

# ECONOMIC CONTRIBUTIONS OF THE CAPTIVE INSURANCE INDUSTRY IN VERMONT

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*Prepared by*



*In Partnership With*



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# Executive Summary

The Vermont Captive Insurance Association (VCIA), in partnership with the Vermont Agency of Commerce and Community Development (ACCD) and the Vermont Department of Financial Regulation (DFR) commissioned Economic and Policy Resources, Inc. (EPR) to assess the economic contribution of the Captive Insurance industry to the Vermont economy. This study was based on the most currently available year of published data (e.g. mostly for calendar year 2018) and the results of an industry survey of Vermont-based Captive management and professional services firms engaged in the management of Captive Insurance entities.<sup>1</sup>

## Summary Facts/Findings

- Vermont currently hosts 580 licensed Captive Insurance entities making it the largest U.S. domicile for captive insurance and the third largest Captive Insurance domicile in the world in 2017—as the latest year where comparable international data available (see Figure 1 below).

**FIGURE 1: TOP 10 GLOBAL CAPTIVE DOMICILES**

2017 Rank	Domicile	2017 Count
1	Bermuda	739
2	Cayman Islands	669
3	Vermont	566
4	Utah	480
5	Delaware	391
6	Guernsey	315
7	Barbados	266
8	Anguilla	258
9	Hawaii	230
10	North Carolina	220

*Source: Business Insurance Survey, Jan 2019*

- In 2018, Vermont-located Captive management and professional services firms—which form the State’s “Captive Insurance Industry”—made direct contributions to the Vermont economy totaling:
  - **407 jobs;**<sup>2</sup>
  - **\$37.26 million in labor income; and**
  - **\$95.90 million to the State Gross Domestic Product (GDP).**

<sup>1</sup> This survey was conducted by the Department of Financial Regulation during the Summer of 2019. A glossary of terms used is attached at the end of this report.

<sup>2</sup> Including full-time and part-time jobs.

- This study also found the total **direct, indirect, and induced** economic contributions of Vermont’s Captive Insurance Industry (including the effect of associated visitor spending activity) for calendar year 2018 including:
  - A total of **936 total full-time and part-time jobs** throughout the Vermont economy;
  - A total of **\$66.93 million in labor income**;
  - **\$158.43 million to State GDP**; and
  - **\$26.13 million of total Captive Insurance Premium Tax and License and Exam Fees** receipts.
- At least in part due to the significant economic benefits provided by this clean, higher-paying, financial services industry, states throughout the country have sought to replicate the success of Vermont’s Captive Insurance industry with varying degrees of success (see Figure 2 below).

**FIGURE 2: CURRENT TOP TEN U.S. CAPTIVE INSURANCE STATE DOMICILES, BY MARKET SHARE, 2008 vs. 2018<sup>3</sup>**

2018 Rank	Domicile	2018 Count	2018 US Market Share	2008 Count	2007 US Market Share
1	Vermont	580	18%	557	43%
2	Utah	443	14%	122	9%
3	Delaware	421	13%	41	3%
4	North Carolina	240	7%	0	0%
5	Hawaii	231	7%	165	13%
6	South Carolina	171	5%	156	12%
7	Tennessee	169	5%	3	0%
8	Nevada	156	5%	123	10%
9	Montana	129	4%	35	3%
10	Arizona	124	4%	106	8%
-	<b>United States Total</b>	3,224	-	1,285	-

*Source: businessinsurance.com*

- Figure 3 below highlights the significant and broad-based economic contributions of the Captive Insurance Industry across many parts of the State economy.
  - Significant economically direct and economically indirect output, job, and labor impacts can be found in roughly a dozen State industry sectors, along with significant tax revenue contributions made by the industry.

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<sup>3</sup> Vermont currently hosts 580 licensed Captive Insurance entities, making it the largest U.S. domicile at the end of 2018 (see Appendix A).

**FIGURE 3: SUMMARY OF ECONOMIC CONTRIBUTION OF CAPTIVE INDUSTRY TO THE VERMONT ECONOMY  
CALENDAR YEAR 2018**

Economic Contribution by NAICS Industry Sector	GDP	Jobs	Labor Income
Finance and Insurance	\$95,502,162	407	\$34,409,850
Professional, Scientific, and Technical Services	\$25,330,690	164	\$14,825,760
Retail Trade	\$5,802,521	59	\$2,628,815
Health Care and Social Assistance	\$5,413,244	68	\$4,439,145
Accommodation and Food Services	\$4,865,511	61	\$2,023,892
Manufacturing	\$3,720,661	11	\$1,031,767
Information	\$3,013,557	11	\$711,760
Wholesale Trade	\$2,402,788	8	\$638,340
Construction	\$2,131,757	24	\$1,373,646
Real Estate and Rental and Leasing	\$1,704,285	14	\$374,810
Other Services (except Public Administration)	\$1,658,482	28	\$1,043,876
Administrative, Support, & Waste Management & Remediation Services	\$1,289,125	21	\$783,293
Transportation and Warehousing	\$1,288,615	11	\$661,775
Non-NAICS Industries	\$1,232,316	0	\$23
Arts, Entertainment, and Recreation	\$895,766	26	\$445,976
Educational Services	\$778,622	17	\$767,390
Utilities	\$630,383	1	\$147,791
Government	\$537,356	7	\$571,463
Agriculture, Forestry, Fishing and Hunting	\$112,233	1	\$19,671
Management of Companies and Enterprises	\$103,369	0	\$23,925
Mining	\$16,312	0	\$9,864

