SALES COMPENSATION PLAN DESIGN - HOW THE HEALTH INSURANCE INDUSTRY IS RESPONDING TO FUNDAMENTAL CHANGES TO THEIR BUSINESS

February 5, 2019
With you today

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BDO USA

REESE BACON
Partner
Integrated Growth Advisors
About the Presenters

Judy Canavan

Judy is a Managing Director in the Global Employer Services practice and leads BDO USA’s Compensation Surveys practice with over 25 years of experience.

In addition to implementing custom compensation research, Judy focuses on helping companies tie their compensation programs to their organizational strategy. Judy conducts complex competitive assessment assignments, designs annual and long-term incentive plans, sales incentive plans, develops Board of Director compensation packages, and conducts custom compensation and total-rewards surveys. She has a special focus in the health insurance industry.

Reese Bacon

Reese is a Partner with Integrated Growth Advisors where he serves as technical lead on sales compensation and sales effectiveness services.

Reese is an expert in field sales compensation and change management and he has served small, large and national health insurance providers for over 35 years. After many years and hundreds of client experiences, he is convinced that the primary role of sales leadership is employee satisfaction, compensation and development. Reese has served in advisory roles for Mercer, BDO USA, and The Brevet Group prior to joining Integrated Growth Advisors.
Agenda

 ► Sales Compensation Design Principles
   • Pressure points in the health insurance industry
   • Trends in sales incentive plan design and how companies are responding to industry changes
   • Go-forward strategies for ensuring effective plans

 ► Case Study

 ► About BDO’s Health Insurance Sales Compensation Survey
Why Sales incentive plan design is important now

The health insurance industry is in a state of growth and facing enormous changes*.

- Healthcare expenditure increased from 5.2% of GDP in 1960 to **18.2%** in 2018.
- Health insurance industry revenue increased at 4.3% annually over past five years.
- Conversely, industry profit margins declined from 5.1% of revenue in 2013 to 4.4% in 2018. This was primarily due to increases in healthcare costs.
- Going forward, revenue is projected to increase by only 1.1%.
- Due to rapid growth, industry employment is expected to grow at an annualized rate of 3.2%.

*Source: IBISWorld
Why Sales incentive plan design is important now

Key factors driving industry growth are:

- An aging population
- A robust economy
- Expanded demand for private health insurance

However, significant hurdles are weighing companies down - namely, regulatory uncertainty and the Affordable Care Act (ACA).
Why Sales incentive plan design is important now

Challenges include:

- Increasing healthcare costs.
- Mergers and new business combinations (such as health insurers combining with hospital systems).
- Alternative health insurance options (e.g., MEWA, faith based medical cost sharing plans).
- The ever changing ACA.

These and other factors are putting pressure on the go-to-market strategy of companies and how they penetrate each customer segment (i.e., large groups, small groups, individuals, Medicare customers).

Sales reps are at the leading edge of this change, interfacing with customers who feel uncertain about the future and the most effective strategy for health insurance coverage.
Sales Incentive Plan Design Principles
Sales incentive plan design principles - three key messages

1. Sales Compensation is never designed in a vacuum
2. Market data is only one of many factors dictating sales pay levels
3. The only best practice is what’s best for your organization
Three Key Messages We Wish To Convey From This Webinar

1. Sales Compensation is never designed in a vacuum
Three Key Messages We Wish To Convey From This Webinar

2. Market data is one of many factors dictating sales pay levels

<table>
<thead>
<tr>
<th>FACTORS INFLUENCING PAY LEVELS</th>
</tr>
</thead>
<tbody>
<tr>
<td>MANAGEMENT PHILOSOPHY &amp; VISION</td>
</tr>
<tr>
<td>IMPACTED BY MARKET</td>
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<tr>
<td>INDUSTRY PRACTICE</td>
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<tr>
<td>COMPLEXITY OF THE SALE</td>
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<tr>
<td>JOB SCOPE</td>
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<td>TENURE</td>
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<tr>
<td>INDIVIDUAL PERFORMANCE</td>
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<td>GROWTH PHASE OF BUSINESS</td>
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<tr>
<td>QUOTA SIZE</td>
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<tr>
<td>INTERNAL EQUITY</td>
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<tr>
<td>GROSS MARGINS</td>
</tr>
</tbody>
</table>

CORPORATE CULTURE AND VALUES
Three Key Messages We Wish To Convey From This Webinar

3. The *only* best practice is what’s best for *your* organization
Context for sales comp design and administration

There are a number of aspects to the selling effort that need to be considered in the context of designing sales compensation plans.
Why are customer segments important to understand for comp design?
Not all segments are created equal

Let's take, for example, how a selection of carriers define their market segments.

