



The 2010 Economic Impact of the Insurance Industry on Metropolitan and Non-Metropolitan Nebraska

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Eric Thompson, Ph.D.
University of Nebraska-Lincoln



Ernest Goss, Ph.D.
Goss and Associates



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**Dr. Eric Thompson
Associate Professor
Bureau of Business Research and
Department of Economics
University of Nebraska-Lincoln
Lincoln, Nebraska 68588-0406
Voice-(402) 472-3318
Fax-(402) 472-9700
Email- ethompson2@unl.edu**

and

**Dr. Ernest Goss
MacAllister Chair
Department of Economics
Creighton University
Omaha, Nebraska 68178-0130
Voice-(402) 280-4757
Fax-(402) 280-2172
e-mail- ernieg@creighton.edu**

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The Economic Impact of the Insurance Industry on Metropolitan and Non-Metropolitan Nebraska

Executive Summary

Insurance investment & jobs-the economic prize:

- Average weekly wages for insurance carriers are \$383 per week higher than all private workers, and approximately \$200 per week higher than the average worker in the high wage industry of durable goods manufacturing.
- According to the U.S. Bureau of Labor Statistics, the insurance industry will add 66,955 jobs, a 3.0 percent gain, nationwide over the period 2008 and 2018.
- Insurance premiums represent an important Nebraska export that brings significant new dollars into the state each year. For 2009, Nebraska's insurance industry sold \$8.3 billion in insurance premiums.
- In only Connecticut and Iowa does the insurance industry exert more of an economic force.

Estimated Impacts

To the overall Nebraska economy:

- For 2010, Nebraska insurance industry spending will add \$10.3 billion in sales for the state economy.
- For 2010, the insurance industry is estimated to add \$112 million to the food services industry and \$111 million to the real estate industry.

To Nebraska's tax collections:

- For 2010, it is estimated that the Nebraska Insurance Industry will generate \$413.2 million in state and local taxes and fees as result of its spending in the state.
- In 2009, Nebraska insurance companies paid over \$93.9 million in taxes and fees to the Nebraska Insurance Department alone.

To Nebraska's labor force:

- Nebraska insurance industry spending supports roughly 56,405 jobs with a total 2010 payroll of approximately \$2.6 billion.
- For 2010, Nebraska insurance industry spending will support 2,180 jobs in the food services industry and 928 jobs in the real estate industry.
- Insurance industry jobs in Nebraska accounted for 3.5 percent of the state's total private work force in 2008. This percentage is greater than that for all of Nebraska's six geographic neighbors, except Iowa, and places it among the top three states nationally.

To Nebraska's "quality" or knowledge worker base:

- The average salary per job supported by insurance industry spending was \$46,226 for 2010 which is significantly above the average pay for all private jobs in Nebraska of \$37,696.
- For 2010, Nebraska insurance industry spending will add 793 jobs and \$47.6 million in wages and salaries for offices of physicians, dentists, and other health practitioners, a high wage industry in the state.

- The Nebraska insurance industry's payroll for 2008 accounted for 5.0 percent of total compensation in the state.

To Brain Gain in Nebraska:

- Nebraska's insurance industry creates thousands of net job openings each year.
- Many of these job openings are a match to skills of young Nebraska workers. As a result, the insurance industry contributes to "brain gain" by encouraging young educated workers to remain in Nebraska.

Summary of Impact Relationships

- Every \$1,000,000 in additional Nebraska insurance premiums creates approximately \$1.8 million in overall economic activity, \$450 thousand in wages/salaries, \$38 thousand in self-employment income, \$71 thousand in state and local taxes and 9.7 jobs.
- Every 10 new jobs added in insurance firms in Nebraska results in another 7.6 jobs added in non-insurance firms in the state.

Chapter 1: Nebraska's Insurance Industry: An Economic Building Block

Introduction

The insurance industry has been an important component of the Nebraska economy for decades with its economic significance growing steadily each year. For example in 1958, insurance industry payrolls accounted for 3.8 percent of total private payrolls in the state, but by 2008 the insurance industry's share had grown to 5.0 percent of total Nebraska payrolls.¹

The growth in relative insurance industry payrolls in the state has meant

..... insurance industry investment has become an economic "prize" that must be competed for just as communities and states battle for other types of business investment.

that the industry plays an increasingly important function in Nebraska's economic growth and development. Not only has the insurance industry played an important role in past economic progress, the U.S. Bureau of Labor Statistics estimates that, for the nation,

¹U.S. Bureau of Economic Analysis.

the insurance industry will add 66,955 jobs, a 3 percent gain, over the period 2008 and 2018.² This is solid growth in a high wage industry, but is less than the 11 percent job growth expected for all industries.

Table 1.1 shows average salaries for May 2010.³ As presented, average weekly wages for insurance carriers are \$383 per week higher than all private workers, and approximately \$230 more than the average weekly wages for workers in the nation's financial sector. Data also show that the average weekly wages for all insurance workers' is \$132 per week higher than the average durable goods manufacturing worker.

²U.S. Bureau of Labor Statistics (BLS),

³<ftp://ftp.bls.gov/pub/suppl/empsit.ceseeb16.txt>

Table 1.1: Average weekly salaries by industry, May 2010 and 2006-10 growth

Industry	Average Wage May 2010	Growth 2006- 2010
Insurance industry (overall)	\$952	20%
Insurance carriers	\$1,024	20%
Direct life & health insurance	\$1,017	22%
Reinsurance	\$967	22%
Insurance agencies	\$836	21%
Financial activities	\$794	19%
Nondurable manufacturing	\$690	11%
Durable goods manufacturing	\$820	11%
Total private	\$651	13%

Source: U.S. Bureau of Labor Statistics

Given these high wages, insurance industry jobs and investment have become economic “prizes” that communities and states compete for along with battling for manufacturing jobs and investment. For example in 2003, Connecticut, a leader in insurance industry jobs and investment, established the *Insurance and Financial Services Cluster* which was supported by civic, educational, and government institutions. The primary purpose of the cluster is to create a formal structure for the industry to cooperate and collaborate on issues and concerns of mutual interest that impact the business climate for the insurance industry.

Given the importance of the insurance industry, it is essential to determine the position of the industry today. The Nebraska Insurance Federation

commissioned this study in order to calibrate the economic impact of the insurance industry on both metropolitan and non-metropolitan Nebraska.

The next section of this chapter provides an overview of economic impact assessment while the last section presents summary statistics for the Insurance Industry.

The Economic Significance of Nebraska's Insurance Industry

Location quotients (LQ) are one of the most widely used of these measures to judge the significance of an in-

.... a location quotient greater than one indicates that the industry is exporting goods or services out of the area and, in the process, bringing new dollars into the area.

dustry to a state, county or metropolitan area. A location quotient (LQ) is a rather simple economic development tool that helps identify what are known as "basic" and "non-basic" industries in the economy. Basic industries are those

that draw money into the economy from outside its borders, while non-basic industries serve the needs of the populace and businesses within the state, county or metropolitan area border.

Mathematically, a location quotient is simply an industry's share of area employment over the industry's share of national employment. If the location quotient is 1.0, then the industry's share of local employment is the same as the industry's share nationally. A location quotient greater than 1.0 means the industry employs a greater share of the local workforce in the area than it does nationally. A location quotient less than 1.0 implies that the industry's share of local employment is smaller than its share of national employment. Equation 1.1 shows the formula used to calculate Nebraska's insurance industry LQ.

$$\text{LQ (NE)} = (\text{NE Ins. Emp.} / \text{Total NE Emp.}) \div (\text{US Ins. Emp.} / \text{Total US Emp.}) \quad (1.1)$$

The numerator of Equation (1.1) is the percentage of Nebraska's employment in the insurance industry and the denominator is the percentage of nation's employment in the insurance industry. A location quotient greater than one indicates that the industry is exporting goods or services out of the area and, in the process, bringing new dollars into the area. Industries that bring dollars into the area help the local economy grow and are considered basic. Basic industries are the industries that are said to really turn the wheels of an economy.

Table 1.2 compares Nebraska insurance industry employment and location quotients with that of neighboring states and the U.S. Data indicate that Nebraska has a higher share of its overall employment concentrated in the insurance industry and that, by extension, Nebraska's insurance industry is bringing

new dollars into the state (e.g. exporting insurance services to the rest of the nation and globe).

Data in Table 1.2 indicate that Colorado, Missouri and Wyoming are sending net dollars to other states for insurance services. Iowa, Nebraska, South Dakota, and Kansas have LQs greater than 1.0. Nebraska and Iowa have the highest LQ in the region. The

The more the location quotient exceeds 1.0, the greater the importance of the industry to the economic viability of the state or area.

Nebraska location quotient is 1.74, indicating that Nebraska has 74 percent more employment as a share of total employment than the United States. Specifically,

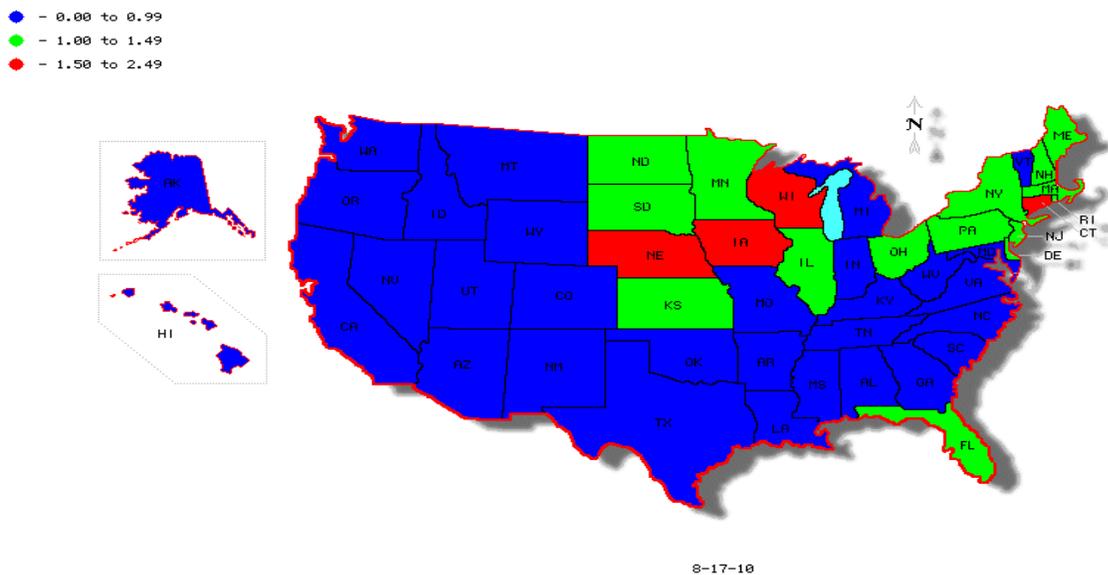
3.5 percent of Nebraska employment is in the insurance industry versus 2.0 percent of U.S. employment. The insurance industry also accounts for 3.5% of employment in Iowa.

