



TO: ALL INSURERS ISSUING MEDICARE SUPPLEMENT INSURANCE POLICIES AND CERTIFICATES IN NORTH CAROLINA

SUBJECT: PERMITTED COMPENSATION ARRANGEMENTS

DATE: AUGUST 26, 2024

It has come to the attention of the Department of Insurance that there has been some misunderstanding on the part of some insurers issuing Medicare Supplement policies and certificates in North Carolina regarding agent compensation restrictions placed on the sale of such policies and certificates mandated by the insurance laws of North Carolina.

North Carolina has adopted the National Association of Insurance Commissioners (NAIC) Model Law 651, titled "Model Regulation to Implement the NAIC Medicare Supplement Insurance Minimum Standards Model Act." See 11 NCAC 12 .0843. Section 16 of the model law states:

- A. An issuer or other entity may provide commission or other compensation to an agent or other representative for the sale of a Medicare supplement policy or certificate only if the first-year commission or other first-year compensation is no more than 200 percent of the commission or other compensation paid for selling or servicing the policy or certificate in the second year or period.
- B. The commission or other compensation provided in subsequent (renewal) years must be the same as that provided in the second year or period and must be provided for no fewer than five (5) renewal years.
- C. No issuer or other entity shall provide compensation to its agents or other producers and no agent or producer shall receive compensation greater than the renewal compensation payable by the replacing issuer on renewal policies or certificates if an existing policy or certificate is replaced.
- D. For purposes of this section, "compensation" includes pecuniary or non-pecuniary remuneration of any kind relating to the sale or renewal of the policy or certificate including but not limited to bonuses, gifts, prizes, awards, and finders' fees.

These agent compensation restrictions apply to all replacements of existing Medicare Supplement policies and certificates issued to citizens of North Carolina.

In addition, N.C.G.S. § 58-54-20(c) applies to Medicare Supplement policies and certificates issued to North Carolina residents that replace a policy or certificate originally issued by the same insurer or members of the same insurer group. It provides:

No insurer shall provide compensation to its agents or other producers that is greater than the renewal compensation that would have been paid on an existing policy if the existing policy is replaced by another policy with the same insurer where the new policy benefits are substantially similar to the benefits under the old policy and the old policy was issued by the same insurer or insurer group.

The Department interprets the rule and statute to mean the maximum amount of compensation of any kind provided for the replacement policy in these circumstances is the renewal compensation that is applicable at that time for the policy or certificate that is being replaced.

IF YOUR COMPANY HAS ANY QUESTIONS REGARDING THIS ADVISORY MEMORANDUM, PLEASE SUBMIT SUCH TO: **EMAIL -- LHinbox@ncdoi.gov**.