<table>
<thead>
<tr>
<th>CARRIER</th>
<th>G R O U P   S I Z E</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2 - 25</td>
</tr>
<tr>
<td>A</td>
<td></td>
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<tr>
<td>B</td>
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<td>K</td>
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<td>L</td>
<td></td>
</tr>
</tbody>
</table>

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Pay by market segment - historical perspective

ANNUALIZED GROWTH 2013-2018 BY MARKET SEGMENT

Why are channels important to understand for comp design?

### Segment
- National, Major, Large Group
- Middle Market
- Small Group, Individual, Medicare

### Common Channel
- Consultants (Mercer, Aon)
- Brokers (Gallagher, Woodruff Sawyer)
- Brokers and Direct
Why are value propositions important to understand for comp design?

<table>
<thead>
<tr>
<th>Segment</th>
<th>Common Channel</th>
<th>Value Proposition</th>
</tr>
</thead>
<tbody>
<tr>
<td>National, Major, Large Group</td>
<td>Consultants (Mercer, Aon)</td>
<td>Network Breadth, Consistency</td>
</tr>
<tr>
<td>Middle Market</td>
<td>Brokers (Marsh, Gallagher)</td>
<td>Service</td>
</tr>
<tr>
<td>Small Group, Individual, Medicare</td>
<td>Brokers and Direct</td>
<td>Price, Price and more Price!!</td>
</tr>
</tbody>
</table>
Why are sales roles important to understand for compensation design?

Account Managers  
Sales Reps.  
Service Rep.  
Sales Leaders Players  
Inside Sales

Combination Roles

Sales Leaders Player Coaches
The nature of the sales role impacts pay levels

**Total Comp by Nature of Responsibility**
(Sales vs. Account Management/Renewals)

- Sr Rep, New Sales: $153,870
- Sr Rep, Acct Mgmt/Renewals: $155,850
- Sr Rep, Sales & Acct Mgmt: $135,021
- Jr Rep, New Sales: $119,745
- Jr Rep, Acct Mgmt/Renewals: $111,152
- Jr Rep, Sales & Acct Mgmt: $115,799

Why are organizational structures important to understand for compensation design?

<table>
<thead>
<tr>
<th>STRATEGIC FACTORS</th>
<th>ORGANIZING OPTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>How is sales organized?</td>
<td>Business Unit</td>
</tr>
<tr>
<td>Where does sales report?</td>
<td>Sales &amp; Marketing Leader</td>
</tr>
<tr>
<td>How are Ancillary products organized?</td>
<td>In Product</td>
</tr>
<tr>
<td>Who owns Sales Strategy?</td>
<td>Responsibility is embedded in existing CSO role</td>
</tr>
<tr>
<td>How many FTEs within the function?</td>
<td>&lt;20</td>
</tr>
</tbody>
</table>
Why is coverage important to understand for design?
Review: critical aspects of the selling effort

We just covered:

1. Segments
2. Channels
3. Value Proposition
4. Sales Coverage
5. Selling & Service Roles
Steps in the design process - all must be considered

Step 1: Guiding Principles
Step 2: Determine Eligibility
Step 3: Set Total Target Cash Levels
Step 4: Choose Mix of Base and Incentive
Step 5: Determine Metrics and Weights
Step 6: Select Leverage Ratios
Step 7: Design Plan Mechanics
Step 9: Set Performance Objectives
Step 9: Set Payout Timing
Step 10: Develop Admin. Guidelines
Determining eligibility - what to consider

What roles should be eligible for a sales incentive needs careful consideration, including:

- Does the role have customer contact?
- Does the role truly influence a potential buyer to purchase?
- What degree of impact on sales/profitability results?
- Job responsibilities (actually selling or just providing service)?
- Do they have support in the process or ARE they the support?
Total cash - what to consider

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<tr>
<td>INDUSTRY PRACTICE</td>
</tr>
<tr>
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<td>GROSS MARGINS</td>
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CORPORATE CULTURE AND VALUES
Setting total cash levels

Total Comp by Product

Pay mix - what to consider

Setting the right pay mix (the percent of pay allocated to salary and percent to incentives) needs to consider:

- Selling versus servicing
- New business versus renewals
- Sales cycle (short versus long)
- Complexity of sale (single or multiple buyers; local, regional or national scope)
- Influence over the sale (heavy or light marketing support)
- Business strategy (high growth or maintain share)
- Management control (tight versus loose, field versus inside)
Setting pay mix

PAY MIX: BY MARKET SEGMENT

A / Mix of Pay by Market Segment, Senior Rep.

