

Introducing Producer Service Fee to fully insured employer groups with 101+ eligible employees (Core and Premier)

Update

Effective October 1, 2018, for new business and upon renewal for existing business, Blue Shield of California will be transitioning from a commission-based payment model to a Producer Service Fee payment model for broker compensation. The Producer Service Fee will commonly be referred to as PSF.

This change will impact fully insured employer groups with 101+ eligible employees (Core and Premier). This will apply to large group, fully insured coverages filed with the Department of Managed Health Care (DMHC). This new model will not apply to Individual and Family Plans (IFP), Small Group Business (SGB), senior plans, or specialty (dental, vision, and life) products.

Why is Blue Shield making this change?

This model aligns with Blue Shield's strategy to reduce administrative costs so that Blue Shield can invest in innovation to create a high-quality healthcare system that is sustainably affordable. This payment model more accurately reflects the relationship between you and your clients.

What is not changing

- The critical value of your relationship with Blue Shield.
- The level of service that you and your clients experience.
- The way you receive payment – Blue Shield will continue to collect the total billed amount from the employer group and remit payment to you.
- The client's monthly premium statement will look the same except that it will include a notation that the total billed amount will include the PSF.
- Our 2% Pledge.
- Your role in educating our mutual clients about important changes such as the PSF payment model.
- Your ability to view your compensation amount through the Incentive Compensation Management (ICM) system on the broker portal.

What is changing

- All fully insured, eligible new business proposals and renewals will refer to broker compensation as a Producer Service Fee (PSF).
- You will negotiate Producer Service Fees directly with your clients.
- Because the premium does not include producer compensation, a given compensation amount will appear slightly higher when represented as a PSF percentage compared with how it would appear under the former commission payment model.
- There will be updated language regarding PSF within the Group Service Agreement (GSA) and on the billing invoice.
- Employer groups will have responsibility for tax reporting related to the payment of the PSF to the producer. Blue Shield will provide Form 1099 data to all employer groups annually in January.*
- Form 5500 will be updated to reflect PSF payments along with any applicable commission payments.

* Blue Shield offers an optional service of issuing Form 1099 on an employer group's behalf. To engage Blue Shield for this optional service, the group will need to sign an Employer Group Form 1099-MISC Authorization.

Producer Service Fee (PSF)

Broker frequently asked questions (FAQs)

May 2018

1. **Q. Why is Blue Shield changing the payment model for producer compensation?**

A. Part of our mission is to lower the cost of quality health care and make it sustainably affordable. There is increased pressure from the regulatory and market environment for insurers to reduce administrative costs. Reducing our administrative costs allows Blue Shield to invest in innovative solutions to further our mission of ensuring access to high-quality, affordable health care.
2. **Q. When will this change take effect?**

A. For all new and renewing fully insured groups with 101+ eligible employees (Core and Premier), this change will take effect on October 1, 2018.
3. **Q. How will service fees be paid under the new PSF payment model?**

A. The total billed amount for the employer group will include the Producer Service Fee. Blue Shield will collect the total amount due from the employer group and pay the service fee to the producer.
4. **Q. What is the difference between service fees and commission?**

A. Generally, commission refers to a payment made by Blue Shield to the producer for services provided by the producer on Blue Shield's behalf.

Service fee refers to a payment made by the employer group for services provided by the producer on the group's behalf.
5. **Q. Is there an additional agreement that producers need to sign because of PSF?**

A. Producers will negotiate service fees directly with the employer group. Producers are not required to sign any additional agreements with Blue Shield to participate in the PSF payment model.
6. **Q. Will there be specific language about the service fee on all billing invoices or only those that are affected by this new arrangement?**

A. Language will be included only on the invoices for groups that have the PSF model. The PSF amount will not be broken out separately. The PSF is included in the total amount due, but it is not a component of the premium.

The following language will be added to the section titled Miscellaneous Credits and Debits on the billing invoice: *"The total amount due includes the premium due to Blue Shield, as well as the PSF owed to your broker as outlined in your Group Service Agreement. Please refer to your Group Service Agreement for details."*
7. **Q. Will a formal agreement between the employer group and the producer be required for Blue Shield to pay the service fee to the producer?**

A. The agreement regarding the service fee is between the employer group and the producer. The producer must be appointed by Blue Shield in order for Blue Shield to collect and pass on the service fee.
8. **Q. Is Blue Shield the only health plan adopting this payment model?**

A. No. Health plans have already adopted the PSF payment model in the majority of states.

9. **Q. Will Blue Shield charge for the billing, collection, and payment of service fees?**
A. No. Blue Shield will administer this service without charge.
10. **Q. How will PSF be reflected on a new business quote?**
A. The new business quote exhibits will look the same as they do today. The total rate will include the service fee amount agreed on by the employer group and the producer as communicated to Blue Shield.
11. **Q. How will renewal packages be handled?**
A. Renewal packages will be updated to include the service fee amount agreed on by the employer group and the producer as communicated to Blue Shield. If neither the producer nor the employer group notifies Blue Shield that they have negotiated a new payment amount, Blue Shield will convert the current commission percentage to a service fee percentage and the renewal package will reflect this converted amount.