Table 1.2: Employment and LQs for the Insurance Industry (2008)⁴

State	Insurance & related Employment	Insurance & related % of private employment	Location Quotient
Colorado	40,071	1.9%	0.94
Iowa	46,360	3.5%	1.75
Kansas	24,747	2.1%	1.04
Missouri	49,428	2.0%	0.99
Nebraska	28,280	3.5%	1.74
South Dakota	7,275	2.2%	1.07
Wyoming	2,102	1.0%	0.47
Total U.S.	2,431,680	2.0%	1.00

Source: U.S. Bureau of Census, *County Business Patterns*, 2008

Figure 1.1: Insurance Industry Location Quotients for US States (2008)



⁴2008 County Business Pattern data is the latest available. These estimates may differ from those provided by U.S. Bureau of Labor Statistics (BLS) and the U.S. Bureau of Economic Analysis (BEA) which use different data sources and provide more recent data. For example, LQs from BEA data for 2008 were: Colorado 0.95, Iowa 1.72, Kansas 1.13, Missouri 1.05, Nebraska 1.68, South Dakota 1.15 and Wyoming 0.50.

Next location quotients are computed for each U.S. state. Figure 1.1 profiles LQs for all 50 states and the District of Columbia. As presented, only four states have location quotients greater than 1.5. Those states are Connecticut, Nebraska, Iowa and Wisconsin. Figure 1.1 shows that the insurance industry is rather concentrated implying that it benefits from clustering. That is, insurance firms gain from locating close to other insurance firms. Clustering of insurance firms tends to cause traditional suppliers to the insurance industry to locate close by, and also ensure that there is a large pool of skilled insurance industry workers in the region.

Table 1.3 lists location quotients by state. Only 19 states had LQs above 1.0 and only 8 states have LQs above 1.25. LQs ranged from DC's 0.33 to Connecticut's 2.28. Iowa and Nebraska are ranked second and third, respectively, in location quotient values. These findings suggest that Nebraska brings income to the state by exporting insur-

ance services. Most states are net importers of insurance services.

These results represent all insurance industry employment. Location quotients are even greater in Nebraska

.... only four states have location quotients greater than 1.5. Those states are Connecticut, Nebraska, Iowa and Wisconsin.

for key segments of the industry, such as insurance carriers, as seen in Tables 1.4, 1.5, 1.6 and 1.7. Table 1.4 and 1.5 list employment and LQs for insurance carriers and for direct life, health and medical. Tables 1.6 and 1.7 list employment and LQs for direct insurance (excluding life, health and medical) and for reinsurance. With the exception of reinsurance, the tables show that Nebraska has a much larger share of its employment in each of the more narrowly defined insurance industries than neighboring states.

Table 1.3: LQs by State, 2008

State	LQ	State	LQ
Connecticut	2.28	Missouri	0.99
Iowa	1.75	Arizona	0.96
Nebraska	1.74	Georgia	0.96
Wisconsin	1.60	Michigan	0.95
North Dakota	1.48	Colorado	0.94
New Hampshire	1.35	Texas	0.90
Rhode Island	1.28	Oregon	0.90
Ohio	1.26	Virginia	0.87
Minnesota	1.23	South Carolina	0.87
Pennsylvania	1.19	Oklahoma	0.86
Illinois	1.17	Tennessee	0.86
Maine	1.15	Indiana	0.86
Massachusetts	1.13	Maryland	0.85
Florida	1.12	California	0.85
New Jersey	1.11	Montana	0.82
South Dakota	1.07	Alabama	0.78
New York	1.07	Washington	0.78
Kansas	1.04	North Carolina	0.74
Delaware	1.00	Kentucky	0.73
		Vermont	0.73
		Louisiana	0.71
		Utah	0.70
		Idaho	0.69
		Hawaii	0.68
		West Virginia	0.65
		New Mexico	0.62
		Mississippi	0.56
		Arkansas	0.55
		Wyoming	0.47
		Nevada	0.46
		Alaska	0.41
		District of Columbia	0.33
		U.S.	1.00

Source: U.S. Bureau of Census, *County Business Patterns*, 2008.

Table 1.4: Employment in insurance carriers (2008)

State	Employment	As a percent of private employment	Location Quotient
Colorado	24,617	1.2%	0.92
Iowa	34,204	2.6%	2.07
Kansas	14,130	1.2%	0.95
Missouri	28,910	1.2%	0.93
Nebraska	21,808	2.7%	2.16
South Dakota	4,654	1.4%	1.10
Wyoming	929	0.4%	0.33
Total U.S.	1,518,138	1.3%	1.00

Source: U.S. Bureau of Census, *County Business Patterns*, 2008.

Table 1.5: Employment in Direct Life, Health and Medical Insurance (2008)

State	Employment	As a percent of private employment	Location Quotient
Colorado	13,126	0.6%	0.86
Iowa	26,497	2.0%	2.80
Kansas	7,090	0.6%	0.83
Missouri	15,510	0.6%	0.87
Nebraska	14,264	1.8%	2.47
South Dakota	2,486	0.7%	1.03
Wyoming	426	0.2%	0.27
Total U.S.	867,565	0.7%	1.00

Source: U.S. Bureau of Census, *County Business Patterns*, 2008.

Table 1.6: Employment in Direct Insurance (Except Life and Medical) (2008)

State	Employment	As a percent of private employment	Location Quotient
Colorado	11,488	0.5%	1.03
Iowa	7,701	0.6%	1.11
Kansas	6,353	0.5%	1.02
Missouri	12,659	0.5%	0.97
Nebraska	7,530	0.9%	1.77
South Dakota	2,168	0.6%	1.22
Wyoming	503	0.2%	0.43
Total U.S.	637,115	0.5%	1.00

Source: U.S. Bureau of Census, *County Business Patterns*, 2008.

Table 1.7: Employment in Reinsurance (2008)

State	Employment	As a percent of private employment	Location Quotient
Colorado	10	0.0%	0.04
Iowa	10	0.0%	0.07
Kansas	750	0.1%	5.68
Missouri	750	0.0%	2.72
Nebraska	10	0.0%	0.11
South Dakota	0	0.0%	-
Wyoming	0	0.0%	-
Total U.S.	13,458	0.0%	1.00

Source: U.S. Bureau of Census, *County Business Patterns*, 2008.

The next table, Table 1.8, illustrates the amount of financial transactions involved in the insurance industry in Nebraska, including premiums written and earned, and losses that were incurred. The data show rapid growth in premiums written, premiums earned, and losses insured by Nebraska firms. Premiums also grew more rapidly in Nebraska than nationwide from 1999 to 2009. This finding reinforces the earlier

finding that the Nebraska insurance cluster is growing. Data in Table 1.9 show rapid growth in the life insurance industry.

Of course, Nebraska's insurance jobs and firms are not distributed uniformly across the state. The next section of this chapter examines the geography of the insurance industry within the state of Nebraska.

Table 1.8: Business of Property and Casualty Insurance Companies, 1999 and 2009 (\$ Millions)⁵

	Premiums Written	Premiums Earned	Losses Incurred
Nationwide			
Nebraska-Domestic			
1999	\$3,236.6	\$3,214.4	\$2,566.7
2009	\$2,977.70	\$3,252.50	\$1,531.60
Growth 1999-2009	-8.00%	1.19%	-40.33%
Foreign			
1999	\$224,637.8	\$220,187.6	\$147,082.7
2009	\$347,663.80	\$349,647.10	\$216,289.10
Growth 1999-2009	54.77%	58.80%	47.05%
Nebraska			
Nebraska-Domestic			
1999	\$391.5	\$389.5	\$266.7
2009	\$283.80	\$282.80	\$173.30
Growth 1999-2009	-27.51%	-27.39%	-35.02%
Foreign			
1999	\$1,581.4	\$1,533.6	\$1,025.8
2009	\$3,061.80	\$3,043.10	\$1,761.30
Growth 1999-2009	93.61%	98.43%	71.70%

Source: Nebraska Department of Insurance, Summary of Insurance Business in Nebraska for the Years 1999 and 2009.

Table 1.9: Business of Life and Health Insurance Companies, 2002 and 2009 (\$ Millions)

	Nationwide Life Insurance in Force Year End	Nebraska Life Insurance in Force Year End
Nebraska-Domestic		
2002	\$709,875.2	\$19,455.6
2009	\$1,786,362.3	\$20,793.5
Growth 2002-2009	151.64%	6.88%
Foreign		
2002	\$24,659,411.1	\$102,571.9
2009	\$35,587,321.3	\$146,644.1
Growth 2002-2009	44.32%	42.97%

Source: Nebraska Department of Insurance, Summary of Insurance Business in Nebraska for the Years 2002 and 2009.

⁵Foreign companies refer to companies headquartered outside Nebraska while domestic companies are headquartered in Nebraska.

The Geography of the Nebraska Insurance Industry

Figure 1.2 shows growth rates in insurance jobs between January 2000 and May 2010. As presented, all areas in Nebraska grew greater than the national rate. Between January 2000 and May 2010 according to U.S. Bureau of Labor Statistics data, insurance job growth rates were, -1.8 percent for the nation, 37.8 percent for non-metropolitan Nebraska, 3.4 percent for Omaha, 41.5 percent for Lincoln, and 15.6 percent for Nebraska.

Figure 1.3 profiles LQs for Lincoln, non-metropolitan Nebraska and Omaha for the period January 2000 and May 2010.⁶ As indicated, Omaha began the period with an LQ of 2.33 and ended it with an LQ of 2.14. On the other hand, Lincoln and non-metropolitan Nebraska began the period with LQs of 2.10 and 0.75, respectively. At the end of the period, Lincoln's LQ was 2.81 and non-

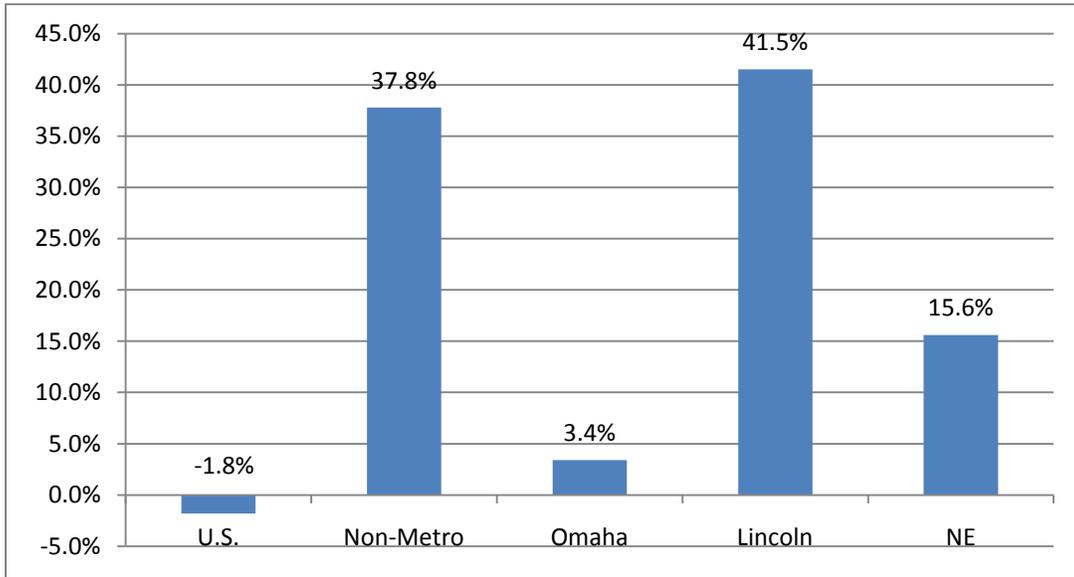
metropolitan Nebraska's was 0.997. As indicated, Figures 1.2 and 1.3 show that Lincoln has been a major beneficiary of insurance industry job growth since 2000.