Summary of Economic Contribution of Captive Insurance in Vermont (Nominal \$2019 Dollar Values)	Calendar Year 2018	Total	Total	Total
	Contribution to State Revenues in VT*	Contribution To VT GDP	Contribution to Jobs in VT	Contribution to Labor Income in VT
Direct + Indirect + Induced Economic Contribution	\$26,125,550	\$158,429,757	936	\$66,932,833

*\*Does not include tax receipts from Personal Income Tax, Sales & Use Tax, Gasoline Tax, etc. which would result from all economic effects of Captive activity. Calendar Year Captive Insurance Tax Receipts and License & Exam Fees Total Collections.*

*Prepared by Economic & Policy Resources, Inc.*

- **The Captive Insurance industry’s contribution to Vermont GDP in 2018 equates to 8.7% of the total economic contribution from the State’s Finance and Insurance industry sector** (see Figure 6 in the report below).
  - Along with the significant contribution of the Captive Insurance industry to the State’s human capital base, the industry remains a good strategic industry fit for Vermont.
- Vermont-located management and professional services firms paid higher than average **annual wages at \$91,552 in 2018—roughly twice the State average annual wage for all Service-Providing industries** (see Figure 7 in the report below).

- Vermont was among the first U.S. captive insurance domiciles, initially competing primarily with offshore jurisdictions. This allowed for the development of a unique regulatory and service provider infrastructure required to efficiently and effectively operate a Captive Insurance company.
  - Since the passage of the 1981 Special Insurer Act by the Vermont General Assembly, which established Captive enabling legislation in the State, this largely homegrown industry has thrived in Vermont—for the most part due to a successful, dynamic, and responsive public/private partnership between the industry, lawmakers and state regulators.
- Even though Vermont still hosts the largest number of U.S. Captives, directly contributing to the vitality of the Vermont economy over the past roughly four decades, the State’s market share has declined significantly since the late 2000s (see Figure 11 in Appendix A).
  - The increase in competition poses an external threat to Vermont’s Captive Insurance industry and the attractiveness of establishing Captive Insurance companies in the State in general.

## Background

The Captive Insurance Industry has long been recognized as a significant positive contributor to the Vermont economy.<sup>4</sup> According to this study, the Captive Insurance Industry in calendar year 2018 was responsible for 936 direct and indirect jobs throughout the State of Vermont economy. These jobs exist today due to Captive Insurance entities being established by owner organizations within the State's favorable regulatory framework and operated by the exemplary Captive management and service provider firms located in Vermont. As a result, the jobs and corresponding output, earnings, tax revenue, and indirect downstream commercial benefits depend both on companies maintaining and growing their Vermont-domiciled (i.e. located) Captive Insurance company(s), and also new Captives choosing to domicile in Vermont as opposed to other U.S. states with Captives enabling legislation.

Since 1981, when the Vermont General Assembly passed the Special Insurer Act, encouraging Captive Insurance entities to domicile within the State, the Captive Insurance industry has been widely viewed as a unique, on-going economic development opportunity for Vermont. The State's professional approach has historically encouraged companies—including many of the nation's well-known Fortune 500—to choose Vermont's unique, highly sophisticated regulatory framework to operate and manage their Captives. Over the last 40 years, this homegrown financial services industry has made significant and positive contributions to the State economy, in addition to the \$533.17 million in State premium tax and fees revenues generated over the 37 years from 1981 to 2018 (see Figure 4 below).<sup>5</sup> These positive contributions have been significant to the economic activities, the opportunities emerging over time, and have become important to the commercial fabric of Vermont.

