

# PROTECTION & PROSPERITY



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THE INSURANCE INDUSTRY AND ITS IMPACT ON WISCONSIN

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## EXECUTIVE SUMMARY

In November 2012, representative of Wisconsin's health, life, and property and casualty insurers asked the Wisconsin Taxpayers Alliance (WISTAX) to study the impact of the insurance industry on Wisconsin. WISTAX researchers compiled state and national data on industry employment, wages, premiums, taxes, and financial holdings. The data show Wisconsin's insurance industry contributes significantly to the state economy by providing a large number of high-paying jobs, paying business and personal taxes, and holding significant amounts of municipal securities.

Put more simply, the insurance industry has significant positive economic impacts on Wisconsin. These include:



### Hundreds of Companies

In 2011, Wisconsin had 1,567 insurers that were authorized to write insurance in the state. Of those, 247 were domestic. Wisconsin ranked fourth nationally in its number of domestic insurance companies.

### Billions in Premiums

Insurance companies wrote more than \$25.5 billion in premiums in 2011, a 50% increase since 2002.



### Thousands of Jobs

In 2010, Wisconsin's insurance industry employed 79,602 residents. With industry employees purchasing a variety of goods and services, the industry supports an additional 125,000 jobs in Wisconsin. Thus, directly or indirectly, Wisconsin's insurance industry supports more than 200,000 jobs in the state.



### Strong Job Growth

Job growth in Wisconsin's insurance industry has significantly outpaced other industries over the last 10 years. From 2001 through 2010, the number of insurance jobs in Wisconsin rose 11.1%. Among all industries statewide, job counts fell 3.3%. Nationally, the insurance industry shed 2.3% of its jobs.



### Good Pay

In 2010, the average insurance industry wage was \$61,549, or more than 50% above the state average (\$39,176). The industry's payroll totaled \$4.90 billion, or about 5.4% of the state total.

### Hundreds of Millions in Taxes Paid

In addition to property and sales taxes, Wisconsin's insurance industry paid \$148 million in premiums taxes and another \$28 million in corporate income taxes in 2011. Insurance industry employees paid an estimated \$294.4 million in individual income taxes.

### Partners in Community Development

Insurance companies support community development by making major investments in municipal bonds. In 2011, the insurance industry nationally held \$452 billion in municipal securities, more than double what it held in 2002.



Wisconsin Taxpayers Alliance  
401 North Lawn Avenue • Madison, WI 53704  
[www.wistax.org](http://www.wistax.org)

## INTRODUCTION

In contemporary America, individuals, families, and employers can go about their daily activities with the peace of mind and sense of security that insurance provides. Property and casualty insurance protects individuals and businesses from losses due to fire, storms, vehicle accidents, or other unexpected events. Health insurance ensures that individuals and families will not have to confront large, unexpected medical bills. And life insurance provides the comfort of knowing that survivors will be provided for when the insured dies.

Beyond the benefits that insurance provides individuals, the insurance industry plays an important role in the growth and prosperity of Wisconsin by:

- providing high-paying jobs;
- funding needed public services made possible by state and local taxes;
- supporting local charities and nonprofits; and
- investing in public infrastructure by purchasing government bonds.

Nationally, the insurance industry accounts for about 2.0% of all jobs and more than 3.0% of all salaries and wages. In addition to billions in federal income taxes, the industry pays more than \$16 billion in premium taxes to state governments.

The insurance industry is an even more critical part of Wisconsin's economy. It employs nearly 80,000 state residents in jobs that pay significantly more than the state average. It provides auto and homeowners insurance coverage at some of the lowest rates in the nation. And it helps ensure that Wisconsin has one of the highest rates of health insurance coverage in the nation.

## THE INSURANCE INDUSTRY

Wisconsin's insurance industry is more diverse and far-reaching than might be expected. Most (69%) industry jobs are with insur-

ance carriers, mostly life, health and property/casualty insurers. However, the industry also includes smaller, specialized insurers (e.g., those providing title insurance), as well as agents, brokers, and claims adjusters.