B / Mix of Pay by Market Segment, Junior Rep.

Pay mix for combined sales & account management roles over time

PAY MIX: SALES AND ACCOUNT MANAGEMENT

<table>
<thead>
<tr>
<th>Year</th>
<th>A / Senior Rep, Sales &amp; Acct Mgmt</th>
<th>B / Junior Rep, Sales &amp; Acct Mgmt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>50%</td>
<td>58%</td>
</tr>
<tr>
<td>2015</td>
<td>49%</td>
<td>61%</td>
</tr>
<tr>
<td>2016</td>
<td>49%</td>
<td>54%</td>
</tr>
<tr>
<td>2017</td>
<td>46%</td>
<td>55%</td>
</tr>
<tr>
<td>2018</td>
<td>53%</td>
<td>58%</td>
</tr>
</tbody>
</table>

Metrics and weights - what to consider

- Aligned with and supportive of business objectives
  - Where applicable, reinforcing shareholder expectations
- Limit the number to no more than three
- Controllable by the individual
- Measurable (outcome versus process)
- Accurately trackable
- Place the greatest weights on the most important one(s)
- Weight no one metric less than 15%
Determining metrics and weights

INCENTIVE PLAN PERFORMANCE METRICS

New Sales Rep - Large Group

- Number of new health ins contracts sold: 60%
- Number of vision contracts sold: 60%
- Number of dental contracts sold: 50%
- Number of RX/Pharmacy contracts sold: 47%
- Other Sales Incentive Perf Measure: 37%
- Number of health ins contracts (lives) renewed: 30%
- Renewal of other products: 29%
- Setting up a Health Reimbursement Account: 28%
- Setting up a Health Savings Account: 20%
- Setting up a Flexible Spending Account: 19%

New Sales Rep - Small Group

- Number of new health ins contracts sold: 85%
- Number of dental contracts sold: 70%
- Number of vision contracts sold: 57%
- Number of RX/Pharmacy contracts sold: 44%
- Other Sales Incentive Perf Measure (specify below): 39%
- Number of health ins contracts (lives) renewed: 27%
- Renewal of other products: 19%
- Setting up a Flexible Spending Account: 18%
- Setting up a Health Reimbursement Account: 18%
- Setting up a Health Savings Account: 16%

Determining metrics and weights

### Account Management/Renewals

- **Number of health ins contracts (lives) renewed**: 84%
- **Number of dental contracts sold**: 67%
- **Renewal of other products**: 62%
- **Other Products such as stop-loss insurance**: 58%
- **Number of vision contracts sold**: 58%
- **Number of RX/Pharmacy contracts sold**: 51%
- **Number of new health ins contracts sold**: 50%
- **Other Sales Incentive Perf Measure (specify below)**: 48%
- **Setting up a Health Reimbursement Account**: 19%
- **Setting up a Flexible Spending Account**: 18%
- **Setting up a Health Savings Account**: 18%

## Determining metrics and weights - specialty product offerings - 2018

<table>
<thead>
<tr>
<th>Product Offering</th>
<th># of Responses</th>
<th>% Yes</th>
<th>Yes Offer</th>
<th>% Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advanced Imaging/Radiology Management</td>
<td>16</td>
<td>59%</td>
<td>2</td>
<td>13%</td>
</tr>
<tr>
<td>Behavioral Health Plus Programs</td>
<td>17</td>
<td>63%</td>
<td>7</td>
<td>41%</td>
</tr>
<tr>
<td>Dental</td>
<td>22</td>
<td>81%</td>
<td>20</td>
<td>91%</td>
</tr>
<tr>
<td>Disease Management</td>
<td>18</td>
<td>67%</td>
<td>11</td>
<td>61%</td>
</tr>
<tr>
<td>Employee Assistance Programs</td>
<td>17</td>
<td>63%</td>
<td>7</td>
<td>41%</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>21</td>
<td>78%</td>
<td>13</td>
<td>62%</td>
</tr>
<tr>
<td>Pharmacy/RX</td>
<td>23</td>
<td>85%</td>
<td>20</td>
<td>87%</td>
</tr>
<tr>
<td>Health Advocacy/ Clinical Care Mgmt</td>
<td>18</td>
<td>67%</td>
<td>11</td>
<td>61%</td>
</tr>
<tr>
<td>Stop/Loss Insurance</td>
<td>21</td>
<td>78%</td>
<td>15</td>
<td>71%</td>
</tr>
<tr>
<td>Telemedicine</td>
<td>18</td>
<td>67%</td>
<td>10</td>
<td>56%</td>
</tr>
<tr>
<td>Value Based Medical Products</td>
<td>18</td>
<td>67%</td>
<td>8</td>
<td>44%</td>
</tr>
<tr>
<td>Vision</td>
<td>23</td>
<td>85%</td>
<td>18</td>
<td>78%</td>
</tr>
<tr>
<td>Wellness</td>
<td>20</td>
<td>74%</td>
<td>15</td>
<td>75%</td>
</tr>
<tr>
<td>Other</td>
<td>12</td>
<td>44%</td>
<td>4</td>
<td>33%</td>
</tr>
</tbody>
</table>
Plan mechanics - what to consider