Figure 1.4 and Table 1.10 show LQs for each of Nebraska's 93 counties in 2008. As presented, Gosper, Haynes and Sioux counties had the highest insurance industry LQs in the state. As indicated, 82 Nebraska counties reported insurance employment for 2008, and 31 Nebraska counties had LQs greater than 1.00.

⁶Measured industry employment will vary depending on the source of the data. For example, U.S. Census employment is measured in March of each year, whereas U.S. Bureau of Labor Statistics provides average employment for the entire year.

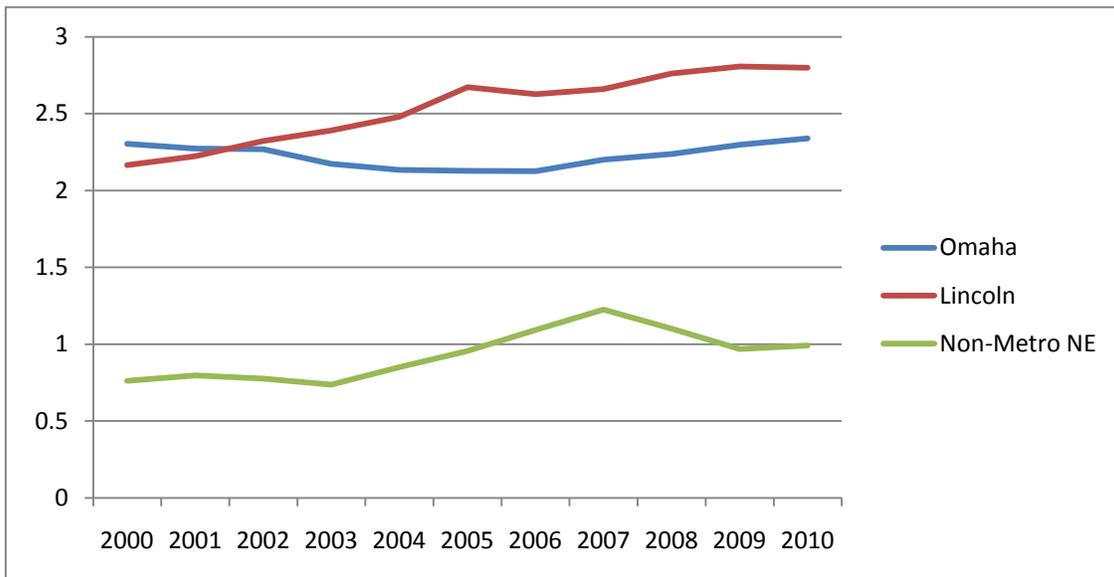
⁷These LQs differ from those calculated from U.S. Census data since Census data are only available for March of each year ending in 2008 while U.S. BLS data are available on a monthly basis through May of 2010.

Figure 1.2: Growth in Nebraska Insurance Jobs by Area, 2000-2010



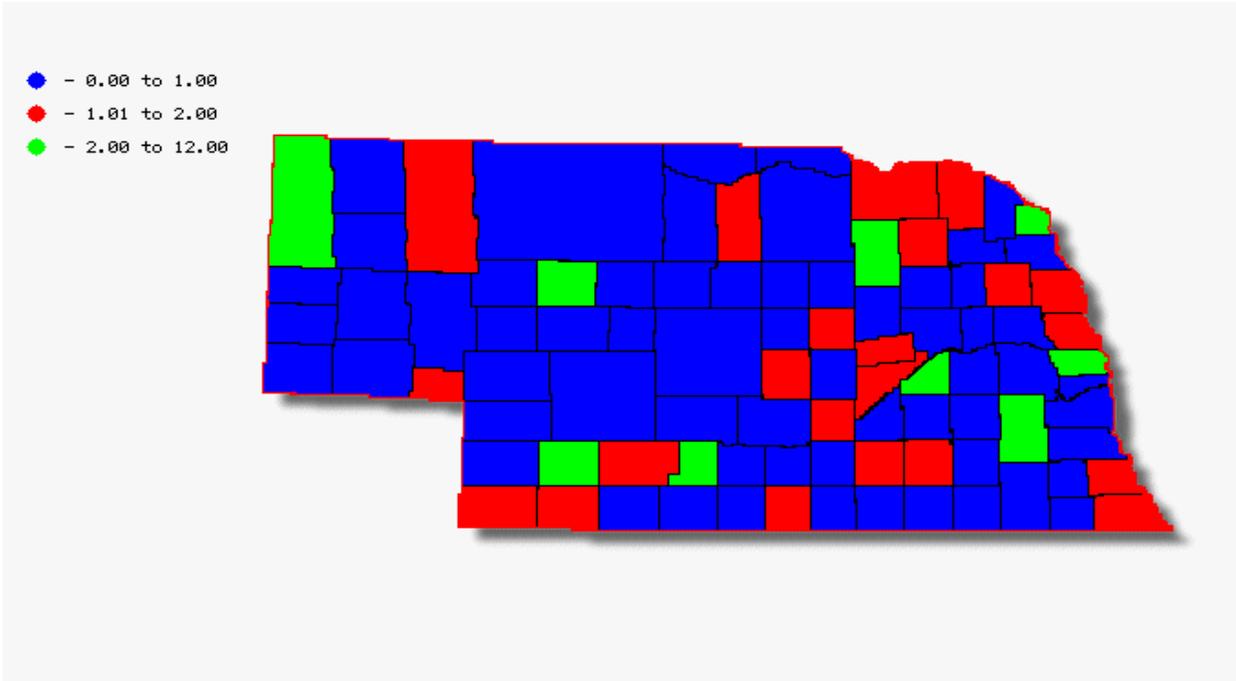
Source: U.S. Bureau of Labor Statistics

Figure 1.3: Location Quotients, 2000-2010



Source: U.S. Bureau of Labor Statistics

Figure 1.4: LQs by Nebraska County, 2008



Source: US Census County Business Patterns

Table 1.10: Insurance Industry LQs by Nebraska County (2008)

County	Location Quotient	County	Location Quotient	County	Location Quotient
Gosper	11.26	Keith	0.76	Blaine	0.00
Hayes	10.81	Red Willow	0.76	Boyd	0.00
Sioux	8.29	Harlan	0.75	Grant	0.00
Hooker	4.32	Butler	0.72	Keya Paha	0.00
Dakota	3.78	Kearney	0.71	Logan	0.00
Polk	3.58	Nuckolls	0.70	Loup	0.00
Lancaster	2.70	Seward	0.68	McPherson	0.00
Douglas	2.58	Phelps	0.68	Thomas	0.00
Antelope	2.11	Stanton	0.66	Wheeler	0.00
Merrick	1.80	Box Butte	0.65		
Nemaha	1.73	Morrill	0.63		
Burt	1.61	Perkins	0.61		
Cedar	1.59	Madison	0.61		
Richardson	1.56	Thayer	0.59		
Hall	1.53	Garden	0.53		
Nance	1.47	Cherry	0.51		
Rock	1.46	Brown	0.51		
Washington	1.38	Johnson	0.51		
Dundy	1.36	York	0.49		
Clay	1.32	Chase	0.47		
Sheridan	1.24	Kimball	0.46		
Greeley	1.22	Otoe	0.46		
Deuel	1.19	Dawes	0.44		
Frontier	1.14	Adams	0.44		
Franklin	1.12	Lincoln	0.40		
Cuming	1.09	Dixon	0.39		
Fillmore	1.08	Thurston	0.39		
Hitchcock	1.08	Gage	0.38		
Knox	1.06	Scotts Bluff	0.37		
Sherman	1.03	Boone	0.35		
Pierce	1.02	Hamilton	0.35		
Howard	0.98	Buffalo	0.35		
Furnas	0.94	Dodge	0.34		
Wayne	0.94	Cheyenne	0.33		
Pawnee	0.88	Dawson	0.31		
Holt	0.87	Valley	0.30		
Colfax	0.86	Platte	0.30		
Cass	0.85	Saline	0.28		
Garfield	0.85	Sarpy	0.23		
Custer	0.82	Jefferson	0.19		
Saunders	0.82	Arthur	0.00		
Webster	0.81	Banner	0.00		

Source: U.S. Bureau of Census, *County Business Patterns*, 2008.

The Location of Insurance Firms

The previous sections dealt with insurance employment. The current section presents data on the location of insurance firms. Table 1.11 shows the change in the number of insurance firms for Nebraska, its neighbors and the U.S. between 1999 and 2008. As presented, only Colorado at 16.5 percent experienced a higher insurance firm growth rate than Nebraska's 8.8 percent.