## Insurance Providers

In 2011, 1,567 companies were authorized to sell insurance in the state, according to Wisconsin's Office of the Commissioner of Insurance (OCI). Of that total 534, (34%) were life or health insurance companies. Another 1,015 (65%) were property and casualty insurers. Of all insurers, 247 were domestic firms headquartered in Wisconsin (see Table 1).

Since 2002, the number of firms, regardless of location, authorized to write insurance here has changed little. During 2002-11, that figure ranged from 1,564 in 2004 to 1,593 in 2002. The number of insurance companies domiciled here has also varied little, from 247 in 2011 to 261 in 2005.

**Table 1: Insurance Companies/Premiums**  
# of Companies and Wisconsin Premiums, 2002-11

	No. of Co's Authorized to Write in Wis.			Total	Dom.	Prem's \$ bill.
	Life/ Health*	Property & Casualty**	Other			
2002	593	980	20	1,593	251	\$16.80
2003	577	985	18	1,580	253	\$18.21
2004	567	980	17	1,564	258	\$18.98
2005	567	994	16	1,577	261	\$19.84
2006	560	998	17	1,575	258	\$21.21
2007	547	1,013	17	1,577	254	\$22.68
2008	542	1,014	17	1,573	253	\$23.10
2009	539	1,026	17	1,582	251	\$24.33
2010	537	1,028	17	1,582	254	\$24.74
2011	534	1,015	18	1,567	247	\$25.55

\*includes Fraternal, HMOs, and others

\*\*includes town mutuals

According to the National Association of Insurance Commissioners (NAIC), Wisconsin ranked fourth among the states in the number of domestic insurance companies, and second in the total number of insurance companies licensed to write insurance.

Insurance companies wrote more than \$25.5 billion in premiums in the state during 2011, a 50% increase since 2002. To put the premium total in perspective, the state's 2011 general fund budget (funded mostly with state taxes, including the tax on insurance premiums) was about \$13.5 billion, and its spending from all revenue sources, including fees and federal aid, was about \$32 billion.

## **EMPLOYMENT**

The insurance industry contributed more than \$13 billion to Wisconsin's gross state product (a measure of the size of the economy) in 2010. At 5.4% here, the insurance industry's contribution to state output was nearly double that nationally (2.8%). The relative concentration of insurers here translates into more jobs and income for state residents.

The insurance industry is one of Wisconsin's most important. In 2010, it employed 79,602 residents, with more than 75% of them employed by insurance carriers.

To put the size of the insurance industry in perspective, its employment is compared to several well-known industries. Some of similar size include:

- construction (88,779);
- full service restaurants (87,750);
- durable goods wholesalers (64,367); and
- food manufacturing (62,573).

Even more important, the insurance industry's average pay (\$61,549) was nearly 60% above the state average (\$39,176).

## **Economic Significance**

Economists and economic development specialists use a variety of statistics to assess the importance of an industry to a state. One

of the most commonly used measures is the location quotient (LQ), which shows how an industry's in-state employment compares to its employment share nationally. A location quotient greater than 1.0 means that an industry employs a greater share of the state workforce than it does nationally.

**In 2010, the insurance industry contributed more than \$13 billion to Wisconsin's gross state product. Its share of total output here (5.4%) was nearly double the industry's share nationally (2.8%).**

In Wisconsin, the insurance industry LQ is 1.49. That is, the share of state employment devoted to insurance is nearly 50% higher than the comparable share nationally. The location quotient for insurance carriers only (excluding agents and brokers) is even higher (1.78).

One interpretation of this figure is that the insurance industry is what economic development officials call a "basic" industry: It draws money into the state economy from outside. By contrast, a location quotient of 1.0 would indicate an industry has just enough employment to provide a particular good or service for state residents. A lower LQ would imply the state does not produce enough of a good or service and state residents have to buy it from firms outside the state. The Wisconsin insurance industry's LQ of 1.49 indicates that, by selling its products nationally, it brings outside money into the state.