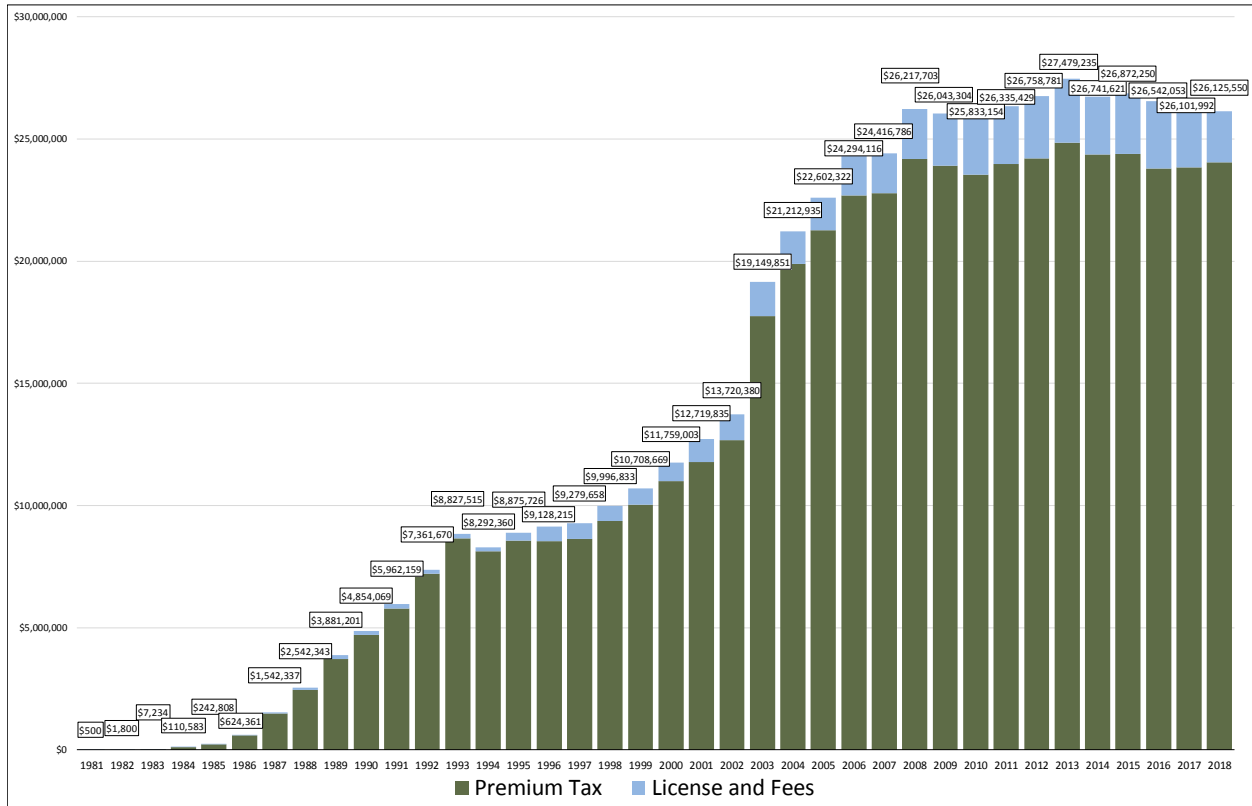
The study begins with a brief discussion of the background of Captive Insurance, followed by a review of the study methodology including an overview of the survey tool and the economic simulation modeling, then reports the economic contribution of the industry to the Vermont economy in 2018, and is concluded with a summary of findings.

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<sup>4</sup> See: [Results of the Economic/Fiscal Return from the Captive Insurance Industry Survey, Calendar Year 2003](#); January 10, 2005; **Vermont Department of Economic Development**; Prepared by: Economic & Policy Resources.

<sup>5</sup> Including \$503.4 million since Vermont fiscal year 1991.

**FIGURE 4: ANNUAL STATE REVENUES FROM CAPTIVE INSURANCE PREMIUM TAX, AND LICENSE AND EXAM FEES: CALENDAR YEARS 1981 - 2018**



