Beware of Those Who Say, “Trust Me.”

by John P. Sullivan, NASFA President

Some say the fate of agents who signed the AA97 contract is old news, but I believe it bears repeating — if for no other reason than to reinforce that NASFA understands your challenges. I know NASFA understands because, as president, I understand. I signed the AA97 Blend.

Ten years ago, my AFE said the AA97 and AA97 Blend contracts would benefit the agency force of tomorrow. He asked me to trust State Farm, saying they have always worked for the interests of the agent. He continued with about 10 reasons old contract agents should accept this new contract. I have written about this in the past. NASFA has surveyed the agency force and published the results. (Visit www.nasfa.com and click on “NASFA Surveys.”) So I am not going to repeat myself. However, because I have received calls about this from agents across the country, I will review the contract.

This is What I Found to be True

The commission schedule for the AA97 contract is eight percent plus quality compensation at two percent for auto, and 10 percent plus quality compensation at two percent for fire. Assuming agents meet all the criteria, they would receive 12 percent commission and 12 percent service compensation for fire business.

Under the AA4 contract many agents exchanged for AA97, agents received 10 percent commission and 10 percent service compensation for auto. Assuming quality criteria are met, the auto compensation stayed the same, so let's set that aside.

Fire was paid at 15 percent commission and 15 percent service compensation under the AA4 contract. Therefore agents who accepted the AA97 contract lost three percent immediately on all fire business. Now agents who accepted the AA97 contract were paid transition funds, but those who signed the AA97/Blend were not because their prior book of business remained at 10 percent for auto and 15 percent for fire. New business written after the effective date of the AA97 contract was on the new schedule.

Let's Look at the Contract 10 Years Later

Imagine agent Joe Smith has an agency with $1 million in annual fire premium being paid into State Farm. Based on the contract he signed 10 years ago, he is receiving service compensation at 12 percent provided he has not lost anything on the quality side. This amounts to $120,000 per year. If he had his old contract, he would receive three percent more or $150,000. Joe lost 30,000 per year. So now, 10 years later, his income is down $300,000. This is not a small amount of money.

But telling the whole story, the AA97 contract was written to eliminate agents’ termination and extended termination benefits over a 20-year period. The company pays five percent per year on gross fire business. For Joe, that would be five percent of $300,000, or $15,000 per year.
Assuming the gross stayed the same for 10 years, Joe would receive $150,000. So he didn’t lose $300,000. He lost $150,000 right? In my opinion NO! The $150,000 Joe received under the provisions of AIP was $150,000 he would have had if he hadn’t signed the new contract. State Farm has used a seven percent factor in figuring return on investment of AIP funds. This definitely could have been reached by agents taking deferred compensation. The only problem is agents are struggling to stay afloat. They are not able to take deferred compensation. Many haven’t been able to invest any of their AIP money.

What Does the Future Hold?

Most agents to whom I have spoken say they will not be able to retire. Therefore they will die in agency. This does not seem to benefit agents or State Farm.

Why Did Agents Change Contracts?

Management offered several reasons to entice agents to sign the contract. Most signed because they felt State Farm had always been fair with agents and they wanted to be part of the team. I believe State Farm pushed the AA97 contract for one main reason — to eliminate termination benefits. State Farm has been able to buy out the agent book of business with decreased commissions paid on old contracts.

I don’t know whether we’ll ever get the truth about why. But I do know agents across the country feel cheated. I understand. NASFA understands. As an association, we’re pooling our collective experience to address the challenges you face. Our only motive is to work on behalf of agents. We have no other interests to protect.

So, old news or not, NASFA will continue to tell the story as long as State Farm agents continue to feel the effects of this contract. We will continue to offer solutions. And we will continue to grow as more and more agents come to realize who really has their best interests at heart.