

PROTECTION & PROSPERITY



THE PROPERTY AND CAUSALTY INSURANCE INDUSTRY'S
IMPACT ON WISCONSIN



EXECUTIVE SUMMARY

In November 2012, the Wisconsin Insurance Alliance asked the Wisconsin Taxpayers Alliance (WISTAX) to study the impact of property and casualty (P&C) insurers on Wisconsin's economy. WIA is a state association of property and casualty companies whose membership ranges from some of the largest P&C insurers in the country to smaller town mutual insurance companies.

By compiling state and national data on industry employment, wages, premiums, taxes, and financial holdings, WISTAX found that Wisconsin's P&C insurance industry contributes significantly to the state economy by providing a large number of high-paying jobs, paying business and personal taxes, holding significant amounts of municipal securities, and protecting residents' property through insurance provided at some of the lowest rates in the nation.

Major findings include:



Hundreds of Companies; Billions in Premiums

In 2011, Wisconsin had 174 domestic P&C insurers. Only Illinois, New York, Pennsylvania, and Texas had more. P&C insurers wrote \$27 billion in insurance in Wisconsin during 2011. Wisconsin was a net importer of about \$18 billion in premiums.

Thousands of Jobs

In addition to the 18,400 employed by P&C insurers in 2010, the industry also generates agency and brokerage jobs. And, through its economic activity, it supports other jobs throughout Wisconsin's economy. Directly or indirectly, the P&C industry supports between 64,900 and 68,700 jobs in Wisconsin.

Strong Job Growth

Job growth in the P&C industry has outpaced other industries over the last 10 years. In 2010, there were 5.5% more P&C insur-

ance jobs in Wisconsin than there were in 2001. By comparison, across all industries in the state, employment dropped 3.3%. Jobs were down 10.7% in the P&C industry nationally.

Good Pay



In 2010, the average P&C salary was \$66,392, or nearly 70% above the state average. During 2001-10, the total P&C payroll increased 47.3% compared to 22.4% for other industries.

Hundreds of Millions in Taxes Paid

In addition to property taxes, Wisconsin's overall insurance industry paid \$148 million in premiums taxes and \$28 million in corporate income taxes in 2011. P&C employees paid an estimated \$94 million in individual income taxes.

Partners in Community Development

P&C insurers support community development by buying and holding large amounts of municipal bonds. In 2011, the insurance industry nationwide held \$452 billion in municipal securities, more than double what it held in 2002. Of that total, \$331 billion was held by P&C insurers.



Low Rates

P&C insurers provide Wisconsinites with some of the lowest insurance rates. In 2010, average auto premiums here were fifth lowest nationally; average homeowners premiums were fourth lowest. Moreover, Wisconsin's combined auto/homeowners rate was lower than all states except Idaho.



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INTRODUCTION

Property and casualty (P&C) insurance protect individuals, families, and businesses from the financial losses that can result from automobile accidents, fires, storms, or other unexpected events. They also protect workers through workers compensation insurance.

In 2011, Wisconsin P&C firms paid more than \$5 billion in claims to state residents, workers, and businesses. They paid nearly \$1.3 billion for car accidents and more than \$800 million for workers compensation.

State residents understand the value of the insurance industry when unexpected events happen. However, few are aware of the broad impact the industry has on the state economy. P&C insurers employ more than 18,000 individuals here at an average annual wage of more than \$65,000.

Table 1: P&C Insurance Companies/Premiums
No. of Companies Authorized in Wis., Premiums, 2002-11

	No. of Co's Authorized to Write P&C Insurance in Wis.					Prem's
	Stock P&C	Mutual P&C	Town Mutuals	Total	Dom.	\$ bill.
2002	803	104	73	980	175	\$6.50
2003	810	102	73	985	179	\$7.00
2004	806	101	73	980	181	\$7.48
2005	823	100	71	994	182	\$7.75
2006	828	102	68	998	181	\$7.84
2007	842	103	68	1,013	180	\$7.81
2008	847	101	66	1,014	178	\$7.87
2009	863	98	65	1,026	176	\$7.78
2010	865	99	64	1,028	179	\$7.90
2011	857	97	61	1,015	174	\$8.27

THE INDUSTRY

Several types of firms are allowed to sell property and casualty insurance in Wisconsin. Traditional P&C insurers are formed as either stock or mutual companies. A stock company is owned by shareholders, while a mutual company is owned by policyholders. Town mutuals are different from traditional P&C companies as they write insurance only in the counties specified in their license. Town mutuals were originally formed in the late 1800s to provide insurance for farmers and rural homeowners. In Wisconsin, town mutuals are assessable; this means that, if they do not have the money to pay all claims, they can assess policyholders for the difference.

