

# PROTECTION & PROSPERITY



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THE HEALTH INSURANCE INDUSTRY'S IMPACT ON WISCONSIN

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## EXECUTIVE SUMMARY

In November 2012, officials from the Wisconsin health insurance industry asked the Wisconsin Taxpayers Alliance (WISTAX) to study the impact that health insurers have on Wisconsin's economy.

The value of Wisconsin's health insurance industry can be seen in the way it improves access to health care services, coordinates care, and drives quality improvement and cost control. WISTAX looked at the industry's broader role, compiling state and national data on employment, wages, premiums, taxes, and financial holdings. The figures show Wisconsin's health 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 helping to keep Wisconsin's uninsured rate among the lowest in the nation.



### Hundreds of Companies

In 2011, Wisconsin had 534 companies authorized to sell health insurance in the state, with 73 of them domestic (Wisconsin-based) firms. Wisconsin ranks among the top 10 states in the number of health insurers offering coverage.

### Millions in Taxes Paid

In addition to property taxes, Wisconsin's overall insurance industry paid \$148 million in premiums taxes and another \$28 million in corporate income taxes in 2011 (data specific to the health insurance industry were not available). Health insurance employees paid an estimated \$75 million in individual income taxes.



### Thousands of Jobs

In addition to the 18,172 residents employed by health insurers, the industry also generates between 4,900 and 6,300 agency and brokerage jobs. And, through its economic ac-

tivity, it supports other jobs throughout the state economy. Thus, directly and indirectly, the health insurance industry supports between 63,800 and 67,100 jobs in Wisconsin.

### Strong Job Growth

Job growth has outpaced other industries over the last 10 years. From 2001 through 2010, a period that includes the "Great Recession," life and health insurance jobs were up 19.4%, compared to a decline of 0.3% for all jobs statewide. Nationally, life/health insurance jobs dropped 3.3%.



### Good Paying Jobs

In 2010, the average wage in the health insurance industry was \$53,691, or nearly 40% above the state average. The industry's payroll totaled \$1.24 billion, or about 1.4% of the state total.

### Partners in Community Development

The insurance industry supports 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.

### Leaders in Providing Health Insurance

Wisconsin's uninsured rate is among the lowest in the nation. In 2011, only 10.4% of state residents had no health insurance, compared to 15.7% nationally. Among the 50 states, Wisconsin ranked 10th.



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## INTRODUCTION

Insurance plays an important role in today's society. Property and casualty insurance provides protection from financial losses due to fire, storms, vehicle accidents, and other unexpected events. Life insurance provides the comfort that comes from knowing survivors will be provided for when a policyholder dies. And health insurance provides access to quality health care and protects against the high cost of medical bills. In 2011, Wisconsin's health insurers paid claims totaling almost \$6.5 billion.

But the health insurance industry also plays a broader role in Wisconsin and elsewhere by:

- providing high-paying jobs,
- paying significant state and local taxes,
- supporting local charities and nonprofits; and
- investing in public infrastructure by purchasing government bonds.

Nationally, the health insurance industry accounts for about 0.41% of all jobs and 0.63% of all salaries and wages. In addition to paying federal income taxes, the industry pays millions more in state and local taxes, including those on premiums, property, and income.

Just as it is important to the national economy, the health insurance industry is a critical part of Wisconsin's economy. The health insurance industry provides multiple economic benefits to Wisconsin individuals, families, and state government by promoting access to preventive care, helping people manage their chronic health conditions, driving improvements in health care quality and controlling costs. Managed health care, in particular, helps state government save millions of dollars in health care costs each year.