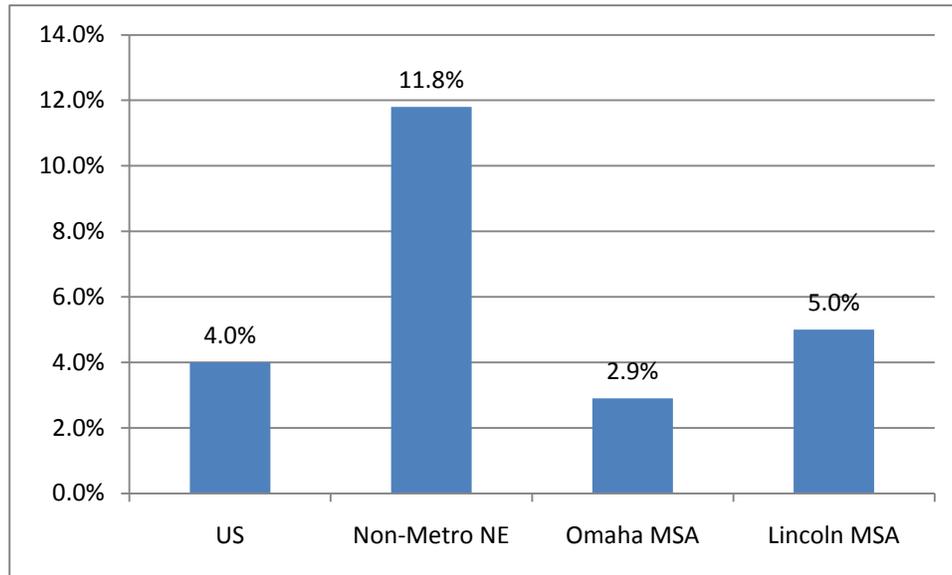
Figure 1.5 shows insurance firm growth rate by Nebraska area. As presented, all areas experienced growth since 1998. Non-metropolitan Nebraska and Lincoln MSA grew at a faster rate than the United States. Non-metropolitan Nebraska and Lincoln MSA grew at 11.8 percent and 5.0 percent respectively compared to a national average of 4.0 percent. Only the Omaha MSA growing at 2.9 percent grew less than the national average.

Table 1.11: Change in the Number of Insurance Firms, 1999-2008

	Change in Number of Insurance Firms 1999-2008	Growth Rate
Colorado	558	16.5%
Iowa	112	4.2%
Kansas	2	0.1%
Missouri	177	4.0%
Nebraska	159	8.8%
South Dakota	14	1.7%
Wyoming	3	0.8%
U.S.	7,057	4.0%

Source: U.S. Bureau of Census, *County Business Patterns*, 2008.

Figure 1.5: Growth in Insurance Firms, 1999-2008



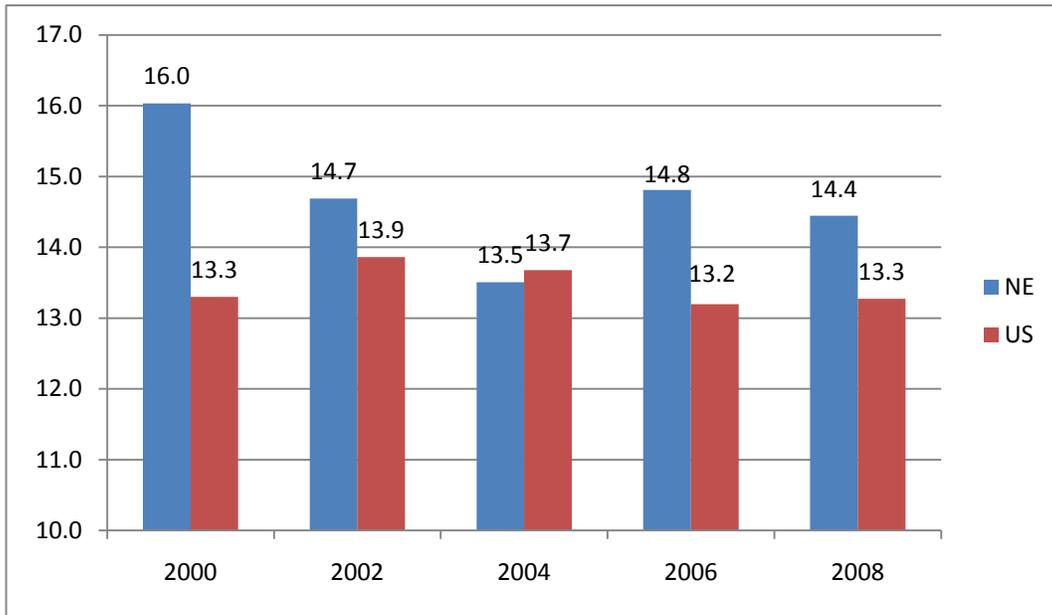
Source: County Business Patterns

Figures 1.6 and 1.7 show the average employment size of all insurance firms and insurance carriers between 2000 and 2008 for Nebraska and for the U.S. As presented, the average insurance firm in Nebraska employed 16.0 in 2000 and 14.4 in 2008. On the other hand, the average U.S. insurance company employed 13.3 workers in 2000 and 13.3 in 2008. In terms of insurance carriers, the average size of Nebraska's insurance carriers declined from 71.7 workers

in 2000 to 62.5 in 2008 while that of the U.S. insurance carriers grew from 39.8 to 42.6 between 2000 and 2008.

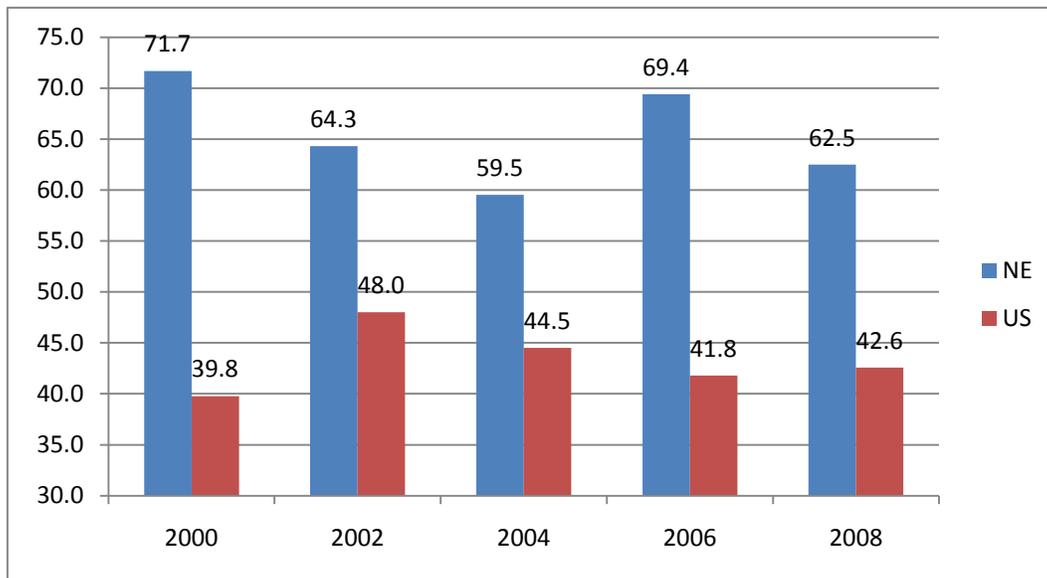
Table 1.12, profiles the number of insurance companies in Nebraska, by type of insurance – property and casualty, life and health, and fraternal – as well as whether foreign or domestic. The table also demonstrates the change in the number of companies over time.

Figure 1.6: Average Firm Size Insurance & Related, U.S. vs. NE, 2000-2008



Source: County Business Patterns

Figure 1.7: Average Firm Size Insurance Carriers, U.S. vs. NE, 2000-2008



Source: County Business Patterns

TABLE 1.12: Nebraska Insurance Companies by Type, 1960-2008

	Property and Casualty			Life and Health			Fraternal	
	Domestic	Foreign		Domestic	Foreign		Domestic	Foreign
1960	43	404		20	174		3	39
1965	35	405		37	250		2	40
1970	34	381		38	290		2	40
1975	33	396		28	359		2	41
1980	36	496		32	493		2	39
1985	35	582		33	611		2	35
1991	44	693		30	692		2	35
1999	45	800		28	542		1	33
2005	36	907		39	615		1	34
2008	47	1020		42	635		1	35

Source: Nebraska Department of Economic Development, Nebraska Statistical Handbook, 1984-1985. Nebraska Department of Insurance, Summary of Insurance Business in Nebraska For the Year 2008.

Summary

Nebraska is among the U.S. leaders in terms of the growth of its insurance industry. Further, our high level view of the insurance industry in Nebraska has demonstrated that the insurance industry is an important component of Nebraska's economic development. The industry pays high wages, exports ser-

vices and has been a "growth" industry for the state of Nebraska. Subsequent sections of this report examine how the impact of the insurance industry contributes to the Nebraska economy. This is achieved by calculating the economic impact of the insurance industry on the state of Nebraska.

Chapter 2

Measuring the Economic Impact of the Insurance Industry

Introduction

It was clear from the location quotient (LQ) analysis in Chapter 1 that a large share of Nebraska's insurance industry revenues derive from funds from outside of the state. Thus, the insurance industry creates new spending in the state. These new dollars are considered net injections and are thus very powerful direct income and job generators. The impact that the insurance industry has on the community begins with these direct impacts, and grows to include indirect and induced impacts.

The revenue of insurance firms is the direct impact of the Nebraska insurance industry. This direct impact, in turn, drives additional economic activity in the state economy through the spending of insurance business and insurance industry employees. Large portions of insurance industry expenditures are made within the state economy. The portion spent locally increases economic activity in the state. Specifically, insurance businesses make purchase from suppliers and service providers, many of which are located in Nebraska. These

are the indirect impacts. Further, the employees of Nebraska insurance businesses spend their paychecks on the various components of household spending on food, retail items, rent or mortgage payments, insurance, personal services, entertainment and recreation; again primarily within Nebraska. These are the induced impacts. The indirect and induced impacts are collectively known as the multiplier impact. All of this spending implies additional economic activity in businesses throughout the economy. The total economic impact is the sum of the direct spending and the multiplier impact.

Various regional economic impact models can be used to calculate multiplier effects. The three most common types of impact models are economic base, econometric, and input-output (I-O). Two of the three impact models have inherent disadvantages that markedly reduce their viability for estimating the impact of spending on the economy.

Economic Base Model. The economic base model divides the economy into two sectors - the local/service sector and the export sector. The economic base multiplier is an average for all the economy making it impossible to distinguish, for example, the impact of retail spending from that of a new manufacturing plant.

Econometric Models. Econometric models have two major weaknesses. First, the time series data used in constructing econometric models are often unavailable even at the state level. Second, econometric models are costly to build and maintain.

Input-Output (I-O) Models. I-O models are the most frequently used types of analysis tool for economic impact assessment. Input-output is a simple, general equilibrium approach based on an accounting system of injections and leakages. Input-output analysis assumes that each sector purchases supplies from other sectors and then sells its output to other sectors and/or final consumers.

Historically, high development costs precluded the extensive use of I-O models in regional impact analysis. However, with the advent of "ready-made" multipliers produced by third par-

ties such as the U.S. Forestry Service, I-O multipliers became a much more viable option for performing impact analysis.

All purely non-survey techniques or "ready-made" multipliers take a national I-O table as a first approximation of regional inter-industry relationships. The national table is then made region-specific by removing those input requirements that are not produced in the region. This study will use the most widely recognized "ready-made" multiplier system, IMPLAN Multipliers.

