Target Premium and Non-Commissionable Policy Fees

The two most common reasons agents inquire about incorrect commissions are due to not knowing how target premium and non-commissionable policy fees work.

Target Premium

As you'll read in the example below, permanent products use target premium to fairly pay commissions. Permanent products can have a flexible pay duration; for example, a $1,000,000 death benefit universal life policy on a healthy 50 year old male may cost $5,000/year if paid for life, $15,000/year if paid for 10 years, or $100,000 if paid as a single pay.

Let's say your first year commission rate is 80% and your excess rate is 3%. Without a target premium, the insurance company would pay you the following:

- if premiums are for life $5,000 * 80% = $4,000
- if premiums are for 10 years $15,000 * 80% = $12,000
- if premiums are paid in 1 year $100,000 * 80% = $80,000

Unfortunately insurance carriers would be out of business if they collected $100,000, paid the agent $80,000, and only kept $20,000 to provide a $1,000,000 of permanent life insurance, which is why carries pay first year commission rates up to target, then pay commission at excess rates. Let's assume the target premium is $5,000 in our example.

- if premiums are for life $5,000 * 80% = $4,000 of first year commission
- if premiums are for 10 years $5,000 * 80% + $10,000 * 3% = $4,300
- if premiums are paid in 1 year $5,000 * 80% + $95,000 * 3% = $6,850

Policy Fees

Many products, especially term, have non-commissionable policy fees. Let's go through an example assuming a typical policy fee of $75, an annual premium of $500, and a commission rate of 90%.

If you didn't know about non-commissionable policy fees, you'd likely presume the commission would be $500 * 90% = $450 while the correct calculation is ($500 (premium) - $75 (policy fee)) * 90% = $382.50.