<table>
<thead>
<tr>
<th>Commission Plan</th>
<th>Bonus Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High</strong></td>
<td></td>
</tr>
<tr>
<td>Sales Force Causality</td>
<td>Low</td>
</tr>
<tr>
<td>To what degree is the sales result determined by the skill and effort of salesperson</td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td>Team</td>
</tr>
<tr>
<td>Selling Resources</td>
<td></td>
</tr>
<tr>
<td>Is selling success a result of individual or team efforts</td>
<td></td>
</tr>
<tr>
<td>Short</td>
<td>Long</td>
</tr>
<tr>
<td>Selling Cycle</td>
<td></td>
</tr>
<tr>
<td>Is the selling cycle short or long</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Carryover Sales</td>
<td></td>
</tr>
<tr>
<td>To what degree do sales occur as a result of past sales efforts</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Sales Force Tasks</td>
<td></td>
</tr>
<tr>
<td>To what degree does the sales force complete non-selling tasks</td>
<td></td>
</tr>
<tr>
<td>Equitable</td>
<td>Not Equitable</td>
</tr>
<tr>
<td>Sales Territories/Opportunities</td>
<td></td>
</tr>
<tr>
<td>Are the territories equally configured</td>
<td></td>
</tr>
<tr>
<td>Volatile</td>
<td>Stable</td>
</tr>
<tr>
<td>Market Volatility</td>
<td></td>
</tr>
<tr>
<td>How volatile is industry demand for the firm’s products</td>
<td></td>
</tr>
<tr>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Data Availability</td>
<td></td>
</tr>
<tr>
<td>To what degree are data available to set goals</td>
<td></td>
</tr>
</tbody>
</table>
Determining type of incentive
COMMISSION, BONUSES OR COMBINATION

<table>
<thead>
<tr>
<th>Job Title</th>
<th>Commission</th>
<th>Sales Bonus</th>
<th>Annual Incentive (Corporate)</th>
<th>Long Term Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Rep</td>
<td>61%</td>
<td>55%</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>Junior Rep</td>
<td>66%</td>
<td>55%</td>
<td>7%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Setting performance objectives - what to consider

- Threshold
- Target
- Excellence or Outstanding
- Caps
Setting performance objectives

<table>
<thead>
<tr>
<th>Measurement Level</th>
<th>Revenue/Volume Metric</th>
<th>MBOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>50% 75% 100% 150% 200%</td>
<td>50%</td>
</tr>
<tr>
<td>Region/Team</td>
<td>50% 75% 100% 125% 150%</td>
<td>75%</td>
</tr>
<tr>
<td>Territory</td>
<td>50% 75% 100% 125% 150%</td>
<td>100%</td>
</tr>
<tr>
<td>Individual</td>
<td>50% 75% 100% 125% 150%</td>
<td>125%</td>
</tr>
</tbody>
</table>

Possible Threshold  Possible Excellence
Pay for performance - sales incentives as a % of target

Benchmarking how much to pay at each performance level is a challenge.

<table>
<thead>
<tr>
<th></th>
<th>Average Actual Sales Incentives as a % Target by Quota Attainment:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Senior Rep</td>
</tr>
<tr>
<td>All Incumbents:</td>
<td>130%</td>
</tr>
<tr>
<td>Exceeded Quota:</td>
<td>161%</td>
</tr>
<tr>
<td>Missed Quota:</td>
<td>96%</td>
</tr>
</tbody>
</table>

Pay for performance - $ per contract sold

Another challenge is benchmarking the right “payout” relative to sales.