IMPLAN Multipliers

The Forestry Service of the U.S. Department of Agriculture developed the IMPLAN multipliers in the 1980s (U.S. Forest Service, 1985). For very populous areas, IMPLAN divides the economy into approximately 500 industrial sectors. Industries that do not exist in the state are automatically eliminated during user construction of the model (e.g. coal mining in Nebraska). IMPLAN uses an industry-based methodology to derive its input-out coefficients and multipliers. Primary sources for data are *County Business Patterns* and Bureau of Economic Analysis.

Researchers have used IMPLAN to estimate the impact of changes in

military spending on the Washington State economy (Hughes, et. al, 1991).⁸ IMPLAN and RIMS (Regional Input-Output Modeling System) are two of the most widely used multiplier models. IMPLAN has been compared to other multiplier systems and found to produce reliable estimates (Richman and Schwer, 1993). Likewise, Crihfield and Campbell (1991), in estimating the impacts of opening an automobile assembly plant, concluded that IMPLAN's outcomes are, on balance, somewhat more accurate than RIMS.

IMPLAN multipliers possess these advantages over other I-O Multiplier Systems:

1. Price changes are accounted for in the creation of the multipliers.
2. Employment increases or decreases are assumed to produce immediate In- or out-migration.

⁸ *Data and software:* Minnesota IMPLAN Group, Inc., IMPLAN System (data and software), 1725 Tower Drive West, Suite 140, Stillwater, MN 55082. www.implan.com.

Factors that Determine the Magnitude of Economic Multipliers

Economic multipliers occur as income circulates within a state economy, creating additional sales, employment, and worker earnings. The magnitude of the multiplier depends on the degree to which state businesses and households spend within the state, and the extent to which their spending leaks over to purchases in other states. The magnitude of economic multipliers declines as the amount of "leakage" to other states rises. There are three factors that determine the size of the spillover effect.

Location. Distance to suppliers affects willingness to purchase within the state. If state firms are unable to provide many of the supplies at competitive prices and there are alternative suppliers in a nearby state who are more price-competitive, then insurance businesses will be encouraged to spend outside the state. This results in greater leakages, lowering economic multipliers and economic impacts.

Population size. A larger population provides more opportunities for companies and workers to purchase within the state. States with a larger population have a greater number and

variety of businesses, making it more likely that a competitive supplier is located within the state. Therefore, larger population states are associated with fewer leakages and larger multipliers.

Clustering. A state will gain more if the inputs required by state industries for production match state resources and are purchased within the state. Thus, over time, as new supplier firms are created to match the requirements of the insurance industry, leakages will be fewer, resulting in larger multipliers and impacts. This issue is at the heart of economic develop-

ment, amplifying the impacts of the clustering of facilities, investment and jobs. As a community gains more and more insurance businesses, suppliers critical to the industry are more likely to locate within the state.

The next chapter of this study provides the estimated impact of the insurance industry on metropolitan and non-metropolitan Nebraska using the Implan Multiplier System.

Chapter 3

Estimated Impacts of the Insurance Industry

Introduction

Table 3.1 summarizes estimated direct insurance industry premiums that flowed into the Nebraska economy for 1965, 2005, and 2009 along with annual growth rates by period. The total was \$8.3 billion in 2009. Total premiums grew at a compound annual growth of 8.2 percent between 1965 and 2005, but by

... direct benefits for the Nebraska taxpayer include the receipt of sales taxes on purchases by insurance firms in the state.

only 3.0 percent between 2005 and 2009. This has meant that as a share of the state's gross state product, insurance premiums grew from 8.2 percent in 1965 to 10.5 percent in 2005, but then declined to 9.9 percent of GSP by 2009. Within the insurance industry, the downturn in growth between the two periods was due to a decline in property and casualty premiums where annual growth fell from 10.3 percent to -5.1 percent.

Insurance industry revenues derived from services and products provided to "out-of-area" customers are considered export revenues from the state perspective. These revenues add to community income by creating sales, wages and jobs for the state.⁹

The insurance industry produces benefits for the Nebraska taxpayer, both directly and indirectly. For example, the direct benefits for the Nebraska taxpayer include the receipt of sales taxes on direct purchases by insurance firms in the state. The industry then spends this

⁹Implan data show that approximately 68 percent of insurance carrier spending occurs in Nebraska while roughly 40 percent of insurance broker and agency spending occurs in the state. The remaining proportion is assumed to be spent outside the state thus having no impact on the state of Nebraska. These local or regional purchasing coefficients (RPCs) are provided by the Implan Group. Data also show that approximately 52 percent of premiums received by Nebraska insurance companies, or \$3.8 billion represent net exports of insurance to other states and countries. In the subsequent sections of this chapter, impacts are provided by geographic area, by industry and by insurance sector. Estimated impacts contained in this chapter take into account purchases by Nebraska firms which take place outside the state (leakages).

revenue and provides insurance settlements in and outside the state. This direct spending creates spillover spending termed indirect and induced impacts.

To estimate overall direct and spillover impacts, the IMPLAN multipliers are applied to insurance industry revenues brought about by yearly operations as listed in Table 3.1.

Table 3.1: Gross Premium Receipts (1000s \$) by Nebraska Insurance Companies, 1965, 2005, and 2009

Product	1965	2005	2009	Compound annual Growth rate	
				1965-2005	2005-2009
Life insurance premiums	\$115,022,000	\$811,392,000	\$ 930,833,000	5.6%	3.5%
Annuity premiums	\$9,512,000	\$1,387,789,000	\$1,707,300,000	14.8%	5.3%
Accident & health	\$141,901,000	\$1,024,052,205	\$ 2,281,119,464	5.6%	22.2%
Property and casualty	\$120,441,000	\$4,119,662,000	\$3,344,232,000	10.3%	-5.1%
Total premiums	\$386,876,000	\$7,342,895,205	\$8,263,484,464	8.5%	3.0%
Premiums as % of GDP-1965	8.2%				
Premiums as % of GDP-2005	10.5%				
Premiums as %of GDP-2009	9.9%				

Impacts by Geographic Area

A summary of the estimated impacts is listed in Table 3.2. These estimates show that in 2010 approximately 56,405 Nebraska jobs are supported by insurance Industry spending. The 56,405 jobs added over \$2.6 billion in wages and salaries, and roughly \$10.3 billion in total sales for the state. Impacts also are listed for three regions of the state: Lincoln, Omaha,

and the rest of the state. More than two-thirds of the impacts are concentrated in the Omaha area.¹⁰

¹⁰Estimates contained in this chapter take into account purchases by Nebraska firms, which take place outside the state (leakages).

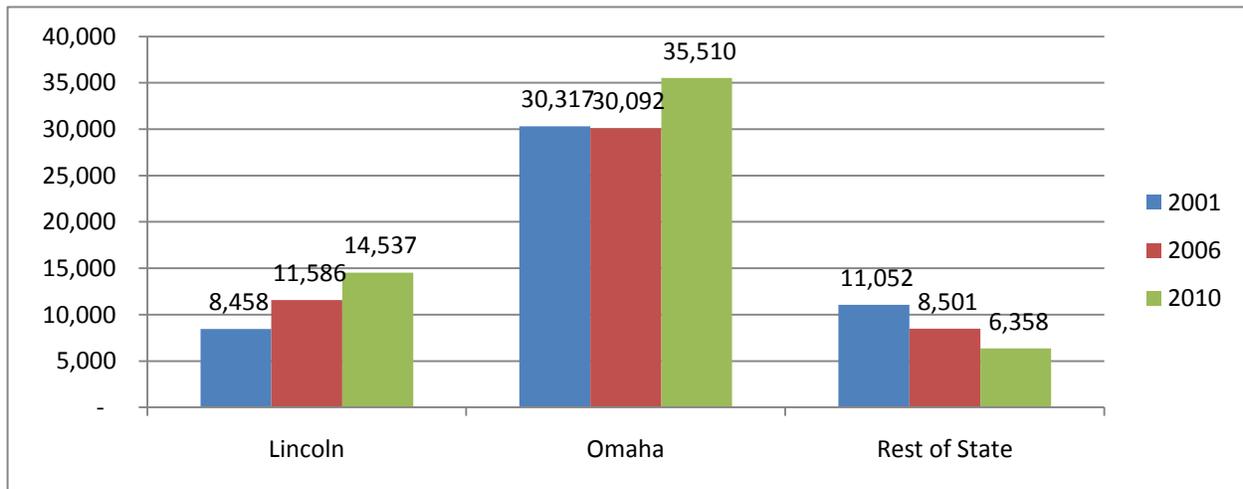
Figures 3.1 through 3.4 provide a visual display of the information in Table 3.2, and also show growth between 2001, 2006, and 2010. Between 2006 and 2010, employment in Lincoln rose from 11,586 to 14,537 and in Omaha from 30,092 to 35,510. Employment declined in the rest of the state from 8,501 to

6,358. In terms of wages and salaries between 2006 and 2010, impacts grew from \$421 million to \$626 million in Lincoln, advanced from \$1.4 billion to \$1.9 billion in Omaha, and declined from \$205 million to \$115 million in the rest of the state.

Table 3.2: Impacts for 2010 by Area of State¹¹

	Lincoln	Omaha	Rest of State	Total
Output or sales	\$2,540,984,321	\$7,026,278,159	\$712,253,660	\$10,279,516,141
Wages & salaries	\$626,026,456	\$1,865,650,190	\$115,752,052	\$2,607,428,697
Self-employment income	\$46,679,743	\$143,202,419	\$28,996,798	\$218,878,960
Jobs	14,537	35,510	6,358	56,405

Figure 3.1: Jobs Supported by Area Each Year by Insurance Industry Spending



¹¹Estimates for 2009 are adjusted for inflation to produce 2010 numbers.