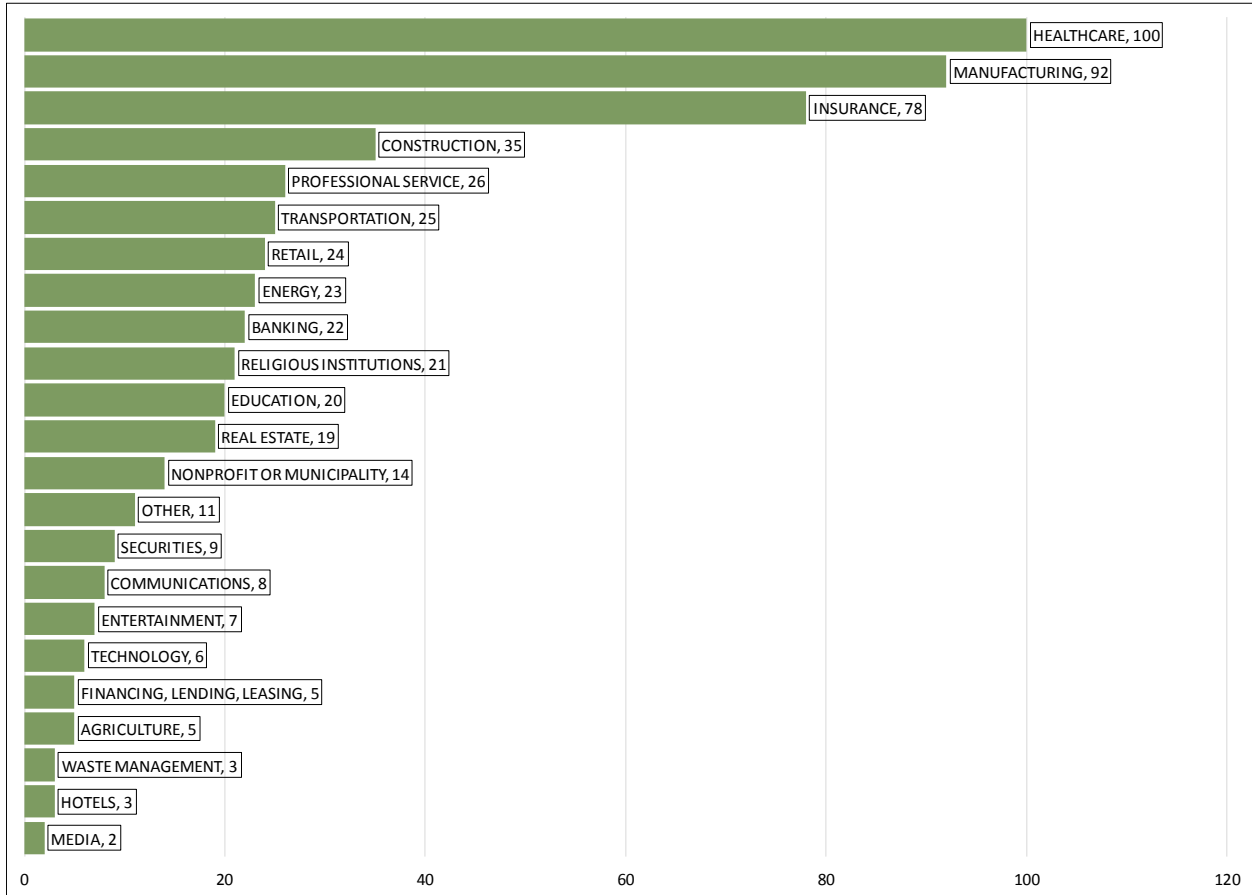
## “Captive Insurance” Defined

Captive Insurance companies are limited-purpose insurers formed by a parent organization (or group of organizations) to insure the risks of the parent or the members of the group. Captives are created to serve the needs of the owner/policyholders, reduce the overall cost of risk, provide stability in pricing and availability of insurance, allow customized policy language, improve cash flow, and gain control of the insurance program. In some cases, captives can create a profit center for the owner(s). Captives do not provide insurance directly to the general public. All captives are licensed and regulated by a domiciliary state or jurisdiction.

Vermont hosted 558 active Captive entities from a wide variety of industries throughout the U.S. economy in 2018 (see Figure 5 below).



**FIGURE 5: NUMBER OF ACTIVE CAPTIVE ENTITIES DOMICILED IN VERMONT BY INDUSTRY, 2018<sup>6</sup>**



Vermont’s laws and regulatory infrastructure are favorable to organizations seeking to form and operate a Captive, making the State an attractive domicile within which to license and regulate a Captive entity. In this way, the regulatory environment acts as an economic incentive for an organization to license and establish the Captive entity in Vermont and to use Vermont-based captive managers and service provider professionals. This regulatory and legal framework is the result of a nearly 40-year public-private partnership which has led to significant mutual economic benefit for the Captive owners, managers, service providers and the State of Vermont.

## Methodology

### Purpose

As noted above, the purpose of this study is to quantify the amount of economic activity within Vermont which depends on the Captive Insurance industry. This is an “economic contribution” study which builds on the previous EPR studies by focusing on the gross amount of direct, indirect, and induced economic contribution of Captive Insurance management and service provider activities to Vermont through jobs,

<sup>6</sup> Figure 5 includes only currently Active Captive entities. For context, Vermont currently hosts a total of 580 Active and Dormant licensed Captive entities which employ Vermont-based management and professional firms.

income, and overall economic output. In addition, this study includes consideration and analysis of business visitor spending, allowing the measurement of Captive Insurance-related travel to and within the State and the economic contribution of resulting visitor spending. While the amount of Captive Insurance Premium Tax, and License and Exam Fees collected is discussed, a full fiscal cost-benefit analysis is not included in this study. Tax revenues discussed within the study include only the Captive Insurance Premium Tax receipts and Examination and License Fees assessed directly on the operation of Captive entities, and do not include other State taxes that would be assessed on associated economic activity, (e.g. Personal Income tax of firm proprietors and employees, Sales & Use Tax due to commercial effects, or Property Tax from industry workers who own a home)..

## Captive Insurance Industry Survey

The 2018 Vermont Captive Insurance Industry Survey was conducted by the Vermont DFR, in partnership with the VCIA and the ACCD in order to gather statistics on the current operations of Captive management firms, which supply professional services to Vermont-domiciled captive insurance companies<sup>7</sup> and information regarding the amount of related business travel visitation to and within Vermont in order to conduct Captive-related business. Using metrics gathered by the survey, EPR was able to accurately quantify the portion of the Vermont economy that is contributed by Captive Insurance management and service provider business activity. Data regarding the operations of Captive Insurance management firms was kept confidential, aggregated into industry-wide statistics, and subjected to Input-Output economic modeling in order to measure the industry's direct, indirect, and induced economic impact on the statewide economy.

The reader may recall that an earlier industry assessment of the scale of the Captive Insurance industry in Vermont, completed roughly 15 years ago, reported the direct and indirect job contribution by the Captive insurance industry at roughly 1,400 direct and indirect jobs. Those results were developed in calendar year 2003 using the Vermont Economic Progress Council's (VEPC) broader industry fiscal cost-benefit model. That earlier industry assessment relied on a broader industry multiplier matrix (and also an earlier Captive Insurance industry survey conducted by the forerunner State government department to the current DFR) than was available for this economic contribution study, which focused strictly on the two major North American Industry Classification System (NAICS) sectors that involve the Captive Insurance industry (NAICS 5412 and NAICS 5413). As such, this study is different in scope, and presents a more current, refined, and more accurate estimate of the economic contribution of the Captive Insurance Industry in Vermont.