<table>
<thead>
<tr>
<th>$ of Comp per contract sold</th>
<th>Actual</th>
<th>Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Rep</td>
<td>$ 1,104.9</td>
<td>$ 1,151.2</td>
</tr>
<tr>
<td>Junior Rep</td>
<td>$ 1,235.7</td>
<td>$ 1,106.8</td>
</tr>
</tbody>
</table>

Sales incentive plan design principles - three key messages

1. Sales Compensation is never designed in a vacuum
2. Market data is only one of many factors dictating sales pay levels
3. The **only** best practice is what’s best for **your** organization
Case Study
Case Study Objectives

The goal of presenting this case study is to:

- Demonstrate how to apply some of the principles described earlier.
- Highlight the challenges we faced during the process of designing the plan.
- Walk through the solutions we developed.

This case study focuses on the redesign of the large group sales compensation plan.
Case Study - Regional Health Insurance Company

**BACKGROUND**

- **Market Segments**
  - Large/Major/National
  - Medium/Small Group
  - Individual
  - Medicare

- **Coverage**
  - Regional
  - Health Insurer of choice

- **Offerings (reps sold both)**
  - Health Insurance
  - Ancillary products

- **Nature of Sales Role**
  - Combined sales and account management
  - Sales support
  - Inside sales was becoming a larger function in response to ACA

Our client was a regional health insurance company
Case Study - Regional Health Insurance Company

BACKGROUND

The payouts for one of their large group account representatives were going to be significantly higher than any amount paid in the past.

The payout was the result of what was viewed as a “windfall” - excessive incentive pay which is out of balance with the effort and skill required.

There was concern about potential internal equity issues and costs.
Case Study - Regional Health Insurance Company

BACKGROUND

- In addition, the Affordable Care Act was creating additional uncertainty and confusion.
- Maintaining the status quo was no longer a viable option.
Case Study - Regional Health Insurance Company

Management decided to undergo a review of all their sales incentive plans. For the large group plan, they had several competing needs:

- Ensure a competitive sales compensation plan to attract and motivate Reps to sell profitable business
- Provide a flexible incentive design for a changing marketplace
- Reduce the potential for windfall incentive payments
Case Study - Regional Health Insurance Company

LARGE GROUP INCENTIVE PLAN OBJECTIVES

Our first step was to work with management to identify the features that would indicate a successful incentive plan redesign. Together we defined three plan design objectives:

1. Pay adequate compensation rates to attract and retain top sales talent in a competitive market.

2. Align incentives with company volume and profit requirements, including rewarding for stretch performance and addressing potential windfall payouts.

3. Ensure a cost effective plan.
Case Study - Regional Health Insurance Company

ESTABLISHING COMPENSATION LEVELS

Challenges

- Obtaining credible benchmarking data from comparable organizations (i.e., other similarly situated Health Insurers).
  - Published market pay data often showed low incentive levels that were inconsistent with both management’s and our industry experience.
- The company’s philosophy was for the reps to earn up to the 75th percentile total cash for achievement of stretch performance goals. We needed to determine if this leverage was appropriate.
Case Study - Regional Health Insurance Company

ESTABLISHING COMPENSATION LEVELS

Solution

- Published market data was used to determine competitive pay levels for the sales positions at the 25th percentile, median and 75th percentile.
- Our experience with other health insurance companies helped us calibrate the plan.
- Subsequently, we conducted our comprehensive Health Insurance Sales Compensation survey which revealed that industry incentive levels and pay mix (salary/incentive) were higher and more leveraged as we expected.
Case Study - Regional Health Insurance Company

ALIGN AND REWARD FOR PROFITABLE STRETCH PERFORMANCE

Challenges

There were two performance objectives:

- Focus Reps on the more profitable fully-insured business.
- Reward stretch performance while avoiding overpayment for windfalls.
Case Study - Regional Health Insurance Company

ALIGN AND REWARD FOR PROFITABLE STRETCH PERFORMANCE

Challenges continued

Management proposed placing a cap on commissions as a way to manage windfalls. However, we advised against this as it could:

- Send the wrong message and be demotivating.
- Inadvertently incent Reps to stop selling once the cap is reached.
- Encourage sandbagging to hold sales for the following year.
Case Study - Regional Health Insurance Company

ALIGN AND REWARD FOR PROFITABLE STRETCH PERFORMANCE

Solution

- Metrics: contracts sold, differentiating between fully and self-insured.
- Sales Goals: Based on the specific contract type (fully and self-insured).
- Territory Alignment: Set customized goals by contract type for each region / territory.
- Commission Rates:
  - Varied commission rates based on the profitability of the type of business sold - fully-insured business paid a higher rate than self-insured.
  - Accelerated commission rates for higher sales volume. Each additional contract was that much more profitable as fixed costs (e.g., salary, etc.) were covered.
  - Bent the payout curve downward once exceptional performance was achieved.
ALIGN AND REWARD FOR PROFITABLE STRETCH PERFORMANCE

Goals were set based on the type of contract as illustrated below.

