Where Does the Dollar Go?

Last month’s For The Record highlighted the importance of predictable and sustainable financial performance. Expense control is a critical component to establishing consistent financial performance. Understanding which expenses have the greatest impact on performance allows agency owners to make more informed decisions to enhance profitability.

It is no surprise that compensation expenses are the single largest category of expenses in an insurance agency or brokerage. Data from MarshBerry’s Perspectives for High Performance (“PHP”) database illustrates how much of each commission dollar is attributable to compensation expenses, non-compensation expenses and core profit.

Core profit is based on total commission and fee income only and excludes interest, taxes, depreciation and amortization. Non-core items (such as contingent/override income, miscellaneous income, depreciation, etc.) would need to be added or subtracted from core profit to arrive at a firm’s actual profitability.

On average, seventy cents out of every dollar of commission & fee income goes towards compensation expenses. Compensation expenses include owner and employee payroll, as well as retirement and non-retirement benefits. For the 2011 year, production payroll represented twenty-eight cents of each commission dollar and 40% of the total compensation costs.

Since producers are the key to generating new business, controlling producer payroll is about balance. Agency owners must strike a balance between production payroll costs and driving growth. How do you spend your commission dollars? Compare your results with the averages to determine the competitiveness of your agency’s compensation.

Check out April’s issue of The MarshBerry Letter which will analyze the 2012 Agency Compensation Survey results.

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