In total, 21 Captive management firms and 11 firms providing professional services to Captive entities contributed data on calendar year 2018 industry activity for this analysis. Not all respondents provided information on each of the metrics requested by the survey. Therefore, the data that was collected and the corresponding economic analysis likely represents a very conservative estimate of the industry's contribution to the Vermont economy. The survey respondent data, presented in Figure 7 in the Findings section below, represents the economic activity that is directly attributable to the Captive Industry within the State of Vermont in 2018.

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<sup>7</sup> Firms which provide professional services such as legal or accounting support which are retained by Captive Insurance management firms are considered direct economic contributions.

The survey results represent the direct economic contributions to the Vermont economy from Captive Insurance activity and serve as inputs into the economic contribution assessment study, which forms the basis for the calculation of indirect and induced economic contributions of Captive Insurance-derived activity. Because the economic contributions from Captive Industry activities include more than just the direct employees of firms managing Captives domiciled in the State, estimates of the indirect and induced economic contributions of the industry were prepared using the REDYN Input-Output tool. The REDYN input-output tool is a computable general equilibrium model for a defined geographic area, in this case for the geographic area comprising the State of Vermont, which uses inflation-adjusted direct economic inputs to estimate indirect and induced economic contributions of those industry activities. The input-output assessment aspect of this study allows the true scope of Captive industry-generated economic activity to be measured and presented for this summary. This includes indirect economic effects of operating a firm within the financial service industry in Vermont and the associated expenses for inputs such as supplies, equipment, or rent, as well as induced economic effects which arise from the expenditure of household income earned in the industry on good and services expenditure activities through the State or for visitor expenditures which that can be attributed to Captive-related activity.

## Limitations of Study Method

The survey approach was limited by the fact that responding to the survey was voluntary, and the analysis was only able to estimate the impact of firms and the corresponding Captive operations activities which were provided in responses to the 2019 survey. The upside to this limitation of the analysis was that it most likely under-estimated the true economic impact of the Captive Insurance industry in the State in 2018.

Additionally, for most cases where respondents did not provide data for all survey questions, most of these respondents provided their employment and wage data but withheld their individual firm revenue for the 2018 calendar year. For this analysis, firm revenue was used to estimate a significant portion of the indirect economic effect of expenditures for firm operations, for items such as office supplies, equipment, and rent. Since this data was missing from several survey responses, there was a significant amount of corresponding office operations expenditure activity, and indirect and induced economic contribution taking place due to this activity, which is not captured by this study.

Finally, this study does not include a full consideration of the fiscal costs to the State government related to expenditures for public services such as schools or roads as a result of Captive industry activity, nor does it take into account the fiscal benefits such as revenues for income tax, sales tax, or motor vehicle registration fees paid by Captive industry workers.