<table>
<thead>
<tr>
<th>Performance Level</th>
<th>Annual Contract Goals - Illustrative -</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fully Insured</td>
<td>Self Insured</td>
</tr>
<tr>
<td>Tier 6</td>
<td>&gt; 900</td>
<td>&gt; 1,800</td>
</tr>
<tr>
<td>Tier 5 (Exceptional)</td>
<td>900</td>
<td>1,800</td>
</tr>
<tr>
<td>Tier 4</td>
<td>800</td>
<td>1,600</td>
</tr>
<tr>
<td>Tier 3 (Target)</td>
<td>700</td>
<td>1,400</td>
</tr>
<tr>
<td>Tier 2</td>
<td>600</td>
<td>1,200</td>
</tr>
<tr>
<td>Tier 1</td>
<td>&lt; 500</td>
<td>&lt; 1,000</td>
</tr>
</tbody>
</table>
ALIGN AND REWARD FOR PROFITABLE STRETCH PERFORMANCE

Linked incentive rate to both the type of contract sold (fully and self-insured) and level of performance.

- Commission earned on the first contract sold.
- Reduced commission levels once “Exceptional” performance was exceeded.

<table>
<thead>
<tr>
<th>Performance Level</th>
<th>Incentive Rate Per Contract - Illustrative -</th>
<th>Fully Insured</th>
<th>Self Insured</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 6</td>
<td>$30</td>
<td>$15</td>
<td></td>
</tr>
<tr>
<td>Tier 5 (Exceptional)</td>
<td>$50</td>
<td>$25</td>
<td></td>
</tr>
<tr>
<td>Tier 4</td>
<td>$45</td>
<td>$23</td>
<td></td>
</tr>
<tr>
<td>Tier 3 (Target)</td>
<td>$40</td>
<td>$20</td>
<td></td>
</tr>
<tr>
<td>Tier 2</td>
<td>$30</td>
<td>$15</td>
<td></td>
</tr>
<tr>
<td>Tier 1</td>
<td>$20</td>
<td>$10</td>
<td></td>
</tr>
</tbody>
</table>
Case Study - Regional Health Insurance Company

ENSURE A COST EFFECTIVE PLAN

Challenge

The question on the table was whether the new sales compensation plan costs were affordable.
Case Study - Regional Health Insurance Company

ENSURE A COST EFFECTIVE PLAN

Solution

- Modeled plan to compare incentive payouts and total compensation at various performance levels, using historical and projected performance.
- Compared new plan modeled payouts and existing plan actual payouts at identical performance.
Case Study - Regional Health Insurance Company

ENSURE A COST EFFECTIVE PLAN

Solution continued

Results confirmed that the new plan would:

- Deliver highly competitive pay (75th percentile) for exceptional performance.
- Reduce total compensation costs by 30% under a windfall scenario.
- Compensation Cost of Sales was in line with general practices.
Recap

This case study demonstrated:

- The importance of quality market data in calibrating pay levels and incentive plan leverage.
- How the incentive plan can operate as a roadmap to focus the reps on business priorities.
- Creative solutions to address common plan design issues such as avoiding the use of commission plan caps.
- The importance of modeling the plan to ensure it works as anticipated and is cost effective.
About the Annual Health Insurance Sales Compensation Survey
Introduction

2018 was the sixth year for the survey. It was initiated in response to the growing need for more comprehensive sales force compensation market intelligence.

The survey covers the following topics:
- Compensation levels
- Pay and Performance
- Plan design
- Performance Statistics
- Turnover

And covers the following roles:
- Sales
- Account management
- Inside sales and
- Sales support roles
Participant Profile

In 2018 there were 27 participants with average:

- Revenue of $21.5 billion.
- Number of employees of 29,000.
- Number of members of 8.7 million.
Participant List*

* A large company cut is also provided for those health plans with revenues greater than $10 billion.

