ▶ Changing government regulations.
- ▶ New competition resulting from unexpected business combinations.
- ▶ New competitors in the local or wider market.

The following are examples of internal pressures or changes that could warrant a re-examination of sales plan designs:

- ▶ Cost containment pressures place burdens on the C-suite to perpetually improve sales productivity, while delicately balancing compensation with sales representatives' engagement.
- ▶ Changes in offerings or changes in companies' go-to-market strategies.
- ▶ M&As occur as businesses are integrated and develop new ways to add value for clients, which influences the rewards offered by the insurance industry for the desired behaviors and goals of sales teams.

As industry models change, it is important that your sales plans are designed to incentivize the behaviors that will be effective in the new health insurance business environments.



About Our Survey

BDO's annual *Health Insurance Industry Sales Force Compensation Survey* of 1,900 positions, reports compensation data including base salary, sales incentives, commissions, and corporate incentives. It provides details about the use of long-term incentives (LTI) and plan design information for sales representatives, account managers, inside sales, and customer service staff.

The survey also explores pay-for-performance relationships that are fundamental to developing effective sales incentive plans.

Survey responses are gathered annually from participating health insurance organizations with three categories of analyses:

- ▶ Compensation levels
- ▶ Sales incentive plan design
- ▶ Pay-for-performance

SURVEY OVERVIEW

- ▶ Most recent publication date: August 2019
- ▶ Number of participating organizations: 33
- ▶ Types of positions surveyed: Sales, Sales Support, and Inside Sales
- ▶ Job descriptions: Crafted to reflect the unique nuances of the go-to-market strategy of health insurance companies

Pay elements include:

- ▶ Base pay
- ▶ Commissions
- ▶ Sales bonuses
- ▶ Corporate incentives
- ▶ Actual and target incentives
- ▶ LTI eligibility

Sales incentive plan design includes:

- ▶ Type of incentive plan (commission, sales incentive, or corporate incentive)
- ▶ Mix of pay
- ▶ Plan metrics
- ▶ How sales made through brokers are credited
- ▶ Timing of payout
- ▶ Use of quotas
- ▶ Use of thresholds and caps
- ▶ Pay positioning
- ▶ Use of draws for new hires
- ▶ Perks (e.g., cars)

Pay-for-performance analysis includes:

- ▶ Dollar of compensation per contract sold
- ▶ Total cash by size of contract goals
- ▶ Actual total cash by quota attainment
- ▶ Actual sales incentives as a percentage of target by quota attainment
- ▶ Actual sales as a percentage of goal by quota attainment



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The firm serves clients through more than 65 offices and over 700 independent alliance firm locations nationwide. As an independent Member Firm of BDO International Limited, BDO serves multi-national clients through a global network of more than 88,000 people working out of more than 1,600 offices across 167 countries and territories.

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