## Findings

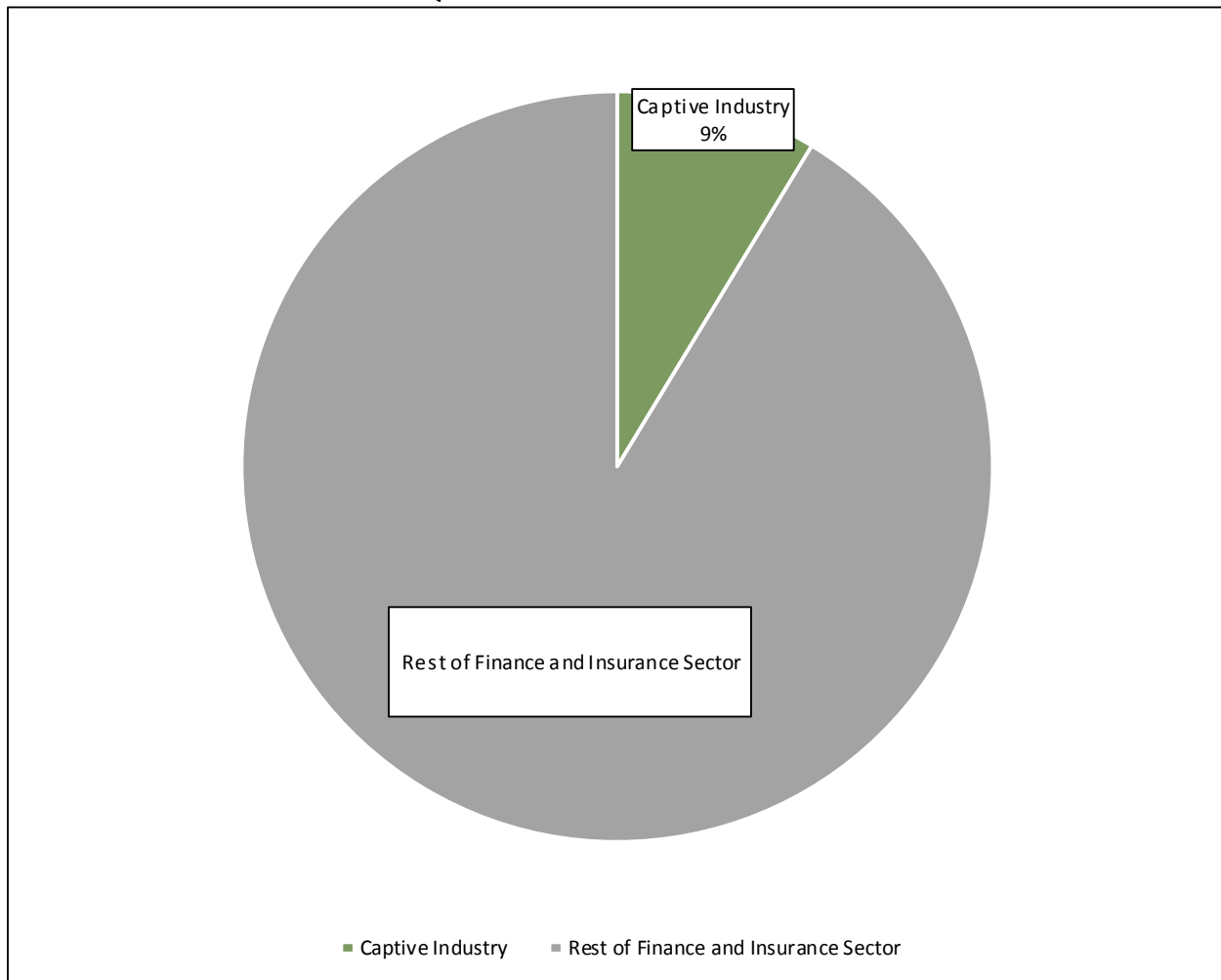
### Overview

In estimating the economic benefits or contributions of Vermont's Captive Insurance Industry, the analysis is focused on defining and quantifying the industry's economic activities which currently cycle through the Vermont economy. This study found that industry activities supported 936 job positions throughout the Vermont economy in 2018. The industry also contributed a total of \$158.43 million in State output,

\$66.93 million in Vermonters' personal Income, and \$26.13 million in Captive Insurance Premium Tax and License and Exam Fees receipts during calendar year 2018.

As stated previously (and shown in Figure 3), the Captive Insurance industry was estimated to have contributed a total of \$158.43 million to the output of goods and services directly and indirectly in many sectors across the Vermont economy in 2018. This contribution to State output was estimated to equate to a significant portion of all economic activity within the Finance and Insurance NAICS super sector taking place in Vermont. The economic contribution of the Captive industry in Vermont to State GDP, which includes contributions both inside and outside of the Finance and Insurance NAICS super sector itself, equates to 8.7% of the overall output contribution of Vermont's entire Finance and Insurance industry (as shown in Figure 6 below).

**FIGURE 6: 2018 CAPTIVE INDUSTRY EQUIVALENT CONTRIBUTION TO VERMONT FINANCE AND INSURANCE SECTOR**



# Direct Contribution of Captive Insurance Managers and Professional Service Firms

As noted previously, 2018 operations data was gathered via survey conducted by the Vermont DFR in order to measure the value of the direct contribution to the Vermont economy by Captive management firms and service provider firms. These included aggregated respondent data on gross revenues of Captive managing and Captive service provider firms, and the number of employees and their corresponding wages at those respondent firms. As shown in Figure 7 below, Captive Survey respondents reported significant direct contributions during calendar year 2018 within two NAICS<sup>8</sup> industry sectors, including NAICS 524: Insurance Carriers and Related Activities and the NAICS 541: Professional, Scientific, and Technical Services.

The survey respondent data represents \$95.90 million of gross revenues (or firm output) directly attributable to Captive Industry activity taking place within the State of Vermont in 2018; 407 full-time and part-time direct jobs earning a combined total of \$37.26 million of income; and an estimated total 2,679 visitor nights and 1,784 day-visitors for Vermont tourism sector. Vermont-domiciled Captives paid a total of \$26.13 million of Captive Insurance Premium Tax and License and Exam Fee revenues in calendar year 2018. Additionally, average annual wages for workers within Vermont’s Captive Insurance industry total \$91,552, more than twice the average annual earnings for all Service-Providing industries in the State. Survey results are presented in Figure 7 below.

**FIGURE 7: DIRECT ECONOMIC CONTRIBUTION – ECONOMIC SIMULATION MODEL INPUTS**

<b>Direct Economic Contribution of Captive Insurance in Vermont (Nominal \$2019 Dollar Values)</b>	<b>Direct Contribution To VT GDP</b>	<b>Direct Contribution to Jobs in VT</b>	<b>Direct Contribution to Income in VT</b>	<b>Earnings</b>
Captive Management Firms (NAICS 524)	\$73,655,348	276	\$24,744,640	\$89,654
Professional Services Firms (NAICS 541)	\$22,246,358	131	\$12,516,963	\$95,549
<b>Total Direct Contribution (NAICS 524+541)</b>	<b>\$95,901,707</b>	<b>407</b>	<b>\$37,261,602</b>	<b>\$91,552</b>
<b>Captive Insurance-related Travel into Vermont: 2,679 Visitor Nights; 1,784 Day Visitors</b>				
<i>Prepared by Economic &amp; Policy Resources, Inc.</i>				

# Indirect and Induced Economic Contributions of Captive Insurance in Vermont

The REDYN input-output tool was used for this study in order to estimate the indirect and induced economic effects from the direct economic contributions reported and compiled from the industry survey respondents. An input-output model using REDYN was constructed for the State (as the geographic area of interest for this economic contribution analysis) and the survey results for the direct Captive firm operations were used as inputs. The estimated indirect and induced economic contributions of the industry from the respondent information were estimated and compiled as presented in the Figure 8 below.