Figure 3.2: Wages & Salaries Created by Area by Nebraska Insurance Industry, 2001, 2006 & 2010 (in millions)

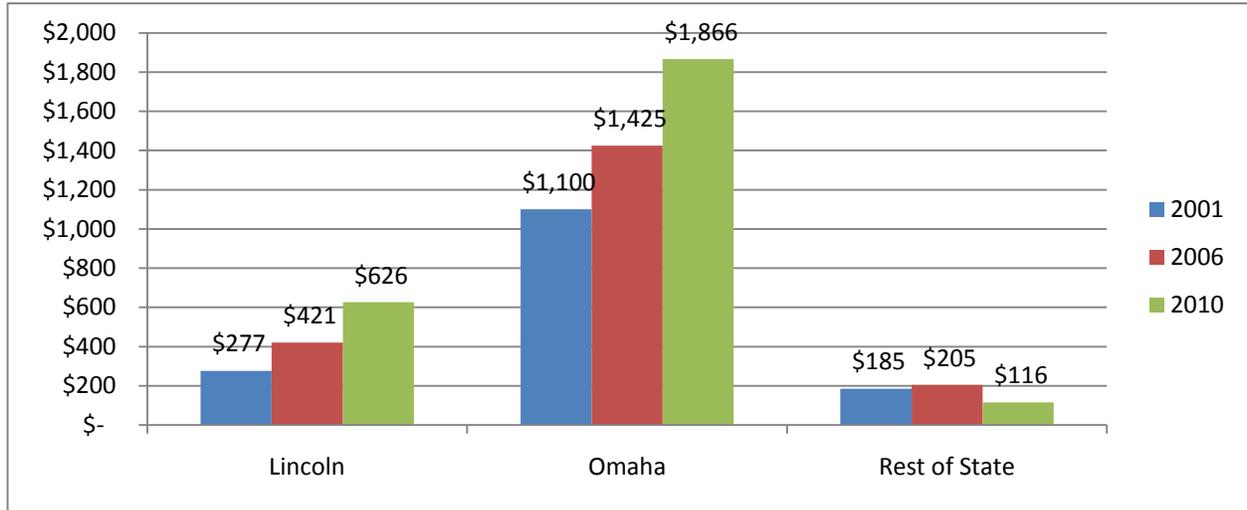
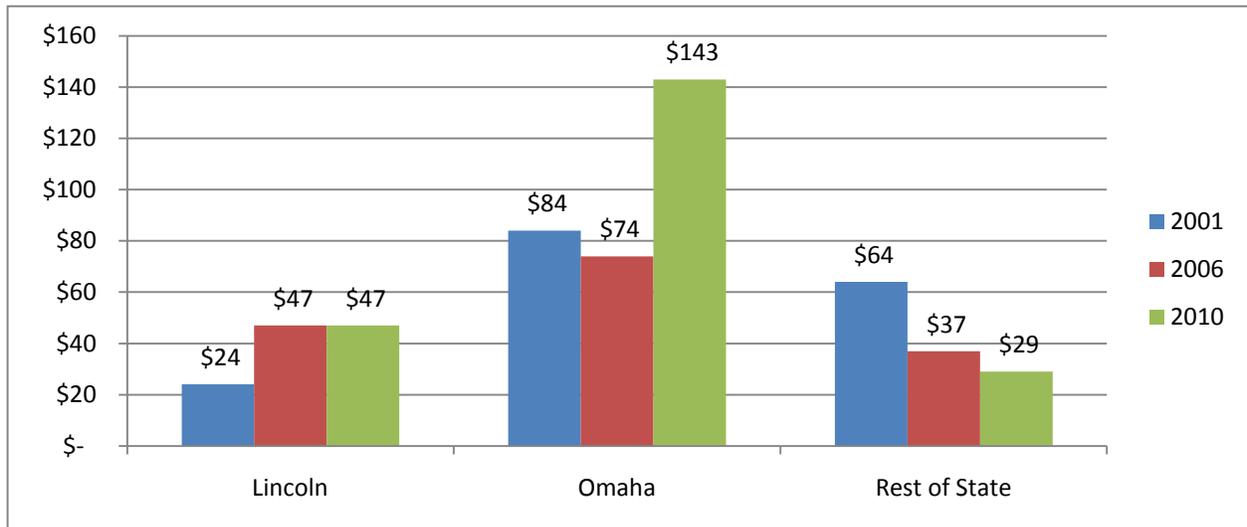


Figure 3.3: Self employment Income Created by Area by Nebraska Insurance Industry, 2001,2006 &2010 (in millions)



**Figure 3.4: Sales & Revenues Created by
Nebraska Insurance Industry, 2001,2006 &2010 (in millions)**

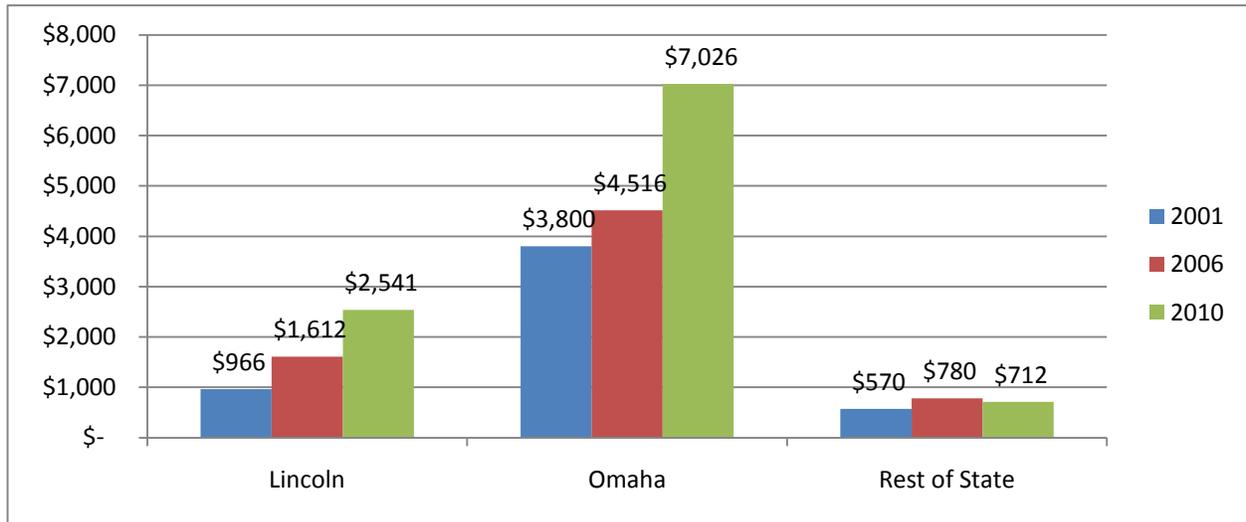


Figure 3.3 shows trends in self-employment income. Data in Figure 3.4 indicate overall output from 2006-2010 grew from \$1.6 billion to \$2.5 billion in Lincoln, from \$4.5 billion to \$7.0 billion in Omaha and decreased from \$780 million to \$712 million in the rest of the state. Thus between 2006 and 2010, the insurance industry increased its overall impact in Lincoln by 57.6 percent, and in Omaha by 55.6 percent. The industry's overall impact in the rest of the state fell by 8.7 percent.

Figures 3.1 through 3.4 showed that insurance industry impacts were concentrated in Omaha and Lincoln. But, impacts occurred throughout the

state. To demonstrate this, Table 3.3 lists the industry impacts by legislative district.

As indicated, District 35, which includes Grand Island, received the largest impact with 1,046 jobs, \$19.0 million of wages and salaries and \$117.2 million in sales. District 17, which includes South Sioux City, experienced the second largest impact with 994 jobs, \$18.1 million in wages and salaries and \$111.4 million in sales. District 33, which includes Hastings, enjoyed the third largest impact at 546 jobs, \$9.9 million in wages and salaries and \$61.1 million in sales.

Table 3.3: Impacts by Senatorial District Outside of Lincoln and Omaha

	Output	Earnings	Self-employment Income	Jobs
District 1	\$28,137,579	\$4,572,785	\$1,145,518	251.2
District 15	\$17,628,363	\$2,864,877	\$717,674	157.4
District 16	\$17,289,356	\$2,809,783	\$703,873	154.3
District 17	\$111,363,792	\$18,098,310	\$4,533,769	994.1
District 19	\$38,138,285	\$6,198,051	\$1,552,661	340.4
District 22	\$20,340,419	\$3,305,627	\$828,086	181.6
District 23	\$18,136,873	\$2,947,518	\$738,376	161.9
District 24	\$24,747,509	\$4,021,847	\$1,007,504	220.9
District 30	\$8,475,174	\$1,377,345	\$345,036	75.7
District 32	\$17,119,852	\$2,782,236	\$696,972	152.8
District 33	\$61,106,008	\$9,930,656	\$2,487,707	545.5
District 34	\$18,475,880	\$3,002,612	\$752,178	164.9
District 35	\$117,211,663	\$19,048,678	\$4,771,843	1,046.3
District 36	\$15,043,435	\$2,444,787	\$612,438	134.3
District 37	\$23,942,368	\$3,890,999	\$974,726	213.7
District 38	\$27,968,076	\$4,545,238	\$1,138,618	249.7
District 40	\$23,221,978	\$3,773,925	\$945,398	207.3
District 41	\$18,645,384	\$3,030,158	\$759,078	166.4
District 42	\$16,272,335	\$2,644,502	\$662,468	145.3
District 43	\$18,645,384	\$3,030,158	\$759,078	166.4
District 44	\$19,662,405	\$3,195,440	\$800,483	175.5
District 47	\$16,780,845	\$2,727,143	\$683,171	149.8
District 48	\$12,967,017	\$2,107,337	\$527,905	115.8
District 49	\$20,933,681	\$3,402,042	\$852,238	186.9
Totals outside Omaha & Lincoln	\$712,253,660	\$115,752,052	\$28,996,798	6,358.0

Impacts by Industry

Table 3.4 shows 2010 impacts broken down by industry. Of the 56,405 total jobs supported, the real estate industry is the major recipient industry,

... approximately 56,405 Nebraska jobs are supported for 2010 by insurance industry spending.

outside of insurance, with 2,180 jobs supported indirectly in 2010 by insurance industry premiums. As presented in Table 3.4 insurance industry spending had the largest wage & salary spillover impact on the Offices of physicians, dentists, and other health practitioners industry with more than \$47.6 million in wages and salaries created for 2010.

Data in Table 3.4 show that the insurance industry supports 24,350 spillover jobs for 2010. This means that for every ten insurance job created in the state by the insurance industry another 7.6 jobs are supported in spillover industries in the state.

Table 3.5 lists average salary per spillover job created by insurance industry spending in the state of Nebraska.

The top earning industries in terms of wages and salaries per job were management consulting at \$97,880, and telecommunications at \$64,098. The average salary per job supported by insurance industry spending was \$46,226 which is significantly above the average pay for all private jobs in Nebraska of \$37,696.¹²

¹²Total wages and salaries were \$37,527,418,000 for 995,523 jobs (2008, U.S. Bureau of Economic Analysis).