The insurance industry's LQ is among the highest of any industry in the state. Of 85 industry groups defined by the federal government and operating in Wisconsin, the LQ of the insurance industry ranks 17th. As might be expected, 11 of the 16 industries with higher LQs are in manufacturing.

## Additional Jobs

The economic impact of the insurance industry is much broader than the 79,602 people it employs. The economic activity of the industry generally helps create and sustain jobs in other parts of the economy. Insurance industry employees spend their wages, creating demand for automobiles, food, clothing, and other goods and services. These expenditures ripple through the economy, leading to what economists call a multiplier effect.

Not all industries have similar impact on the rest of the economy. Federal estimates indicate the economic effects of the insurance industry—its multiplier effect—is relatively large. Every job created in the insurance industry helps create 1.57 jobs in other industries. Thus, Wisconsin's 79,602 insurance jobs help support nearly 125,000 jobs outside the industry. Said another way, more than 200,000 Wisconsin jobs are tied directly or indirectly to the insurance industry.

## Employment Growth

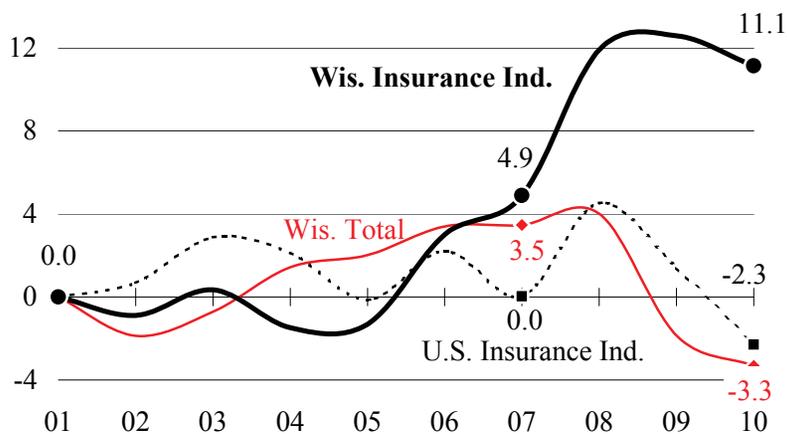
Not only is the insurance industry one of the state's leading employers, its growth over the past ten years has outpaced other

industries. From 2001 through 2007, industry employment rose 4.9%. Overall job growth statewide was less (3.0%), while the insurance employment nationally was largely unchanged from 2001. Figure 1 shows cumulative growth at various points over the last decade.

**Through spending of wages on various goods and services, Wisconsin's 79,602 insurance jobs help support 125,000 jobs in other industries. Directly or indirectly, Wisconsin's insurance industry supports more than 200,000 Wisconsin jobs.**

The "Great Recession" affected all industries in the state. However, the insurance industry fared better than most. In 2010, the state had 11.1% more insurance industry jobs than in 2001. The number of jobs in all industries was 3.3% below its 2001 level; the number of jobs in the insurance industry nationally was 2.3% lower.

**Figure 1: Insurance Industry Emp. Growth Leads**  
Cumulative % Change in Employment Since 2001, 2001-10



## National Context

In 2010, Wisconsin employed more people in insurance (79,602) than all but seven states. States with more insurance employees were all more populous than Wisconsin: California, Florida, Illinois, New York, Ohio, Pennsylvania, and Texas.

When Wisconsin's modest size is accounted for, the state ranked fourth nationally in insurance employment. The insurance industry employed 3.4% of all workers in Wisconsin, compared to 2.0% nationally (see Figure 2). Only Connecticut, Nebraska, and Iowa had a higher percentage.

## WAGES AND SALARIES

The insurance industry is important to Wisconsin's economy because of the large number of residents it employs. What makes it even more significant is the high wages it pays.

## Total Payroll and Average Wages

The 2010 insurance industry payroll in Wisconsin totalled \$4.90 billion, or 5.4% of all wages and salaries paid in the state. The industry's share of wages was more than 50% higher than its share of employment (3.4%).

This means average pay in the insurance sector is relatively high. Statewide, wages across all industries averaged \$39,176 in 2010. The average wage in the insurance industry was \$61,549, or nearly 60% higher.