<sup>8</sup> NAICS refers to North American Industry Classification System.



**FIGURE 8: INDIRECT AND INDUCED ECONOMIC CONTRIBUTION**

<b>Indirect &amp; Induced Economic Contribution of Captive Insurance in Vermont (Nominal \$2019 Dollar Values)</b>	<b>Contribution To VT GDP</b>	<b>Contribution to Jobs in VT</b>	<b>Contribution to Income in VT</b>
Indirect + Induced Economic Contribution	\$58,193,452	474	\$27,759,185

*Prepared by Economic & Policy Resources, Inc.*

### Indirect Economic Contributions: Focus on Visitor Spending

Visitor spending is a category within the induced economic contributions of the Captive industry. However, the effects of visitor spending are not captured within the estimates of indirect and induced effects generated by the economic modeling method described previously. The survey results also provided data on the estimated overnight and day visits related to Captive Insurance activity, such as travel into Vermont related to setting up or managing a Captive entity, or attendance of annual meetings or events. Captive-related visitor activity generated a total of 2,679 overnight and 1,784 day visits during calendar year 2018. Using the 2017 Benchmark Report Tourism in Vermont,<sup>9</sup> the number of overnight and day visits was employed to estimate the amount and nature of the associated visitor spending, which equates to \$3.25 million total visitor spending within multiple Vermont industries, capturing expenditures on items such as accommodation and food service, taxi/ride share services, and retail, for example. Figure 9 below shows the direct, indirect, and induced economic contribution from Captive Industry-generated visitor spending.

**FIGURE 9: DIRECT, INDIRECT, AND INDUCED ECONOMIC CONTRIBUTION FROM VISITOR SPENDING**

<b>Induced Economic Contribution of Captive Insurance - Related Visitor Spending in Vermont (Nominal \$2019 Dollar Values)</b>	<b>Visitor Spending Contribution To VT GDP</b>	<b>Visitor Spending Contribution to Jobs in VT</b>	<b>Visitor Spending Contribution to Income in VT</b>
Induced Visitor Spending Economic Contribution	\$4,334,598	55	\$1,912,046

*Prepared by Economic & Policy Resources, Inc.*

### Economic Contributions: All Sources (Including Visitor Spending)

Figure 10 below summarizes all direct, indirect, and induced (including visitor spending) economic contributions from all economic activities of the Captive Insurance industry activity as identified by industry respondents. Calendar Year Captive Insurance Premium Tax and License and Exam Fee receipts are also included.

<sup>9</sup> See VT 2017 Benchmark Study of Vermont Tourism (based on the 2018 Release) on the website of the Vermont ACCD; <https://accd.vermont.gov/sites/accdnew/files/documents/VDTM/BenchmarkStudy/VDTM-Research-2017BenchmarkStudyExecutiveSummary.pdf>.

**FIGURE 10: TOTAL ECONOMIC CONTRIBUTION**

<b>Summary of Economic Contribution of Captive Insurance in Vermont (Nominal \$2019 Dollar Value)</b>	<b>Total Contribution To VT GDP</b>	<b>Total Contribution to Jobs in VT</b>	<b>Total Contribution to Labor Income in VT</b>
Total Direct Contribution (Survey Results Data)	\$95,901,707	407	\$37,261,602
Total Indirect + Induced Economic Contribution	\$58,193,452	474	\$27,759,185
Total Induced Economic Contribution (Visitor Spending)	<u>\$4,334,598</u>	<u>55</u>	<u>\$1,912,046</u>
<b>Total Economic Contribution (Direct + Indirect + Induced)</b>	<b><u>\$158,429,757</u></b>	<b><u>936</u></b>	<b><u>\$66,932,833</u></b>

*Prepared by Economic & Policy Resources, Inc.*

## Conclusion

It is well known that the Captive Insurance management and professional services industry in Vermont contributes significantly to the overall economic activity in the State as measured by direct, indirect (and induced) economic effects. As one of the first U.S. Captive Insurance domicile jurisdictions, Vermont has actively managed its policy environment and regulatory infrastructure to maintain its top-level status as a Captive Insurance domicile offering the highest-quality professional management and services support infrastructure available anywhere in the U.S. and throughout the world. According to the latest Captive entity counts available, Vermont was the largest U.S. Captive domicile and the third largest Captive domicile globally behind Bermuda and the Cayman Islands in calendar year 2018. This study was conducted in order to accurately quantify the economic contributions to the State generated by Vermont-based firms operating at the current market share.

The Captive Insurance Industry Survey was administered by the DFR in order to determine the industry’s direct economic contribution, from which indirect and induced effects can be derived. Vermont-located captive management and professional services firms, which form the State’s “Captive Insurance Industry,” directly contributed 407 jobs, \$37.26 million in labor income, and \$95.90 million to the State GDP. The DFR survey also found that Captive-related business visitor spending activity generated a total of 2,679 overnight and 1,784 day visits during calendar year 2018, which by applying the visitor spending profiles reported by the 2017 Benchmark Report Tourism in Vermont, equates to \$3.25 million of total visitor spending within multiple Vermont tourism-related commercial sectors in the State economy. Additionally, the study also found that Vermont-located management and professional services firms paid higher than average annual wages, at \$91,552, in 2018, which is roughly twice the Statewide average annual wage for all Service-Providing industries.

