[Commission cuts are never fun, especially when captive agents receive lower commissions than the independents in the first place. NAAFA has many members who went through the commission cut in the mid 90's. Here is one member's recollection of the situation.]

My memory says that we had heard rumors and we went on the attack!

I think the rumor went something like **reducing commissions by a percentage point.** For example from 10% to 9%, which would have actually been a 10% reduction? However, if your expense ratio had been 50% when the commission was 10%, your new 9% commission would leave you making $40,000 on a premium of a million, instead of $50,000 with a constant expense of $50,000. You would then end up with a 20% reduction on the million of premium.

And guess what? If the company was successful in **passing some of the work**, that was done at the home office by paid home office employees, to the agent, then the company saved expense and the agent had an increase in his expense ratio and consequently his percentage of commission kept shrinking.

What was scary was that the rumor had it that they would take the 10% down to 9, and then to 8 and then to 7 and end up at 6%.

What I believe NAAFA accomplished was getting the company to hold at 9%, we didn't anticipate the transfer of work. Didn't the company also make the reduction from 10 to 9 in tenths of a percent over a 10 year period? Well I am not sure on that! They did go directly to 6% on transfer business and also did not pay the receiving agent any commission the first year and then he had to be agent of record for ten years before the commission went up to 9% like the rest of his book of business.

I believe that it was **management's intent to reduce the agent commission to 6%** and that they have never given up on that thought, just the time table. The time table could be accelerated by terminating agents and paying no commission the first year and then 6% for whatever period.

When I left AF almost 13 years ago, about 1,000 policies went to agent B, who intended to retire in a year. I suggested that agent B not take them because he would service these people for a year with no commission and he would not have those policies factored into his retirement because he never got a commission on them (I believe that was a company provision-you had to get a year's commissions before it factored into your retirement. Again, I am not sure on this point.

Well anyway agent B retired and agent C, an ACP agent, replaced him and since agent B had a large agency some policies spun off to agents D, E, F & more! Again no commissions were paid on the first year and 6% thereafter!

Agent C was only with AFMIC for 2 years before he quit. The policies he got from agent A were now transferred to agent G another ACP agent, plus D, E, F & more! Again no commissions were paid on the first year and 6% thereafter!

I am repeating myself but I want you to get the big picture. There is a very slim chance that AFMIC will ever pay the 9% commission again once an agent is terminated. **Of the 7 major players who got policies from my agency only 3 are still with AFMIC.** Therefore, only 3 out of 7 agents ever got the 9% commission and if they didn't get that until the 10th year, it means they have only been getting it for three years. **Time works in favor of management.** Agents die, retire, get fed up and quit, or get terminated!

Please have your board review and correct my memory. The people who will remember the best are those who have been there for the last 15 years or more.