In 2011, 1,015 companies were authorized to write property and casualty insurance in Wisconsin (see Table 1). Of those, 857 were stock companies, 97 were mutual P&Cs, and 61 were town mutuals. Including the town mutuals, Wisconsin had 174 domestic P&C insurers in the state.

Of the 50 states, Wisconsin has the fifth most domestic P&C insurers. Only Illinois, New York, Pennsylvania, and Texas have more.

The number of companies authorized to write insurance in the state has risen over the last 10 years, from 980 in 2002 to 1,015 in 2011. The number of domestic insurers has varied little, ranging from 174 in 2011 to 182 in 2005. However, the number of town mutuals in Wisconsin has dropped from 73 in 2002 to 61 in 2011.

P&C companies wrote \$8.27 billion in premiums for Wisconsin residents in 2011, a 27% increase since 2002. Wisconsin ranked 13th nationally in premiums written. Between 2002 and 2011, the amount of premiums written in Wisconsin rose 82.9%.

Wisconsin is a net exporter of P&C insurance and, in return, imports premiums. In 2011, Wisconsin P&C companies wrote \$27 billion in insurance nationwide. Since state residents purchased less than \$9 billion, Wisconsin was a net importer of about \$18 billion in P&C insurance premium payments.

EMPLOYMENT

The relatively large number of P&C employers here results in a significant number jobs for state residents. In 2010, Wisconsin P&C insurers employed 18,400 people. Key state industries with similar employment levels included:

- dairy product manufacturing (19,328);
- telecommunications (17,865);
- electrical equipment manufacturing (18,158); and
- publishing industries (17,609).

Economic Significance

Economists and economic development specialists use several statistics to measure 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 employment share in a state compares to its share nationally. A location quotient greater than 1.0 means that an industry employs a greater share of the state's workforce than it does nationally.

The P&C insurance industry's LQ is 1.90; that is, the employment share of Wisconsin's P&C companies is 90% higher than the national share. One interpretation of this figure is that the P&C insurance industry is what economic development officials call a "basic" industry—it draws money into the state from outside.

A location quotient of 1.0 indicates the industry has just enough employment to provide a particular good or service for state residents. An LQ less than one implies the state does not produce enough of a good or service and state residents have to buy it from firms outside the state. The P&C insurance industry's LQ of 1.90 indicates that, in selling its products nationally, it brings outside money into the state economy. As previously mentioned, Wisconsin is a net importer of P&C premiums.

The LQ of the P&C industry is among the highest of any industry in the state. While it is not often thought of as a key industry for

Wisconsin, the P&C location quotient is larger than manufacturing's (1.79), historically Wisconsin's dominant industry.

Wisconsin has more P&C insurers than all but four states. Net, those insurers brought from other states about \$18 billion of insurance premiums.

Additional Jobs

The employment figures above reflect individuals employed directly by the P&C insurers. However, that underestimates the industry's employment impact in the state. P&C insurers rely on insurance agencies and brokerages to sell and service its products. In addition to agents and brokers, these offices employ support staff.

Brokers/Agents. Federal employment figures provide information on insurance agencies and brokerages, but they are not separated by type of insurance. Several insurance industry ratios are used to estimate P&C employment in these related areas.

In 2010, 18,609 residents were employed in insurance agencies and brokerages or other insurance-related areas (claims adjusting, etc.). Some of these were related to P&C insurance, while others were related to life, health, or some other type of insurance.

Various estimation methods indicate that, within the agencies, brokerages, and other miscellaneous industries, there were between 5,000 and 6,300 jobs related to P&C insurance. That brings the total number of P&C insurance jobs in the state to between 23,400 and 24,700.

Other Jobs Supported by the Industry. When employees of P&C companies spend their wages on groceries, cars, clothes, etc., they help support jobs in other industries. Economists refer to this as the multiplier effect. When this effect is accounted for, the P&C industry supports an additional 41,500 to 44,000 jobs in the state. Combined with the industry's own employment, the P&C insurer-

ance industry supports, directly or indirectly, between 64,900 and 68,700 jobs statewide.