Table 3.4: Impacts by Industry, 2010

	Output	Wages & Salaries	Self-employment income	Jobs
Insurance carriers, agencies, brokerages, and related activities	\$7,476,002,688	\$1,813,130,752	\$110,139,566	32,056
Monetary authorities and depository credit intermediation activities	\$191,043,504	\$47,259,016	\$3,749,985	955
Securities, commodity contracts, investments, and related activities	\$150,593,904	\$42,211,704	\$5,565,929	1,096
Real estate establishments	\$111,659,376	\$31,727,238	\$1,559,565	2,180
Food services and drinking places	\$111,420,648	\$10,085,943	\$7,549,521	928
Offices of physicians, dentists, and other health practitioners	\$98,024,280	\$47,621,924	\$8,761,671	793
Wholesale trade businesses	\$97,389,408	\$32,828,512	\$4,810,894	573
Private hospitals	\$93,903,128	\$43,428,168	\$392,882	842
Legal services	\$89,084,368	\$33,018,532	\$7,960,695	715
Telecommunications	\$83,539,560	\$12,076,119	\$112,409	188
Accounting, tax preparation, bookkeeping, and payroll services	\$76,636,672	\$30,078,254	\$7,222,967	795
Management of companies and enterprises	\$69,227,472	\$29,128,956	-	298
Cable and other subscription programming	\$68,423,168	\$2,764,463	\$1,943,341	60
Nondepository credit intermediation and related activities	\$66,334,464	\$24,055,290	\$1,859,637	382
Employment services	\$60,247,304	\$38,368,480	\$2,339,054	1,598
Funds, trusts, and other financial vehicles	\$58,817,856	\$4,811,210	\$304,992	152
Management, scientific, and technical consulting services	\$54,512,468	\$20,435,780	\$5,078,222	364
Travel arrangement and reservation services	\$45,410,336	\$11,718,996	\$1,016,256	413
Advertising and related services	\$36,864,932	\$11,662,187	\$2,604,815	322
Retail Stores - Food and beverage	\$31,156,194	\$11,188,909	\$1,455,321	563
All Other	\$1,209,224,339	\$309,828,264	\$44,451,239	11,133
Total	10,279,516,069	2,607,428,697	218,878,960	56,405.5

Table 3.5: Average pay of jobs created by insurance spending by industry, 2010¹³

	Average 2010 pay
Insurance carriers, agencies, brokerages, and related activities	\$ 56,562
Monetary authorities and depository credit intermediation activities	\$ 49,501
Securities, commodity contracts, investments, and related activities	\$ 38,528
Real estate establishments	\$ 14,554
Food services and drinking places	\$ 10,871
Offices of physicians, dentists, and other health practitioners	\$ 60,030
Wholesale trade businesses	\$ 57,312
Private hospitals	\$ 51,559
Legal services	\$ 46,167
Telecommunications	\$ 64,098
Accounting, tax preparation, bookkeeping, and payroll services	\$ 37,825
Management of companies and enterprises	\$ 97,880
Cable and other subscription programming	\$ 45,769
Nondepository credit intermediation and related activities	\$ 63,038
Employment services	\$ 24,016
Funds, trusts, and other financial vehicles	\$ 31,674
Management, scientific, and technical consulting services	\$ 56,081
Travel arrangement and reservation services	\$ 28,368
Advertising and related services	\$ 36,207
Retail Stores - Food and beverage	\$ 19,888
All Other	\$ 27,829
Total	\$ 46,226

¹³Average pay by industry may differ substantially due to differences in the ratio of part-time to full-time workers by industry.

Impacts by Insurance Sector

Table 3.6 lists impacts by insurance sector. As presented, jobs sup-

ported by premiums were 22,827 jobs in property and casualty premiums, 11,654 jobs in annuity, 15,570 in accident and health and 6,354 in life insurance.

Table 3.6: Impacts by Insurance Sector, 2010

	Life insurance	Annuity	Accident & health	Property and casualty	Total
Output	1,157,927,130	2,123,827,785	2,837,641,246	4,160,119,980	10,279,516,141
Wages & salaries	293,711,531	538,714,998	719,775,826	1,055,226,342	2,607,428,697
Self-employment income	24,655,430	45,222,091	60,421,128	88,580,311	218,878,960
Jobs	6,354	11,654	15,570	22,827	56,405

Comparison with Other Major Nebraska Industries

Agricultural and manufacturing are considered by some to be the pre-eminent industries in Nebraska. However, a broader view would suggest that the insurance industry is also among the major industries supporting the state of Nebraska. The same could be said of the transportation sector. In this section, we compare the annual economic impact on Nebraska of the insurance industry, and the impact of agriculture, manufacturing, and transportation. Economic impacts for the other three

industries also were calculated for 2010 using the Implan Model and current employment and gross state product data for each industry from the U.S. Department of Labor and the U.S. Bureau of Economic Analysis. We also utilized data from the Nebraska Department of Agriculture for the agricultural sector. Table 3.7 compares the total economic impact of each of the four industries. Results in Table 3.7 indicate that the insurance industry belongs with the other major Nebraska industries. The insurance industry is smaller than the other three key industries but it is clearly of the same order of magnitude as these major Nebraska industries.

Table 3.7: Economic Impact of Major Nebraska Industries, 2010

	Industry			
	Insurance	Transportation	Agriculture	Manufacturing
Output (Billions \$)	\$10.3	\$13.3	\$28.6	\$63.5
Jobs	56,405	86,100	119,500	234,700

Source: U.S. Bureau of Economic Analysis, U.S. Bureau of Labor Statistics, Nebraska Department of Agriculture, and the Implan Multiplier System.

Impact on Tax Collections

Economic activity leads to tax revenue. In this section, we consider the tax revenue impact of the insurance industry. Table 3.8 lists taxes and fees paid directly to the insurance department. The insurance industry in Nebraska contributes heavily to not only the Department through fees, but to the state and local governments in terms of premium taxes. Table 3.8 demonstrates the growth in fees and taxes paid during the period from 1964 to 2009. Total fees grew at a compound annual rate of 9.5 percent and total taxes expanded at a compound annual rate of 6.1 percent.

Total taxes and fees advanced at a compound annual rate of 6.4 percent between 1964 and 2009. In addition to taxes paid directly by the insurance in-

...for 2010 the insurance Industry will produce approximately \$413 million in tax collections and fees, not including school taxes, for state and local governments in Nebraska.

dustry to the Department of Insurance, insurance industry spending produces state and local taxes ranging from sales to dividend taxes.

Table 3.8: Taxes and Fees Paid Directly To Insurance Department

Year	Premium Taxes	Fire Marshall Taxes	Total Taxes	License & Miscellaneous Fees	Company Exam Fees	Total Fees
1964	\$5,046,148	\$83,405	\$5,394,086	\$162,227	\$102,406	\$264,633
1974	\$11,891,669	\$194,336	\$12,798,054	\$448,005	\$264,044	\$712,049
1984	\$28,398,815	\$759,272	\$31,475,254	\$1,623,769	\$693,398	\$2,317,167
1991	\$37,314,644	\$1,023,273	\$42,153,169	\$2,732,519	\$1,082,733	\$3,815,252
2001	\$47,349,978	\$1,678,306	\$52,153,786	\$6,320,466	\$1,250,234	\$7,570,700
2005	\$46,338,663	\$2,509,440	\$53,093,739	\$9,282,245	\$2,784,526	\$12,066,771
2006	\$49,640,945	\$2,795,000	\$59,690,813	\$9,610,863	\$3,535,406	\$13,146,269
2007	\$46,471,859	\$2,799,315	\$77,834,559	\$9,648,048	\$3,733,932	\$13,381,980
2008	\$49,780,810	\$2,638,324	\$75,800,992	\$10,127,114	\$2,172,855	\$12,299,969
2009	\$45,954,839	\$2,783,783	\$78,532,752	\$10,704,303	\$4,709,450	\$15,413,753

Source: Nebraska Department of Insurance, *Summary of Insurance Business in Nebraska For the Years 1999-2009*.

Tables 3.9 and 3.10 present estimated state and local tax collections generated for 2010. Tax impacts for 2001 and 2006 are also added to Table 3.10 for comparison. According to estimates using the IMPLAN multipliers, for 2010 the insurance industry will produce, directly and indirectly, approximately \$413 million in tax collections for state and local governments in Nebraska. This number does not include taxes that support K-12 schools in the state. Depending on the school district, this tax impact could be considerable.

Summary

Results presented in this chapter show the importance of the insurance industry in producing jobs, sales, income and taxes in the state. Results show that for every ten jobs created in insurance there is another 7.6 jobs in spillover industries. Every \$1,000,000 in additional Nebraska insurance premiums creates approximately \$1.8 million in overall economic activity, \$450 thousand in wages/salaries, \$38 thousand in self-employment income, \$71 thousand in state and local taxes and 9.7 jobs.

Table 3.9: Tax Impacts for 2010 By Area of State

Area of	Impact
Omaha	\$288,669,662
Lincoln	\$101,908,700
Rest of State	\$22,585,690
Total State & Local Taxes	\$413,164,052
Other Taxes & Fees Paid Directly By Insurance Industry (see Table 3.8)	\$93,946,505
Total Taxes and Fees Created and/or Paid By the Insurance Industry	\$507,110,557

Table 3.10: State & Local Taxes Created by Nebraska's Insurance Industry 2001, 2006, 2010

Types of Tax	2001	2006	2010
Corporate Profits Tax	\$7,294,574	\$6,583,584	\$14,552,187
Dividends	\$2,576,862	\$15,679,553	\$22,615,360
Indirect Bus Tax: Motor Vehicle License	\$1,607,857	\$1,762,773	\$2,507,829
Indirect Bus Tax: Other Taxes	\$7,971,242	\$14,306,202	\$20,694,332
Indirect Bus Tax: Property Tax	\$92,824,951	\$79,740,897	\$126,435,512
Indirect Bus Tax: S/L Non-Taxes	\$12,558,751	\$24,345,279	\$41,503,128
Indirect Bus Tax: Sales Tax	\$87,263,569	\$104,951,360	\$121,865,576
Indirect Bus Tax: Severance Tax	\$96,086	\$80,819	\$293,924
Personal Tax: Estate and Gift Tax	\$361,343	\$0	\$0
Personal Tax: Income Tax	\$30,503,604	\$39,131,430	\$48,690,208
Personal Tax: Motor Vehicle License	\$2,086,487	\$2,511,937	\$2,498,200
Personal Tax: Non-Taxes (Fines- Fees)	\$928,246	\$1,130,406	\$2,000,819
Personal Tax: Other Tax (Fish/Hunt)	\$791,472	\$1,411,575	\$1,748,054
Personal Tax: Property Taxes	\$893,041	\$1,214,442	\$1,337,898
Other taxes (unemployment insurance, etc)	\$18,029,651	\$3,569,211	\$6,421,025

Chapter 4

Nebraska's Insurance Industry: Contributions to Brain Gain

Introduction

In the previous three Chapters we established that the Nebraska insurance industry has a substantial economic impact on the state, that the industry pays above average wages, and that the industry continues to grow. All three findings strongly suggest that the industry creates substantial opportunities for Nebraska workers. The magnitude and nature of these opportunities is examined in more detail in this Chapter. In particular, we examine the ability of the Nebraska insurance industry to create new job opportunities within the state through net job growth, and through retirements or other types of separations of the existing workforce. We also consider the nature of these job opportuni-

... the insurance industry contributes to "brain gain" in the Nebraska.

ties in terms of education requirements and skills, and the related potential of the industry to create job opportunities for young Nebraskans. The latter issue is particularly important in a state like Nebraska that is affected by "brain drain"

or the net loss of younger, educated workers to other states. In particular, by creating many high wage job opportunities each year with significant skill requirements, the industry may help retain young education workers within the state. In this sense, the insurance industry contributes to "brain gain" in Nebraska.