Not only are average insurance wages high, they have been increasing faster than in other sectors. From 2001 through 2010, the statewide average wage rose 26.6%. The average insurance wage grew 37.1%, from \$44,907 to \$61,549.

## Total Payroll Impact

The insurance industry's total payroll has more impact than just employee wages. When those wages are spent, the multiplier

effect results in additional jobs and wages. According to federal estimates, the \$4.90 billion in industry wages supported another \$5.23 billion of wages statewide. Thus, directly or indirectly, the insurance industry supported more than \$10 billion of employee wages in Wisconsin.

## TAXES PAID

The insurance industry contributes significantly to the state economy, both in terms of jobs and wages. Firms and employees in the industry also pay significant taxes to state and local governments.

## Corporate Taxes

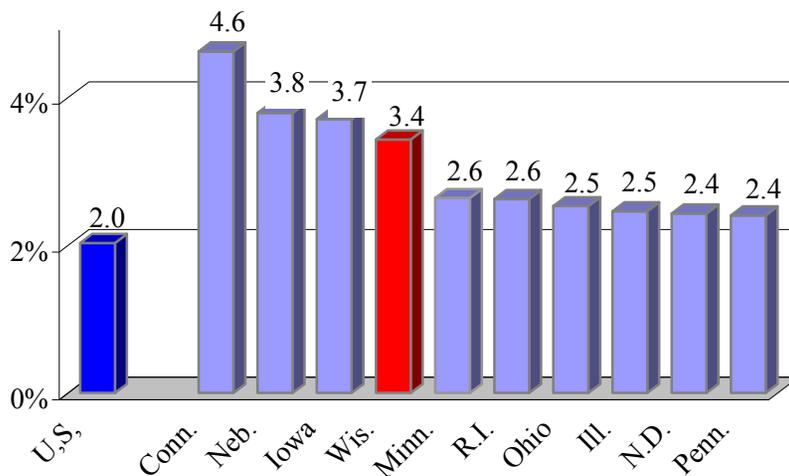
Insurance companies operating in Wisconsin pay one of two corporate taxes. Most out-of-state companies (and some domestics) pay a 2% tax on gross premiums written (2.375% for fire insurance). For example, if a Michigan insurance company writes a \$500 homeowners policy for a state resident, it must pay a \$10 premiums tax to the state.

Most domestic, nonlife insurance companies pay the corporate income tax at 7.9% of taxable income. However, a firm's tax liability cannot exceed what it would owe under the premiums tax. Domestic life insurance companies with \$750 million or less of insurance in effect pay the lesser of the 2% premiums tax or 3.5% of gross investment income. Those with more than \$750 million of insurance in effect pay the greater of the premiums tax or the tax on investment income.

*Premium Taxes.* From 2002 through 2011, premiums taxes (including the investment income tax paid by life insurance companies) paid to the state rose 54%, from \$96.1 million to \$148.1 million (see Figure 3). Premiums taxes peaked at \$156.6 million in 2008 before declining for two years during the recession, due likely to investment losses by life insurance companies.

*Fire Insurance Taxes.* Companies that provide fire insurance pay an additional 2% fire insurance tax. These dollars go to local

**Figure 2: Wisconsin Insurance Industry Among Top Five**  
Insurance Employment % of Total State Employment, 2010



fire departments. In 2012, insurers paid \$17.7 million in fire insurance taxes, or 57% more than in 2002 (\$11.3 million).