- Aetna
- Anthem, Inc.
- BlueCross BlueShield of Alabama
- Blue Cross Blue Shield of Minnesota
- Blue Cross Blue Shield of Nebraska
- Blue Cross Blue Shield of North Carolina
- Blue Cross & Blue Shield of Rhode Island
- BlueCross BlueShield of Tennessee
- Blue Shield of California
- Capital Blue Cross
- CareFirst, Inc
- Centene Corporation
- Cigna
- Florida Blue
- Geisinger Health Plan
- Harvard Pilgrim Health Care
- HealthNow NY Inc.
- Horizon BCBSNJ
- Humana Inc.
- Independence Blue Cross
- Kaiser Permanente
- Molina Healthcare Inc.
- SCAN Health Plan
- Tufts Health Plan
- UnitedHealth Group
- WellCare
- Wellmark Blue Cross Blue Shield
Survey Overview

The survey covers the following:

- **Compensation levels**
  - Base salary
  - Incentives:
    - Sales bonuses
    - Sales commissions
    - Corporate bonuses/Incentives
  - Actual total cash compensation
  - Target total cash compensation
  - Long-term incentive eligibility

- **Three job families:**
  - Sales and Account Management
  - Inside Sales
  - Sales Support

- **Job levels from executive to junior rep**
- **Plan design**
- **Pay and Performance Analysis**
- **Performance Statistics**
- **Turnover**
About the Survey Titles
Survey Titles

- The hallmark of this survey are the industry specific titles
- Each position reflects (1) the responsibility of the job, (2) the markets for which the position is responsible, and (3) the products it sells.
- We refer to these as “responsibility based titles”.

The following pages illustrate how the titles are structured
## Responsibility-Based Titles

**TITLES ARE BASED ON THE FOLLOWING COMPONENTS:**

| Functional Area or Department | • Sales and account management  
| | • Inside sales  
| | • Sales support |
| Organizational Level | • Vice President  
| | • Director / Manager / Supervisor  
| | • Professionals |
| Nature of Responsibility | • Sales  
| | • Account Management / Renewals  
| | • Both |
| Market Segment | • National / Major / Large group  
| | • Small group / Individual / Medicare  
| | • Federal employee programs |
| Products Sold | • Health Insurance  
| | • Specialty Products  
| | • Both |
Responsibility-Based Titles

Each 2018 Responsibility-Based Job Title (and job code) =

Dept. + Level + Nature + Market + Product
Responsibility-Based Titles for 2018

Each responsibility-based job title = Dept. + Level + Nature + Market + Product

<table>
<thead>
<tr>
<th>Department</th>
<th>Organizational Level</th>
<th>Nature of Responsibility</th>
<th>Market Segment</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales and Account Management</td>
<td>VP</td>
<td>Sales</td>
<td>National/Major Accts</td>
<td>Health Insurance</td>
</tr>
<tr>
<td>Inside Sales</td>
<td>Director</td>
<td>Account Management/Renewals</td>
<td>National Accts</td>
<td>Specialty Products</td>
</tr>
<tr>
<td>Sales Support</td>
<td>Manager</td>
<td>Both</td>
<td>Major Accts</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Supervisor</td>
<td></td>
<td>Large &amp; Small Group</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Senior Rep</td>
<td></td>
<td>Large Group</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Junior Rep</td>
<td></td>
<td>Small Group</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Individual</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>FEP</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Medicare</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Multiple Markets</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mid-Sized Group</td>
<td></td>
</tr>
</tbody>
</table>
Responsibility-Based Titles *continued*

*Example:*

10 200 3 02 3:

Sales & Account Mgmt: VP, Sales & Acct Mgmt. - National Accts Health Insurance and Specialty Products

<table>
<thead>
<tr>
<th>Department</th>
<th>Organizational Level</th>
<th>Nature of Responsibility</th>
<th>Market Segment</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Code: 10</td>
<td>Code: 200</td>
<td>Code: 3</td>
<td>Code: 02</td>
<td>Code: 3</td>
</tr>
<tr>
<td>Sales and Account</td>
<td>VP</td>
<td>Sales and Account</td>
<td>National</td>
<td>Health Insurance + Specialty Products</td>
</tr>
<tr>
<td>Management</td>
<td>Management</td>
<td>Management</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

This approach results in very refined job titles
Title Roll-Ups

Roll-ups of job titles are created to provide robust market pay data and alternative ways to view the data.

<table>
<thead>
<tr>
<th>Roll-up</th>
<th>Department</th>
<th>Level</th>
<th>Nature</th>
<th>Market</th>
<th>Product</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dept-Level-Nature-Market Segment</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Roll-Up</td>
</tr>
<tr>
<td>Dept-Level-Nature of Responsibility</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>Roll-Up</td>
<td>Roll-Up</td>
</tr>
<tr>
<td>Dept-Level-Market Segment</td>
<td>X</td>
<td>X</td>
<td>Roll-Up</td>
<td>X</td>
<td>Roll-Up</td>
</tr>
<tr>
<td>Dept-Level-Product</td>
<td>X</td>
<td>X</td>
<td>Roll-Up</td>
<td>Roll-Up</td>
<td>X</td>
</tr>
<tr>
<td>Dept-Level</td>
<td>X</td>
<td>X</td>
<td>Roll-Up</td>
<td>Roll-Up</td>
<td>Roll-Up</td>
</tr>
<tr>
<td>Level</td>
<td>Roll-Up</td>
<td>X</td>
<td>Roll-Up</td>
<td>Roll-Up</td>
<td>Roll-Up</td>
</tr>
</tbody>
</table>

X - represents the detail that is shown for each roll-up
Title Roll-Ups continued

To help better understand roll-ups, we have presented an example that shows the roll-ups for job:

10-600-2-12-3:

Sales and Account Mgmt, Senior Rep, Acct Mgmt/Renewals, Mid-Sized Group, and HI+Spc Prod.

