Compensation trends for your agency - A new plan attracts motivated people

- Article in PIA Magazine, October Issue

by Mark Shlien

Many agencies changed their approach to employee compensation during the recession. Faced with the prospect of declining revenues and profits, agency owners and managers have to find ways to cut payroll costs while offering the level of customer service for which professional insurance agencies are known.

Some agencies have frozen salaries or eliminated any discretionary payments; others have told their employees that traditional merit increases no longer are guaranteed and any rewards will be tied to the agency's performance, rather than employee entitlement. In many agencies, the hope is that these measures are temporary or will last until the economy improves. But, the truth is that "pay for performance" should become a permanent part of every agency payroll structure. It not only offers higher compensation for better performance, but it allows the agency to plan better for and control payroll spending.

One of the benefits of paying for performance is that it appeals to job candidates who want more meaningful rewards and who appreciate a plan that shows them how they can make more money. As agencies compete for talent at all levels of agency employment, they need to differentiate themselves from their peers and even companies in other industries. A good incentive plan appeals to top performers, whether they are in sales, service or management.

When designing a pay-forperformance plan, it is important to understand that employees (and managers) might initially resist it because they feel entitled to the annual merit raise or the belief that employees in similar jobs should receive the same pay. Some agencies announce the annual salary increase budget (for example, 3.5 percent), which makes every employee think he or she will get at least the budgeted amount. Although pay-forperformance should not be complicated, it does require more monitoring and more frequent payouts to be effective.

Managers may resist the additional work required or having to deal with the average and low performers who will not receive the same rewards. Once the plan is implemented, however, these same managers will see it as a selling point with job candidates who want to be rewarded for their efforts.

How should pay-for-performance look?

There are many ways to construct pay-for-performance, but you should consider certain key elements.

Replace merit pay as the reward system. Merit pay is flawed fundamentally because it fosters a feeling of entitlement and provides little incentive to top performers. The average employee might receive 3 percent while the top performer receives only 5 percent. An employee who doesn't receive the expected raise is disgruntled and the top performer is discouraged. Rather than increase salaries every year, adjust them as the market or cost of living dictates. Reward employees with bonuses tied directly to their efforts or the agency's results.

Don't rely on salary ranges and market comparisons. Agencies that focus on market comparisons can foster the belief that salary ranges should be adjusted upward constantly to match the competition. Pay adjustments, however, should be made based on what the company can afford. The reality is that some employees will be paid below market and some above.

Use measurable performance to determine annual incentive payouts. Sales or service, it is quite possible to tie bonuses to measurable performance in an agency. You can measure retention of business, new business, and cross-selling and growth. Bonuses can be based on individual or group effort, and you can add a component for overall agency performance.

Add long-term incentives. A meaningful employee-compensation plan should help you retain your top employees. Producers, managers, and key specialists should know that there is a payout waiting for them if they stay with the agency. These incentives only should be provided to employees who meet tough performance requirements. They also would forfeit large portions of their award if they leave before a specified time. There should be no assumed right to long-term incentives based on their position, but, rather their contribution to the long-term, sustainable financial success of the agency.

Sample plan

The objective of the following plan is to have every individual in the organization understand the goals and contribute to the success of the organization through their personal efforts. For example, account managers would be rewarded for retention and growth of their books and managers would be rewarded for growth, profit and productivity. The agency-compensation plan will have two parts: a base salary and a bonus/incentive.

Base salary

The base salary would be tied to the duties of the position, as outlined in the job description, at an expected level of satisfaction/competence. The employees would need to have the minimum qualifications and perform the duties at an acceptable level. For example, a customer service representative who is not licensed properly or does not have a minimum level of knowledge will not meet the minimum qualifications and will be paid less than other more qualified CSRs. A one-year time frame would be established during which all employees must meet the minimum qualifications for the position (including appropriate and pre-determined continuing education) and must be performing the position as described at a satisfactory level. Annual adjustments to salary will be made when cost of living or market information indicates it is necessary.

Bonus compensation

In addition to salary, agency-based bonuses would be paid to employees who are responsible for retaining accounts. Employees who do not service accounts would be eligible for a bonus based on the office profit and growth results. Managers would be rewarded for department growth, department profit and revenue per employee.

Setting up the plan

When setting up the plan, you must first develop agency and department growth and profit goals and a budget to support the goals. Each department and each individual also would have goals tied to their jobs. After negotiating and establishing these goals, management would communicate them to agency employees. It also is necessary to develop the reports that will be needed to monitor progress and track results. Periodic performance reviews will help management communicate results to employees and recommend how the employees can improve results.

Sample account manager plan

To encourage retention and support of the sales effort, account managers would receive a bonus based on the department growth objective. If the department growth objective is achieved, the account manager would receive a percentage of his or her salary as a bonus. Bonus percentages would increase as the department growth increased. This approach would give account managers the incentive to retain accounts, ask for referrals, cross-sell, and support the sales efforts of others.

A second bonus would be paid if the office achieves its overall growth objectives. The account managers would have the incentive to provide leads to other departments and to work cooperatively with all members of the agency, not just their department. As with the first bonus, as the growth rate increases, so does the bonus percentage. This bonus also would be paid to the nonservice staff to reward them to support the retention and sales efforts of the other employees.

Sample manager plan

Managers can have multiple components to their bonus plans, depending on their role. For a commercial-lines manager, the bonus can be tied to the growth of the department's book of business and the profit generated by the department. Managers also can have an effect on profitability by increasing employee productivity, identifying ways to cut costs and recommending more effective ways to do work or structure their departments. So, revenue per employee also can become a goal, as well as nonfinancial goals, such as implementing new technology or revising department procedures.

For managers and other key personnel, long-term incentives provide additional motivation to stay with the agency and to focus on the long-term implications of their performance. Examples of long-term incentives are deferred compensation where money is set aside for these individuals to receive at a later date. Profit-sharing plans and employee stock-ownership plans are also used as long-term incentives. Stock options and agency ownership are key motivators for agency managers and producers.

Producer compensation

Although most producers are paid on commission, there are wide discrepancies in the percentages they are paid and the expectations to which they are held. Agencies that provide more incentives for producers are valued more by producers. Examples of producer incentives are paying higher commissions for exceeding goals, higher car allowances for larger books, new business sales contests, deferred compensation based on book size, and increased account-executive support based on book size. Top performing producers typically look for incentives that recognize their sales efforts and offer them long-term rewards, such as ownership or deferred compensation.

The goal of any superior compensation plan is to top performers the opportunity to earn more money than they would elsewhere, to be recognized for their efforts, and to know that if their performance is superior to others, the compensation plan will reward them appropriately.