Employment Growth

Not only is the P&C insurance industry one of the state’s main employers, its growth over the last ten years, though variable, has outpaced other Wisconsin industries. From 2001 through 2010, P&C employment rose 5.5% (see Figure 1). Overall job growth in Wisconsin (-3.3%) declined during those years. Employment in the P&C industry nationally was down 10.7%.

National Context

Due to lack of detailed data on agencies and brokerages, only national comparisons of employment by P&C insurers is possible. Wisconsin’s P&C insurers had more employees than all but eight states: California, Florida, Georgia, Illinois, New York, Ohio, Pennsylvania, and Texas. Wisconsin employed 3.5% of all P&C insurance workers nationally.

States with more P&C workers are all more populous than Wisconsin. When state size is accounted for, Wisconsin ranked

Figure 1: P&C Insurance Industry Emp. Growth Leads
Cumulative % Change in Employment Since 2002, 2002-11

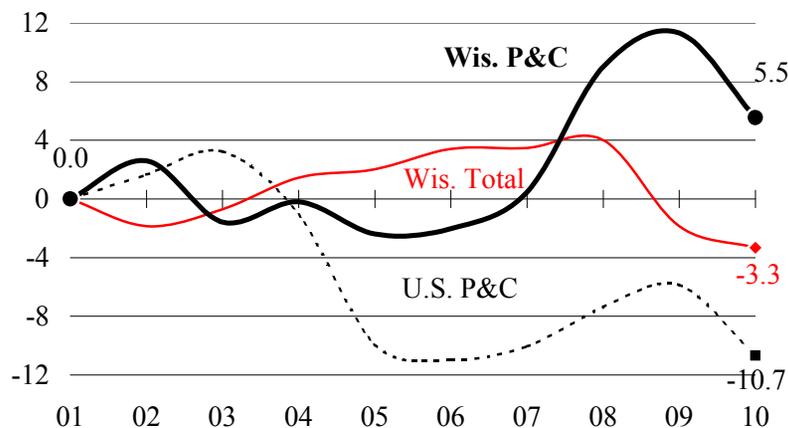
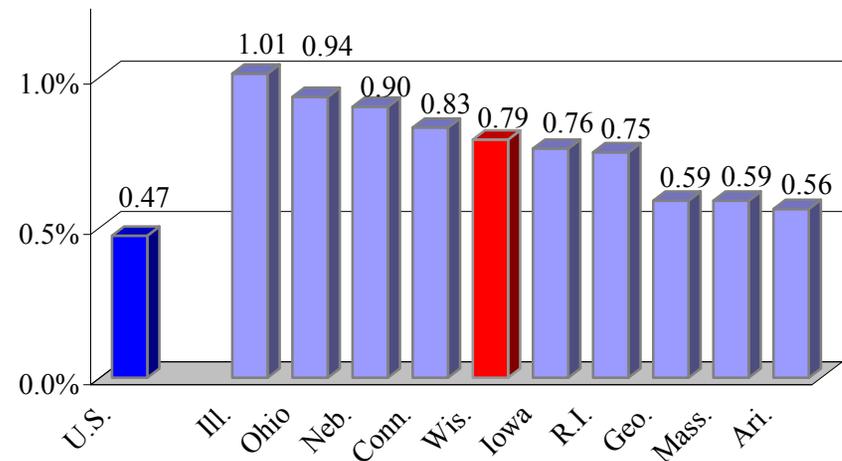


Figure 2: P&C Insurance Industry Among Top Five
P&C Insurance Employment % of Total State Employment , 2011



fifth nationally (see Figure 2). The industry employed 0.79% of all workers statewide; the corresponding national figure was 0.47%. The only states in which P&C insurers employed a larger share of the workforce were Illinois (1.01%), Ohio (0.94%), Nebraska (0.90%), and Connecticut (0.83%).

WAGES AND SALARIES

Like the industry as a whole, the P&C insurance industry provides jobs with above-average wages. In 2010, the average wage in the P&C insurance industry was \$66,392, nearly 70% above the state average (\$39,176). Industry wages have also increased at above average rates. From 2001 through 2010, the average P&C wage rose 43.9%, while the average wage across all industries climbed 26.6%.