<table>
<thead>
<tr>
<th>Roll-Up</th>
<th>Department</th>
<th>Level</th>
<th>Nature</th>
<th>Market</th>
<th>Product</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dept-Level-Nature-Market Segment</td>
<td>10</td>
<td>600</td>
<td>2</td>
<td>12</td>
<td>0</td>
<td>10-600-2-12-0</td>
</tr>
<tr>
<td>Dept-Level-Nature of Responsibility</td>
<td>10</td>
<td>600</td>
<td>2</td>
<td>00</td>
<td>0</td>
<td>10-600-2-00-0</td>
</tr>
<tr>
<td>Dept-Level-Market Segment</td>
<td>10</td>
<td>600</td>
<td>0</td>
<td>12</td>
<td>0</td>
<td>10-600-0-12-0</td>
</tr>
<tr>
<td>Dept-Level-Product</td>
<td>10</td>
<td>600</td>
<td>0</td>
<td>00</td>
<td>3</td>
<td>10-600-0-00-3</td>
</tr>
<tr>
<td>Dept-Level</td>
<td>10</td>
<td>600</td>
<td>0</td>
<td>00</td>
<td>0</td>
<td>10-600-0-00-0</td>
</tr>
<tr>
<td>Level</td>
<td>00</td>
<td>600</td>
<td>0</td>
<td>00</td>
<td>0</td>
<td>10-600-0-00-0</td>
</tr>
</tbody>
</table>
### Title Roll-Ups continued

<table>
<thead>
<tr>
<th>Roll-Up</th>
<th>What Details Are Combined</th>
<th>How To Use This Roll-Up</th>
<th>Example Job Code and Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department-Level-Nature-Market Segment</td>
<td>All product sold combined</td>
<td>Use this to focus on the job irrespective of product sold.</td>
<td>10-600-2-12-0: Sales &amp; Account Mgmt: Senior Rep, Acct Mgmt/Renewals - Mid-Sized Group</td>
</tr>
<tr>
<td>Department-Level-Nature of Responsibility</td>
<td>All product sold combined and market segment combined</td>
<td>Use this to obtain robust data for sales versus account management jobs in each department. It is irrespective of the market segment or products sold.</td>
<td>10-600-2-00-0: Sales &amp; Account Mgmt: Senior Rep, Acct Mgmt/Renewals</td>
</tr>
<tr>
<td>Department-Level-Market Segment</td>
<td>All nature of responsibility combined and product sold combined</td>
<td>Use this to focus on pay levels for specific market segments. It is a combination of sales and account management jobs irrespective of products sold.</td>
<td>10-600-0-12-0: Sales &amp; Account Mgmt: Senior Rep, Mid-Sized Group</td>
</tr>
<tr>
<td>Department-Level-Product</td>
<td>All nature of responsibility combined and market segments combined</td>
<td>This illustrates differences in pay levels by product sales.</td>
<td>10-600-0-00-3: Sales &amp; Account Mgmt: Senior Rep, HI+Spc Prod</td>
</tr>
<tr>
<td>Department-Level</td>
<td>All nature of responsibility combined, market segments combined and all product sold combined</td>
<td>Use this to determine pay differentials for each level within the department.</td>
<td>10-600-0-00-0: Sales &amp; Account Mgmt: Senior Rep</td>
</tr>
<tr>
<td>Level</td>
<td>All combined except level</td>
<td>Use this to determine pay differentials for each level irrespective of the department.</td>
<td>00-600-0-00-0: Senior Rep</td>
</tr>
</tbody>
</table>
Conclusion and Highlights

Today we:

- Discussed what to consider when designing a sales incentive plan
- Presented highlights from our annual compensation survey and trends report
- Walked through a sales compensation design case
- Introduced you to our health insurance sales compensation survey

Your access to additional information follows
Download the Full Trends Report

Learn more about the upcoming 2019 Annual Health Insurance Sales Compensation Survey

Questions?

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