As Wisconsin's Legislative Audit Bureau concluded in its 2011 study, "Health plans serving the Medicaid Program are more likely to provide cost-effective health care while directing recipients to medically appropriate services." A 2012 Deloitte

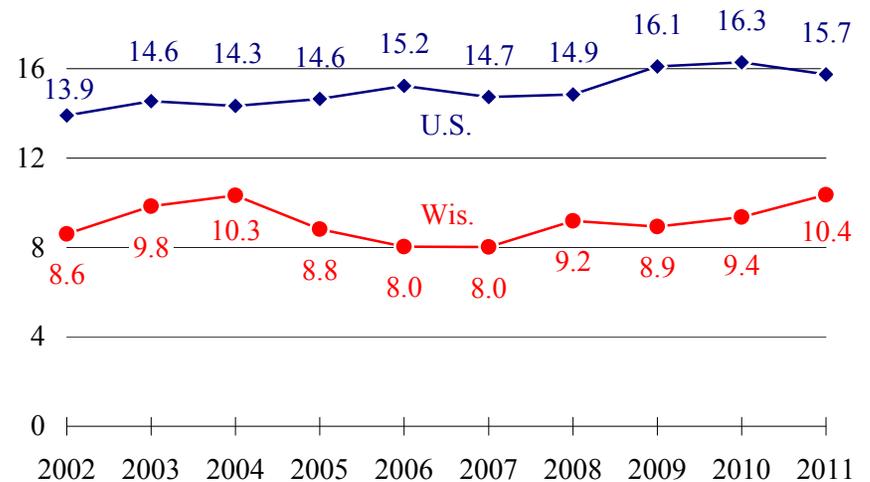
analysis showed health plans serving Wisconsin's state employees kept the program's cost trend an average of 4.1% lower than national averages, providing strong evidence the model used by the state has been a successful approach. And the commercial market provides further evidence of health plans' cost control. In 2010, the average cost of coverage in Wisconsin's individual market was 7% lower than the national average and lower than the average of 34 other states.

In addition, the industry employs more than 23,000 state residents in jobs that pay significantly more than the state average. In addition to its economic impact, Wisconsin's health insurers have helped Wisconsin attain one of the highest rates of health insurance coverage in the nation.

## HEALTH INSURANCE COVERAGE IN WISCONSIN

Health insurance is an important safeguard for individuals and families. Wisconsin traditionally has been among the leading states in health insurance coverage. In 2011, about 90% of Wisconsin residents had health insurance, according to the U.S. Census Bu-

**Figure 1: Wisconsin Uninsured Rate Below U.S. Average 2002-2011**



reau. Only nine states had a smaller percentage of their residents uninsured. Moreover, in 11 of the 12 years from 2000 through 2011, Wisconsin ranked among the top 10 states in insurance coverage; in nine years it ranked among the top five.

Wisconsin's uninsured rate has remained consistently below the national average (see Figure 1). During 2002-11, the percentage of uninsured Wisconsinites ranged from 8.0% to 10.4%. During those same years, the national low was 13.9% (2002).

### Sources of Insurance

Wisconsin residents obtain their insurance from a variety of sources. In 2011, 32.1% of Wisconsin residents obtained health insurance from government sources (either Medicare, Medicaid, or the military), about the same percentage as the U.S. (32.2%).

However, Wisconsin residents relied to a greater degree on the private market for health insurance than did residents of other states. In 2011, 72.1% had some form of private health coverage. That

percentage was 10th highest nationally and significantly above the national average (63.9%).

Most residents get insurance through their place of work. In 2011, nearly 60% of Wisconsinites had some kind of coverage through an employer, compared to 55% nationally. Since 1999,

**In 2011, 534 companies were authorized to sell health insurance in Wisconsin. Of these, 73 were domestic. Wisconsin ranked 13th nationally in health insurance premiums written.**

employer-based coverage here has been four to 10 percentage points higher than the U.S. norm.

With an above-average share of residents covered by their employer, it follows that many Wisconsin employers offer health insurance. In 2011, 97% of large (50 or more employees) employers offered health insurance compared to 96% nationally. However, only 33% of Wisconsin's small employers (fewer than 50 employees) offer health insurance vs. 36% nationally.