Total Payroll

Wisconsin’s P&C insurance industry’s payroll totalled \$1.49 billion in 2010. The P&C insurance industry’s payroll was just over 1.6% of the statewide total.

Industry payroll has risen faster than total statewide payrolls. From 2001 through 2010, total P&C payroll rose 47.3%, compared to 22.4% for total statewide payrolls.

Total Payroll Impact

Just as employment impacts filter through the economy and help support other jobs, payroll also has multiplier effects. The industry's \$1.49 billion payroll supports an additional \$1.66 billion in wages in other industries. Both directly and indirectly, Wisconsin's P&C insurance industry supports more than \$3.1 billion in wages statewide.

TAXES PAID

In addition to the significant contribution the P&C industry makes to Wisconsin's economy, in both the number of jobs and high wages, it also pays significant taxes to state and local governments to help provide basic public services.

Corporate Taxes

Insurance companies operating in Wisconsin—including those in the P&C sector—pay one of two corporate taxes. Most out-of-state companies (and some domestics) pay a 2% tax on gross premiums written. For example, if a Minnesota insurer writes a \$1,000 homeowners insurance policy for a state resident, it must pay a \$20 state premiums tax.

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 2% premiums tax.

Premium Taxes. Information on premiums taxes collected from all types of insurance companies are provided by the Wisconsin Department of Revenue (DOR). From 2002 through 2011, these taxes rose 54%, from \$96.1 million to \$148.1 million (see Figure 4 on page six). Premiums taxes peaked at \$156.6 million in 2008, before declining for two years during the recession.

The DOR figures do not allow for a breakdown of premiums taxes by industry. However, during 2002-11, P&C insurance was about 35% of all insurance written, with annual shares ranging from 31.9% in 2010 to 39.4% in 2004.

At \$67,121, average wages in the P&C insurance industry were more than 60% above the state average. Moreover, during 2002-11, average P&C wages rose 42.3% while average wages across all Wisconsin industries climbed only 26.3%.

Corporate Income Taxes. Corporate income taxes are volatile, rising and falling with the economy and profits. P&C profits are also affected by the number and size of claims. Natural disasters negatively impact P&C profits.

In 2009 (the latest year for which the state Department of Revenue has information), corporate income taxes paid by all 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. Corporate tax payments were not separately provided by type of insurance company.

As a percentage of all 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.

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, rather than the corporate income tax.

Individual Income Taxes

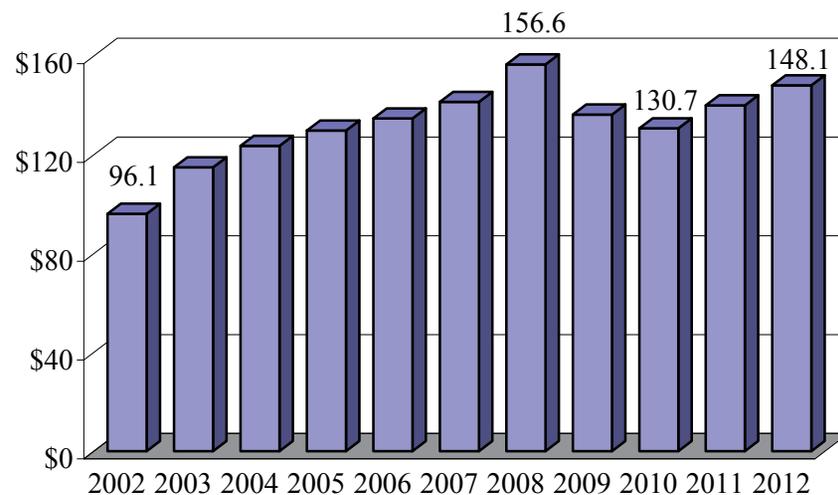
P&C employees pay state income taxes on wages and other income. Because average industry pay is well above average, employees pay taxes at higher average rates than the general population. Statewide, the typical state taxpayer paid 4.5% of income in state income taxes. The typical P&C employee had an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

Industry employees pay taxes on their wages and on other income (interest, capital gains, etc.). In 2010, P&C employees paid state income taxes totaling an estimated \$92.0 million.

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.