The PSF percentage represents a percentage of premium, and premium does not include producer compensation. As a result, a given compensation amount reflected as a PSF percentage will appear slightly higher than the equivalent percentage reflected as a commission.

Blue Shield has created the following table to show the crosswalk from commission-based model percentages to the PSF model percentages.

Commission % to Producer Service Fee % Crosswalk

Commission % = commissions/(premium + commissions)	Producer Service Fee % = service fee/premium
0.50%	0.50%
1.00%	1.01%
1.50%	1.52%
2.00%	2.04%
2.50%	2.56%
3.00%	3.09%
3.50%	3.63%
4.00%	4.17%
4.50%	4.71%
5.00%	5.26%

Blue Shield will convert commissions to the equivalent PSF when the payment amount is communicated to us in the form of a commission percentage.

Note: the resulting payment amounts are intended to be near equivalent basis.

12. **Q. Does this new arrangement apply to specialty (dental, vision, and life) products?**
A. No. The PSF affects compensation payment on DMHC medical products only.
13. **Q. Does this change affect self-funded ASO or Shared Advantage® plans?**
A. No. The new PSF applies to fully insured medical plans only.

14. **Q. How will payments be handled if an employer offers multiple medical plans?**
- A.** The payment model used for producer compensation will vary depending on the product combination. Examples are:
- Blue Shield of California medical products = PSF.
 - Blue Shield of California Life & Health Insurance Company (Blue Shield Life) products (dental, vision, life, and Active Choice® medical) = commission.
 - Blue Shield of California medical + Blue Shield Life specialty (dental, vision, and life) products = medical = PSF. Specialty will remain on commission.
15. **Q. Do producers still get paid commissions on Individual and Family Plans (IFP), Small Group Business (SGB), and senior products?**
- A.** Yes. We will continue to pay commissions on IFP, SGB, and senior products. The new payment arrangement is for 101+ eligible employees fully insured medical products only.
16. **Q. Does this change Blue Shield's contract with the employer group?**
- A.** Yes. This change will become part of the Group Service Agreement (GSA) between each employer group and Blue Shield. Producer Service Fee language will be automatically included in any GSA that includes products subject to PSF.
17. **Q. Who is responsible for providing the producer with Form 1099?**
- A.** The employer group will be responsible for following IRS guidelines in issuing their producer(s) a completed Form 1099. If applicable, Blue Shield will provide data annually to the employer group to assist them in submitting such information to the IRS.
- Blue Shield will not file Form 1099 data with the IRS on behalf of the employer group. An employer group should discuss this process with their producer and determine if they need to issue Form 1099. In some circumstances, a producer may be exempt from Form 1099.
- An employer group may request that Blue Shield issue Form 1099 to a producer on the employer group's behalf. In order for Blue Shield to do this, a completed Producer Service Fee Form 1099 Authorization must be submitted to Blue Shield.
18. **Q. For employer groups with 10/1, 11/1, or 12/1/2018 renewal or effective dates, will the employers be responsible for issuing Form 1099 to their producer?**
- A.** Yes, employer groups will be responsible for all Form 1099 reporting from the date they transition to the PSF payment model. Blue Shield will be responsible for issuing Form 1099 to the producer for the period of time the employer group was on a commission model of payment.
19. **Q. When will employer groups receive 1099 data from Blue Shield?**
- A.** If necessary, Blue Shield will provide each employer group with the preceding calendar year's data in January.
20. **Q. What is a 5500 Report?**
- A.** The Form 5500, Annual Return/Report of Employee Benefit Plan, is the form used to file an employee benefit plan's annual information return with the Department of Labor.

21. **Q.** Will the 5500 information that Blue Shield provides to employer groups include service fees?
- A.** Yes. Service fees will be included in the 5500 information on Schedule C/Other that Blue Shield provides to the employer group. The employer group will continue to be responsible for filing the 5500 Form with the Department of Labor.
22. **Q.** Does the PSF need to be renegotiated annually?
- A.** The PSF will continue as initially agreed on by the producer and the employer group until a new service fee amount is provided to Blue Shield, the employer group's coverage terminates, or a new broker of record is appointed. Employer groups shall notify Blue Shield of any change in service fees in writing. Payment of the total billed amount assumes agreement of terms.
23. **Q.** Can the service fee be renegotiated at any time during the plan year?
- A.** Yes. Changes will be effective the first of the month following notice from the employer to Blue Shield.
24. **Q.** What will happen if there is a change in the broker of record?
- A.** The process will be the same as it is today. Changes to the broker of record will be effective the first of the month following the received request.
25. **Q.** When a new broker of record is provided for an employer group, will Blue Shield carry over the producer compensation amount?
- A.** If a new broker of record is provided, the employer group should notify Blue Shield of the applicable compensation amount. Unless a new service fee amount is provided, we will transfer the previous PSF amount to the new broker of record.
26. **Q.** What happens if a broker of record is established at the end of the month and the bill has already been issued to the employer group?
- A.** Blue Shield will follow the same practice that it currently does with commissions. All changes will be applied on the first day following the month the change is received by Blue Shield.