**Table 1: Health Insurance Companies/Premiums**  
Companies Authorized in Wis., Premiums, 2002-11

	Co's Authorized to Write in Wis.						Prem's
	Life/ Health	HMO	Frat.	Other	Total	Dom.	\$ bill.
2002	505	20	52	16	593	76	\$7.79
2003	488	21	52	16	577	74	\$8.51
2004	477	24	51	15	567	77	\$8.81
2005	478	26	49	14	567	79	\$9.37
2006	473	25	48	14	560	77	\$10.57
2007	462	24	48	13	547	74	\$11.63
2008	457	23	48	14	542	75	\$12.29
2009	453	23	48	15	539	75	\$13.66
2010	451	23	47	16	537	75	\$13.90
2011	452	23	45	14	534	73	\$14.24

### WISCONSIN'S HEALTH INSURANCE INDUSTRY

Several types of companies are allowed to sell health insurance in Wisconsin. Most are either authorized to sell life, accident, and health insurance or are health maintenance organizations (HMOs). Fraternal benefit societies—nonstock corporations that exist for social, educational, charitable, or religious purposes—are authorized to sell insurance to members. Other companies provide more limited coverage, e.g., vision or dental.

In 2011, health insurance companies in Wisconsin wrote \$14.24 billion in premiums, ranking the state 13th nationally in premiums written. Between 2002 and 2011, the amount of premiums written here rose 82.9%. The amount paid by health insurers for medical services rose 88.8% during that same period.

In 2011, 534 companies were authorized to sell health insurance in Wisconsin. Of them, 73 were domestic companies. Of the 534 companies, 452 (85%) were either stock or mutual life/health companies. Another 23 (4%) were HMOs. Since 2002, the number of companies authorized to write health insurance has declined from 593 to 534. However, the number of domestic companies fell by only three over the ten years.

The National Association of Insurance Commissioners (NAIC) provides comparative state information on insurers. According to NAIC, Wisconsin ranks among the top ten states in the number of health insurers authorized to offer coverage.

## **EMPLOYMENT**

The health insurance industry has two major components: health insurers that provide the insurance and brokers/agents who sell it to individuals and firms.

In 2010, Wisconsin health insurers employed 18,172 state residents. Key state industries with similar employment levels include:

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

## **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 compares an industry's share of employment in a state to its employment 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.

Wisconsin's health insurance industry's LQ is 2.08; i.e., Wisconsin's health insurance employment share is more than double the

nation's. One interpretation of this figure is that the health insurance industry is what economic development officials call a "basic" industry, drawing money into the state from outside. A location quotient of 1.0 indicates the industry has just enough employment

**The health insurance industry's share of employment in Wisconsin is more than double the national share. From an economic development perspective, health insurance is one of Wisconsin's most important industries.**

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 health insurance industry's LQ of more than two indicates that, in selling its products nationally, it is bringing outside money into the state's economy.

The health insurance industry's LQ is among the highest of any industry in the state. While the health insurance industry is not often thought of as a key Wisconsin industry, its location quotient is larger than manufacturing's, an industry long thought to be Wisconsin's most dominant.

## **Additional Jobs**

The employment figures cited above reflect individuals employed directly by health insurance providers. However, that underestimates the health industry's employment impact in the state. The industry relies 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 do not separate them

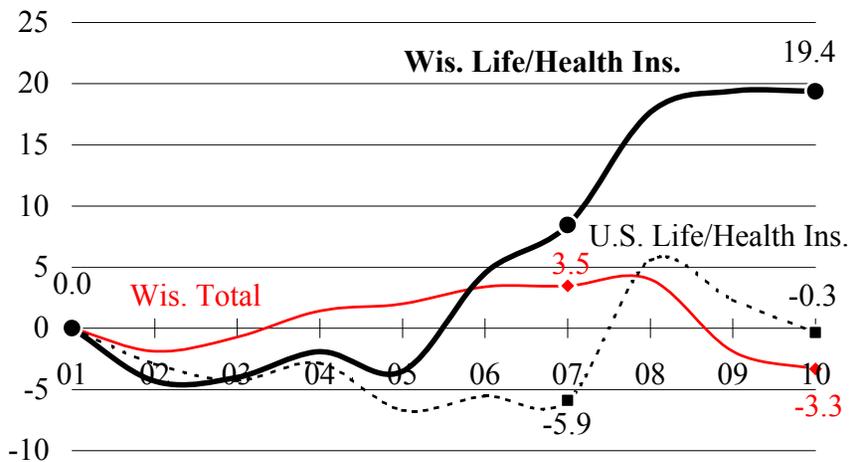
by type of insurance. Several insurance industry ratios can be used to estimate health insurance employment in these areas.

