



Setting Your Insurance Business Up as a Corporation

Whether you have been an agent in the field for years, or just getting started in the business, you might have questions on whether you should set up an official agency. There are additional costs to doing this, but there are plenty of reasons why it is worth the extra investment.

SETTING UP YOUR AGENCY

Step 1. Decide what type of business entity you would like to create. If you are unsure, it is best to seek out the help of a CPA or attorney.

Recommended Corporation Options:

- Limited Liability Company (LLC)
- C-Corp
- S-Corp

Reasons why you might want to incorporate

- Protect commission renewals in the event you become incapacitated or pass away
- Make it easier to hire additional downline agents in the future
- Allow for easy transfer of ownership when you are ready to retire
- Protect your personal assets from potential lawsuits

Find out the details regarding forming a corporation here:

<https://www.sba.gov/starting-business/choose-your-business-structure>

<https://www.nfib.com/content/resources/legal/small-business-defined/>

https://www.irs.gov/businesses/small-businesses-self-employed/business-structures_

Step 2. Apply for a Tax Identification Number (TIN). An Employer Identification Number (EIN), a type of Tax ID Number, is used to identify business entities. You will need this for tax purposes and to receive payments to your corp. Apply online here: <https://www.irs.gov/businesses/small-businesses-self-employed/employer-id-numbers>

Step 3. Apply for an agency license in your corporation's resident state through <https://www.nipr.com/>. Once you have received your resident state license, you can proceed with any non-resident states you require.

Step 4. Obtain Errors and Omissions Insurance (E & O) for your corporation and begin contracting your insurance carriers using the corporation tax ID. Don't forget that any state appointment fees will apply both to the corporation and to any individual producers as required by carriers.

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DIFFERENT TYPES OF CONTRACTS: INDIVIDUAL VS AGENCY

When contracting with carriers, most of the time you will need to set up two different contracts:

- One for you as an individual
- One for your agency

You will need to decide whether you want your individual contract to be set up as a “sub-agent” or an “Licensed Only Agent (LOA)” contract. This will also apply to any downline agents that you may bring on in the future. It is generally recommended that when contracting yourself as an individual, that you set yourself up as an LOA to your agency.

Sub-Agent:

A Sub-Agent still “owns” any business and commissions that they write. The Sub-Agent will receive commissions directly from the carrier, while the agency receives the override amount. Depending on the carrier, you can set Sub-Agent's up at a level below you, at street level, or potentially a lower pre-designated commission level.

Licensed Only Agent:

An LOA does not own the business that they write. This means that if the agent decides to leave the agency, they will not take any renewal commissions or their book of business with them. All of the commissions are paid directly to the agency. There is a pre-determined agreement between the agent and agency on what the commission split will be (such as 60/40). This is recommended for agencies who either:

- Wish to have complete ownership of the business that is written.
- Provide additional benefits such as training, leads, office space, or other valuable information that costs the agency time and money while training the agent.

WHAT HAPPENS TO EXISTING BUSINESS?

If you were contracted prior to the agency's creation as an individual and have business on the books, you will need to get that business moved over to your agency. Many carriers offer options that will allow you to assign commissions or do a complete book of business transfer.

Assignment of Commissions:

This means that the individual writing agent still owns their business and are simply assigning the commissions to pay to the agency Tax ID, instead of their personal social security number. This is a solution to move commissions but not service the book of business. In general, this can be turned off at the discretion of the writing agent and commissions would resume paying to their social security number.

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Book of Business Transfer:

This is a complete transfer of ownership of the business. The original writing agent no longer owns the business, and the agent/agency is now the official writing agent on any existing business on the books. This allows for commission transfer as well as servicing the book of business. This is not available for all carriers or product lines. In most circumstances, carriers that require yearly certifications (such as MAPD/PDP) will allow full book of business transfers so that the original writing agent does not need to complete yearly certifications after retiring.

WHEN TO START TALKING ABOUT SUCCESSION PLANNING

Once all your contracts are set up as an agency you will very easily be able to start discussing succession planning.

Principle Change:

If you have a planned successor in mind and would like to keep the agency as-is, you can simply do a principle change for each carrier you are contracted with. This allows for business to proceed as usual, and you can step away from the business seamlessly.

Book of Business Sale:

If you don't have someone to take over the business, or wish to sell to a different agency, you can look at doing a book of business sale. Be aware, each carrier handles this differently so don't assume that just because you have a signed agreement between two parties that the insurance carrier is going to consider that valid. It's recommended at the beginning of the sale that you work with an attorney to discuss the legal aspects and to reach out to Senior Marketing Specialists to help guide you through the carrier transfer process.



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