Figure 3: Wisconsin Insurance Taxes Rise
Premiums Taxes, \$ Millions,
Fiscal Years 2001-02 Through 2011-12



OTHER IMPACTS

Bond Holdings

In addition to providing good paying jobs and paying significant taxes, insurance companies boost community development in many

P&C insurance firms pay taxes on premiums, income, property, and taxable purchases to help pay for essential public services. In 2010, industry employees paid an estimated \$92.0 million in state individual income taxes.

ways, including charitable giving and purchasing municipal bonds issued by states, public schools, municipalities, counties, and other local governments.

The insurance industry nationally held more than \$452 billion in municipal bonds in 2011 (see Figure 4). The industry held more than 12% of all of these types of securities. During 2002-11, the industry's holding of municipal bonds more than doubled from \$202.9 billion to \$452.6 billion.

Nationally in 2011, P&C insurers held \$331 billion in municipal debt, more than 10% of all municipal securities. Just under 25% of the financial assets of P&C companies were municipal bonds.

Current Wisconsin data were unavailable. However, in 2005, P&C insurers nationwide held \$6.9 billion in Wisconsin municipal bonds. That was almost 20% of total state-local debt that year.

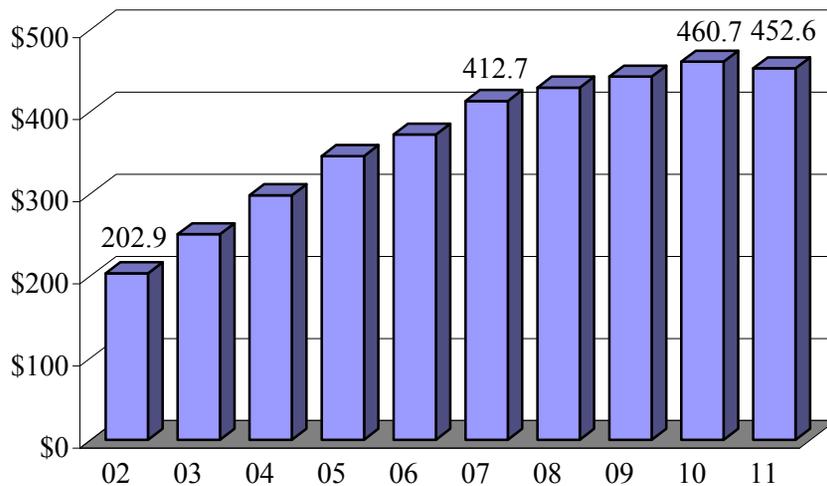
Rates

Of the various types of property and casualty insurance, auto and homeowners insurance are most often purchased. Wisconsin is fortunate to have some of the lowest P&C rates in the nation.

Car owners generally buy three kinds of automobile insurance: liability, collision, and comprehensive. Wisconsin's premiums are 13%-30% below national averages. Collision insurance here is nearly 30% below average, liability 25% below, and comprehensive 13% below the 50-state average. When combined, Wisconsin's \$683 average premium was lower than all but five states: Iowa, South Dakota, Idaho, North Dakota, and Maine (see Figure 5 on page 7).

Not all drivers purchase the same coverage. However, Wisconsin's relatively low rates translate into residents spending less on car insurance. In 2010, residents spent an average of \$613, or 1.2% of income, on auto insurance. Nationally, vehicle owners spent \$791, or 1.6% of household income on car insurance.

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



Wisconsin also ranks low (4th) on homeowners insurance. In 2010, premiums here averaged \$563, or 38% below the national average (\$909). Only Idaho, Oregon, and Utah had lower average rates.

Moreover, when average auto and homeowners insurance rates are combined, Wisconsin ranks second nationally. Only Idaho has a lower combined rate.

CONCLUSION

The impact of Wisconsin's property and casualty insurance industry is far reaching. The industry employs almost 25,000 state residents in high-paying jobs. Industry wages average more than \$66,000 per year, nearly 70% above the state average.

The industry's economic impact extends beyond its employees. When P&C workers spend their earnings, they help support jobs in the retail, food service, and other industries. When these impacts are added, the P&C industry supports, either directly or indirectly, nearly 70,000 jobs in the state.

The industry helps support state public services with the taxes it pays on premiums, corporate and individual income, property, and sales. Industry employees paid an estimated \$92 million in individual income taxes in 2010.

The P&C industry also helps promote community development by purchasing municipal bonds from Wisconsin's state government and its local counties, municipalities, and schools.

Figure 5: Wisconsin P&C Premiums Among the Lowest
Average Auto and Homeowners Premiums, 2010