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

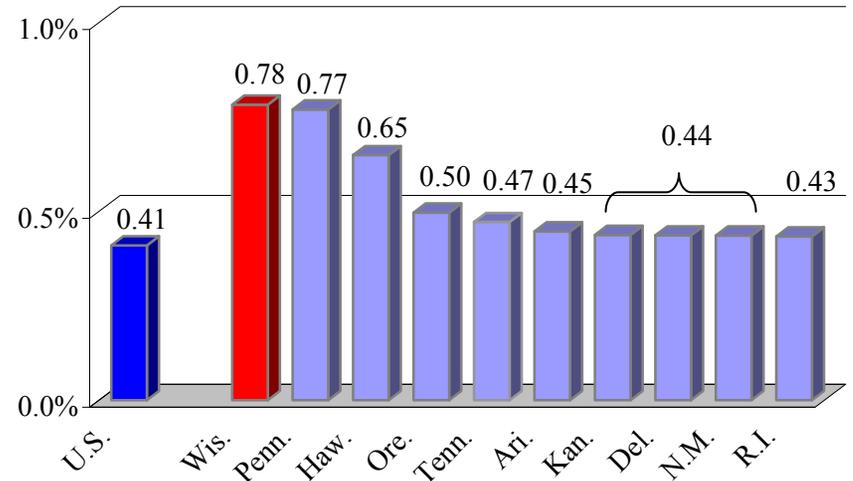
Various estimates suggest that, within agencies, brokerages, and other miscellaneous industries, there were between 4,900 and 6,300 jobs related to health insurance. That brings the total number of health insurance jobs in the state to between 23,500 and 24,900.

*Other Jobs Supported by the Industry.* When workers in the health insurance industry spend their wages, they help support jobs in other industries. Economists refer to this as the multiplier effect. When this effect is accounted for, the health insurance industry supports an additional 40,300 to 42,200 jobs throughout the state. Combined with direct industry employment, the

**Figure 2: Life/Health Ins. Industry Job Growth High**  
Cumulative % Change in Employment Since 2001, 2001-10



**Figure 3: Wis. Health Insurance Industry Among Top Ten**  
Health Insurance Employment % of Total State Employment, 2010



health insurance industry supports between 63,800 and 67,100 jobs statewide.

### Employment Growth

Not only is the health insurance industry a significant state employer, its growth over the last ten years has outpaced other industries. Federal figures show 2001-10 job growth of 50% in Wisconsin's health insurance industry. However, those numbers could be skewed by reclassification of firms selling both life and health insurance. These firms are classified based on the predominant insurance line sold.

Figure 2 shows employment growth among life and health insurers combined. From 2001 through 2010, employment growth in these industries combined grew 19.4%. That compares favorably with both overall Wisconsin employment (-3.3%) and life/health insurers nationally (-0.3%).

## National Context

Wisconsin's health insurance employment compares favorably with other states. The industry employed 0.78% of all workers statewide; the corresponding national figure was 0.41% (see Figure 3, page 4). Pennsylvania (0.77%) and Hawaii (0.65%) were the only other states to employ more than 0.5% of their workers in this industry.

Wisconsin employed 4.0% of all health insurance workers nationally, which is more than all but six states: California, Florida, New York, Ohio, Pennsylvania, and Texas.

## WAGES AND SALARIES

Like the industry as a whole, the health insurance industry provides jobs with above-average wages. In 2010, the average wage in the health insurance industry was \$53,691, nearly 40% above the state average (\$39,176).

### Total Payroll

The payroll for Wisconsin's health insurance industry totalled \$1.24 billion in 2010. As a percent of total statewide payroll, health insurance was nearly 1.4%.