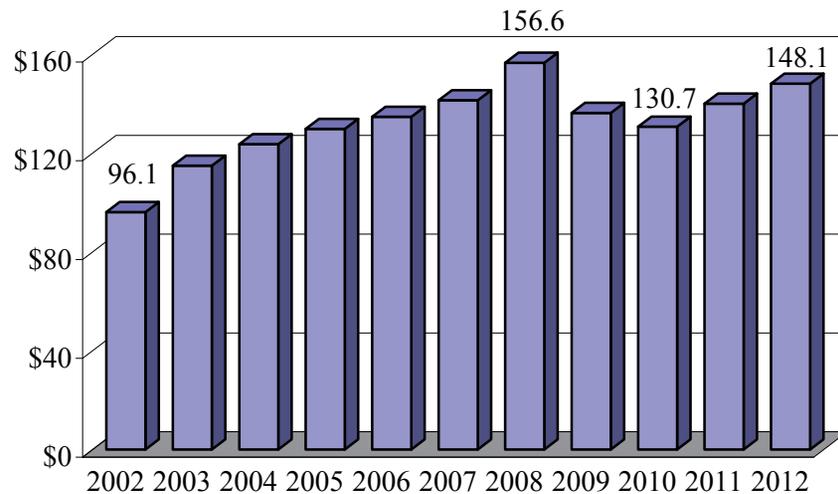
**Corporate Income Taxes.** Corporate income taxes fluctuate widely as profits rise and fall with the economy. For insurance companies, economic conditions matter, but natural disasters can matter more due to higher claims. In 2009 (the latest year for which the state Department of Revenue has information), corporate income taxes paid by insurance carriers and insurance agents totaled \$28.0 million. Over the ten years ending in 2009, annual tax payments varied from \$18.0 million in 2006 to \$69.8 million in 2004.

Not all firms in the insurance industry pay taxes on their business income through the corporate income tax. Some (most likely insurance agencies and brokerages) are organized as partnerships or as subchapter S corporations. In these cases, profits flow through to the owners, and taxes on business profits are paid through the individual income tax.

As a percentage of state corporate income taxes paid, the insurance industry's share ranged from 2.3% in 2006 to 10.7% in 2004. In 2009, insurance companies and agencies paid 4.5% of all Wisconsin corporate income taxes.

**Insurance companies and their employees support state and local public services through the taxes they pay. In addition to paying property and sales taxes, they paid \$148 million in premiums taxes, nearly \$30 million in corporate income taxes, and an estimated \$236 million in individual income taxes.**

**Figure 3: Wisconsin Insurance Taxes Rise**  
 Premiums Taxes (excludes Fire Insurance Tax), \$ Millions,  
 Fiscal Years 2001-02 Through 2011-12



### Individual Income Taxes

Insurance industry employees pay state income taxes on their wages and other income. Because industry pay is above average, its employees generally pay taxes at higher rates than the general population. Statewide, the typical state taxpayer paid 4.5% of income in state income taxes. The typical insurance industry employee had an average tax rate of about 4.7%.

Industry employees pay taxes on their wages and on other income (interest, capital gains, etc.). In 2010, industry employees paid state income taxes totaling an estimated \$294.4 million, or 4.8% of all individual income taxes.

### Sales and Property Taxes

Like other state residents, insurance industry employees pay state sales and local property taxes. Insurance companies also pay local property taxes on their facilities, as well as sales taxes on taxable purchases. Insufficient data make it impossible to estimate these amounts.

## OTHER IMPACTS

In addition to providing good-paying jobs and paying significant taxes, insurance companies boost community development in many ways, including charitable giving and purchases of municipal bonds issued by states, public schools, municipalities, counties, and other local governments.

While Wisconsin data are not available, the insurance industry nationally held more than \$452 billion in municipal bonds in 2011 (see Figure 4), more than 12% of all these securities. During 2002-11, total municipal bonds held by the industry more than doubled from \$202.9 billion to \$452.6 billion.

## CONCLUSION

The impact of Wisconsin's insurance industry is more far-reaching than most people know. The industry employs nearly 80,000 people in jobs that averaged more than \$60,000 in annual pay. Through its economic activity, it supports an additional 125,000 jobs in other industries throughout the state.

The insurance industry helps support state public services with the taxes it pays on premiums, business income, and property. Insurance industry employees paid an estimated \$294 million in state income taxes in 2010.

Finally, the insurance industry supports community development through the purchase and holding municipal bonds. Nationally, the industry held \$452 billion in such securities in 2011.

**Figure 4: Municipal Bond Holding Rise**  
Municipal Bonds Held by U.S. Insurance Companies, \$ billions, 2002-11