In the next section of the report we estimate the annual number of job openings that will occur in the Nebraska insurance industry over the next decade. In the last section, we consider the skill requirements of new job opportunities in the Nebraska insurance industry. We specifically seek to identify occupations that hire workers with post-secondary education. Throughout this chapter, we also report on a series of interviews we conducted with Nebraska insurance executives.

Net Job Openings in the Nebraska Insurance Industry

Job openings in an economy flow from two sources. Job openings naturally result when an industry expands and requires an increase in the number of workers. Net job openings also occur when existing industry employees leave the industry through retirement, death, or disability. We examine both net job growth and net job opportunities from retirement, beginning with openings due to net job growth.

The Labor Market Information Division of the Nebraska Department of Labor produced an employment Forecast from 2008 to 2018 for most Nebraska industries, including Insurance Carriers and Related Services. The projection called for a steady expansion of the insurance industry, with a cumulative 6.3% employment increase, or nearly 2,000 jobs from 2008 to 2018. This Ne-

braska outlook compares favorably with the national projection for the industry, which anticipated 3.0% job growth. Annually, the industry is projected to add 200 new net jobs, as indicated below in Table 4.1.

This net increase in employment provides one source of job opportunities within the insurance industry. The other source is turnover among existing employees within the industry. In particular, we are interested in permanent exits of employees from the industry, as opposed to quits or lay-offs. In the latter case, workers remain eligible within the pool of employees in the industry in Nebraska. Data on exits is gathered from the Job Openings and Labor Turnover Survey (JOLTS) of the U.S. Department of Labor. The survey gathers data on the number and frequency of separations within industries and the reasons for the separations.

Table 4.1: Net Projected Job Growth in Nebraska for Insurance Carriers and Related Services, 2008-2018

	Cumulative Job Creation 2008-2018		Annual Average Job Creation 2008-2018	
	Number of Jobs	Percent Growth	Number of Jobs	Percent Growth
Nebraska	1,991	6.3%	199	0.6%

Source: Nebraska Department of Labor, Labor Market Information Division.

Reasons for separation include quits, layoffs, and other separations. The “other separations” category in JOLTS closely matches our needs since it includes retirements, deaths, separations due to employee disability and transfers to other locations (which could be out of state). With the occasional exception of transfers, each of these “other separation” sub-categories reflects a case where there would need to be a net new worker entering the industry in Nebraska. The JOLTS survey produces separation rates by industry at the national level. Data for the last 5 years, from September 2005 through August 2010, suggest that the average annual rate for “other separations” is 3.16% in the finance and insurance industry. This separation rate should be applied to the total number of workers in the Nebraska insurance industry in order to estimate the annual number of such separations per year.

Based on monthly data from the U.S. Bureau of Labor Statistics through September 2010, and projections of October through December 2010 data, it is estimated that the annual average employment in the Nebraska insurance industry in 2010 will be 31,100. Applying the “other separations” rate to this level

of employment implies 982 persons exiting the industry in the state each year due to retirement, death, disability, or transfer to another facility (which may be located in another state). In other words, there would need to be 982 new, replacement workers each year, as indicated in Table 4.2.¹⁴ Adding the 199 new workers due to net industry job growth, these results suggest that the industry would generate 1,181 jobs for new workers in a given year. Many of these opportunities could be available to recent graduates.

Indeed, our interviews with insurance industry executives confirmed that the majority of new hires, from 65% to 90%, were graduates of Nebraska universities, colleges, community colleges, and high schools.

¹⁴ There could be additional losses of industry workers if workers who quit (but don't retire) or suffer a layoff quit the insurance industry and join another industry. However, there could be workers that quit other industries to join the insurance industry. We assume that in long-run equilibrium these cross-industry movements will net to zero. That is why we focus on the need for 982 new workers due to retirements, deaths, disability or transfers.

Table 4.2: Estimated Annual “Other Separations” in the Nebraska Insurance Industries

	Net Losses From Industry Employment, 2010		Annual Need for Additional Workers	
	Number of Jobs	Annual “Other Separations” Rate	Due to “Other Separations”	Including Net Job Growth
Nebraska	31,100	6.3%	982	1,181

Source: Nebraska Department of Labor, Labor Market Information Division.

Many of these new openings would occur in the most common insurance industry occupations such as: 1) customer service representatives; 2) insurance claims and policy processing clerks; 3) insurance sales agents; 4) claims adjusters, examiners, and investigators; 5) insurance underwriters, and others, as indicated in Table 4.3. In all, Table 4.3 lists the top 10 occupations in the insurance industry nationwide. These top 10 occupations account for 62.6% of all jobs in the industry.

Focusing on most common occupation, nearly one in eight workers (12.4%) nationwide were customer service representatives. Based on national ratios, we estimate that there were

nearly 4,000 such jobs within the Nebraska insurance industry in 2009. There were nearly an identical number of jobs for insurance claims and policy processing clerks. Together, these two occupations account for approximately 25% of insurance industry jobs, or an estimated 8,000 jobs in Nebraska. More generally, the industry creates a mix of employment opportunities for persons with a high school degree, associate's degree/vocational training, or a bachelor's degree. Table 4.3 lists the typical education of workers in each of the top 10 occupations. However, workers in each occupation naturally have a variety of educational background.

Table 4.3: Top Ten Occupations in Nebraska for Insurance Carriers and Related Services

Name of Occupation	Number of Jobs	Percent of Jobs	Education	Job Zone
Customer Service Representatives	3,935	12.4%	H.S. Diploma	Some Preparation
Insurance Claims and Policy Processing Clerks	3,926	12.3%	H.S. Diploma	Some Preparation
Insurance Sales Agents	2,877	9.0%	Bachelor's Degree	Considerable Preparation
Claims Adjusters, Examiners, and Investigators	2,509	7.9%	Bachelor's or Some College	Medium Preparation
Insurance Underwriters	1,803	5.7%	Bachelor's	Considerable Preparation
Office Clerks, General	1,243	3.9%	H.S. Diploma	Some Preparation
First-line Supervisors/Managers of Office and Administrative Support Workers	1,033	3.2%	Associate's Degree	Medium Preparation
Secretaries, Except Legal, Medical, and Executive	973	3.1%	H.S. Diploma	Some Preparation
Bookkeeping, Accounting and Auditing Clerks	809	2.5%	Associate's Degree	Medium Preparation
Business Operations Specialists, All Others	637	2.0%	Associate's Degree	Medium Preparation

Source: Nebraska Department of Labor, Labor Market Information Division and U.S. Bureau of Labor Statistics (O*NET Center Online)

Results from Table 4.3 suggest that 22.6% of the 62.6% of jobs listed in Table 4.3 require a bachelor's degree, while 7.7% (of 62.6%) require an associate's degree. About half of the jobs (31.7% of 62.6%) require a high school diploma. These results suggest that the insurance industry creates job openings for Nebraskan's with a variety of educational backgrounds including many jobs for college graduates and high school

graduates, and, a significant number of jobs for associate degree graduates.

The results in Table 4.3 suggest that the insurance industry offers a wide variety of opportunities for Nebraskan's at various skill levels. This is especially true given the earlier estimate that nearly 1,200 net new spots are expected to be available in the insurance industry each year. In particular, there may be a significant number of job openings available for young Nebraskan's with a

variety of educational backgrounds, including many jobs for young workers who have obtained post-secondary education. Therefore, these results show that the insurance industry has and can continue to create opportunities to keep young Nebraskan's in the state and contribute to "brain gain" among the educated workforce.

Such efforts a brain gain can be enhanced through efforts to improve education opportunities for young workers. In particular, in our interview with insurance industry executives, respondents expressed satisfaction with the quality of Nebraska workers. Executives also identified far more advantages for location in the State of Nebraska than disadvantages. The principal advantages included reasonable insurance taxes, a quality workforce with an interest in remaining in the region, and good schools at the primary, secondary and

post-secondary level. The primary concern among respondents was income and property tax rates in the state.

The executives also saw a number of advantages and opportunities for building the insurance industry workforce in Nebraska. Executives noted programs to train insurance industry workers such as the actuarial science program at the University of Nebraska-Lincoln and training programs offered by community colleges in both the Omaha and Lincoln areas. The executives also suggested that additional training programs be offered including increased information technology training for business students, and more coursework to inform students about issues central to the insurance industry. Such additional efforts to prepare Nebraska students for success in the insurance industry could further enhance brain gain in the State of Nebraska.

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Appendix 1

Biographies of Authors

ERNEST GOSS

Ernest Goss is currently the Jack MacAllister Chair in Regional Economics at Creighton University. He received his Ph.D. in Economics from The University of Tennessee in 1983 and is a former faculty research fellow at NASA's Marshall Space Flight Center. He was a visiting scholar with the Congressional Budget Office for 2003-04 and is a research fellow at the Theodore Roosevelt Institute. In the Fall of 2005, the Nebraska Attorney General appointed Goss to head a task force examining gasoline pricing in the state.

He has published over eighty research studies focusing primarily on economic forecasting and on the statistical analysis of business and economic data. His research paper entitled, "The Internet's Contribution to U.S. Productivity Growth," received the National Association of Business Economics Edmund A. Mennis Contributed Papers Award for 2001. His book, Changing Attitudes toward Economic Reform during the Yeltsin Era was published by Praeger Press in 2003 and his book Governing Fortune: Casino Gambling in America will be published by the University of Michigan Press in 2006.

He is a member of the Editorial Board of The Review of Regional Studies and editor of Economic Trends, an economics newsletter published three times per year. He is the past president of the Omaha Association of Business Economics, and President of the Nebraska Purchasing Management Association.

Goss produces a monthly business conditions index for the nine state Mid-American region and the three state Mountain region. He also conducts a survey of bank CEOs in seven Mid-American states. Survey results from all three surveys are cited each month in approximately 100 newspapers. Newspaper citations have included the New York Times, Wall Street Journal, Investors Business Daily, The Christian Science Monitor, Chicago Sun Times and other national and regional newspapers and magazines. Each month 75-100 radio stations carry his Regional Economic Report.

ERIC THOMPSON

Eric Thompson is an Associate Professor of Economics and the Director of the Bureau of Business Research at the University of Nebraska-Lincoln. Dr. Thompson's research on the Nebraska and national economy examines competitive factors affecting state and local economic growth, the impact of infrastructure on the economy, and economic development. In the 2008-09, Thompson served as the President of the Association for University Business and Economic Research. He is a past Editor of *Growth and Change: A Journal of Urban and Regional Policy* and is co-author of the 2008 book *Entrepreneurship in Nebraska: Conditions, Attitudes and Actions*. His research has appeared in the *Journal of Regional Science*, *Regional Science and Urban Economics*, and *American Journal of Agricultural Economics*.