Again, because of reclassification issues, it is difficult to track health insurance payroll over time. However, combined life/health industry's payroll has risen more than twice as fast as total statewide payrolls. From 2001 through 2010, life/health payrolls rose 55.0%, compared to 22.4% for total 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 \$1.24 billion payroll supports an additional \$1.46 billion in wages in other industries. Both directly and indirectly, Wisconsin's health insurance industry supports \$2.70 billion in wages statewide.

## TAXES PAID

In addition to providing many high-paying jobs, Wisconsin's health insurance industry contributes a significant amount of tax revenue to state and local governments to help provide essential public services.

**Wisconsin's health insurance companies had 2010 payroll totalling \$1.24 billion. However, through employee spending, those dollars support an additional \$1.46 billion in wages in other industries. Directly and indirectly, Wisconsin's health insurance industry supports nearly \$2.7 billion in wages statewide.**

### Corporate Taxes

Insurance companies operating in Wisconsin—including those selling health insurance—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 an Illinois insurance company writes a \$10,000 health insurance policy for a state resident, it must pay a \$200 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 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, health insurance was about 50% of all insurance written, with annual shares ranging from 46% in 2002 to 56% in each of 2009, 2010, and 2011.

*Corporate Income Taxes.* Corporate income taxes fluctuate widely as profits rise and fall with the economy. Health insurance profits are affected by the number of firms offering health insurance, expansion or contraction of state and federal health programs (Medicare and Medicaid), and law changes (e.g., mandated coverages).

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 for health insurance companies.

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.

**Individual Income Taxes**

Health insurance industry employees pay state income taxes on their wages and other income. Because average industry pay is above average, its 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 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 2011, industry employees paid state income taxes totaling an estimated \$74.6 million.

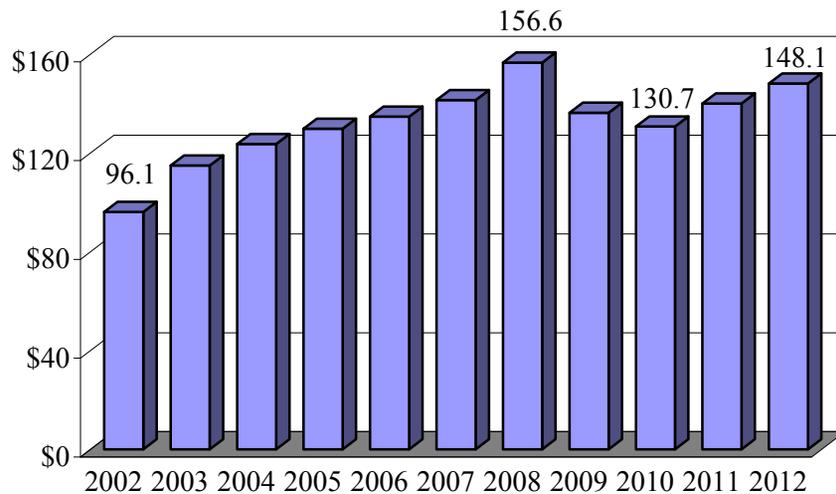
**Property Taxes**

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.

**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 purchasing municipal bonds issued by states, public schools, municipalities, counties, and other local governments.

**Figure 4: Wisconsin Insurance Taxes Rise**  
 Premiums Taxes, \$ Millions,  
 Fiscal Years 2001-02 Through 2011-12



While Wisconsin data are not available, the insurance industry nationally held more than \$452 billion in municipal bonds in 2011. 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.

## **CONCLUSION**

Wisconsin's health insurance industry has far-reaching impacts on Wisconsin's economy. The industry directly employs more than 23,000 state residents in high-paying jobs. Industry wages average more than \$53,000 per year, almost 40% above the state average.

The industry's economic impact extends beyond its employees. When health insurance industry workers spend their earnings, they help support jobs in the retail, food service, and other industries. When these impacts are added, Wisconsin's health insurance industry supports, either directly or indirectly, about 67,000 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 \$75 million in individual income taxes in 2010.