By building and utilizing a computer-based input-output model for simulating the Vermont regional economy, and applying the direct economic contribution data gathered through the DFR Survey instrument, this study estimated the total economic contribution of Vermont’s Captive Insurance Industry (including direct, indirect, induced, and the effect of associated visitor spending activity) to be 936 total full-time and part-time jobs throughout Vermont, \$66.93 million in labor income, and \$158.43 million to

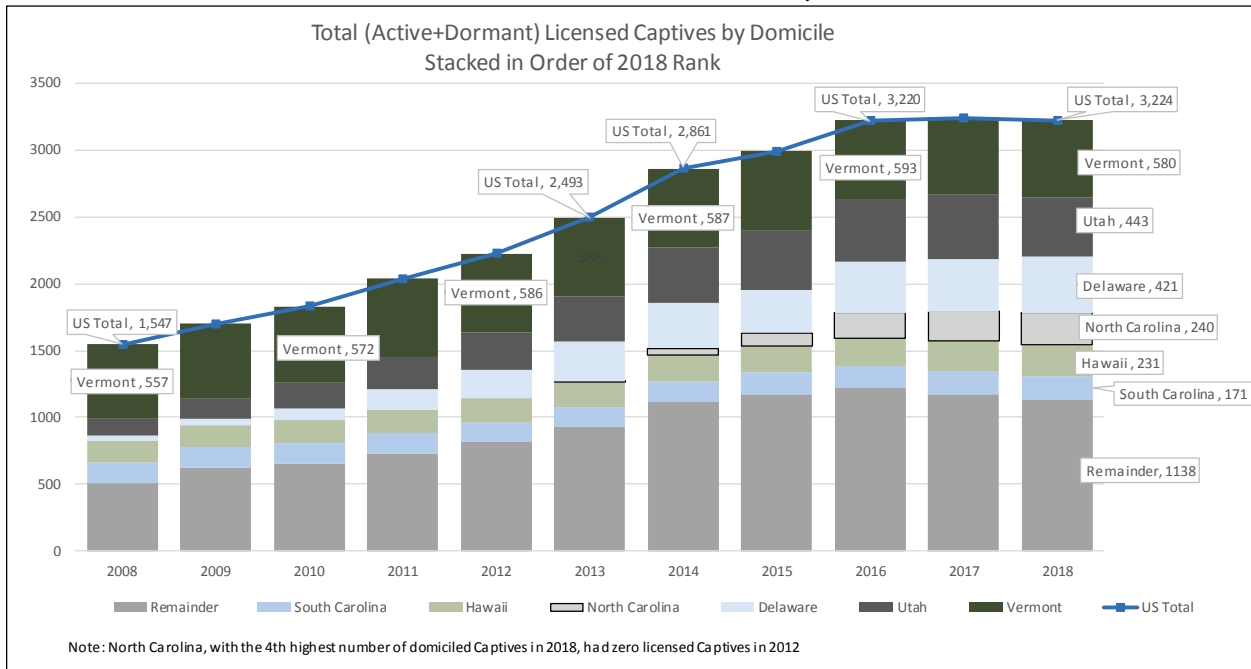
State GDP in for calendar year 2018. The data showed that the industry also contributed a total of \$26.13 million in Captive Insurance Premiums Tax and License and Exam Fees receipts. The Industry's contribution to Vermont GDP in 2018 was equivalent to 8.7% of the total contribution from the State's Finance and Insurance industry sector.

Due in part to the economic contributions of this clean, high-paying, financial services industry, states throughout the country have sought to replicate the successes of Vermont's Captive Insurance industry. Even though Vermont still hosts the largest number of U.S. Captives, the State's market share has declined significantly since the late 2000s (see Figure 11 in Appendix A). The increase in competition poses an external threat to Vermont's Captive Insurance industry and the attractiveness of establishing Captive Insurance companies in general. This will require continued, perhaps even higher degrees of collaboration between industry stakeholders and State policymakers if Vermont is to continue to maintain its competitive position and to try to maintain its comparative advantage in an increasingly competitive marketplace. This would perhaps in part allow the State to try to maintain the significant economic contributions of the Captive Insurance industry over the long-term, which have been quantified and articulated by this study.



# Appendix A

**FIGURE 11: CHANGE IN TOTAL U.S. DOMICILE MARKET, 2008 VERSUS 2018**



## Glossary of Terms

**Captive Insurance:** Captive Insurance is a form of self-insurance where a separate business entity is established in order for the original parent company, charitable organization, or groups of private entities or organizations to provide insurance coverage for themselves.

**Active Captive:** A Captive entity which is managing funds, collecting premiums, and paying Captive Premium Tax in the most recent period for reporting.

**Dormant Captive:** A Captive entity which no longer collects premiums and therefore pays no Captive Premium Tax, but still manages funds and therefore requires Vermont management activities.

**Direct Economic Effect:** Includes all effects the Captive Management and Professional Services industries in Vermont have on the Vermont economy due to the operations of individual firms. For the purposes of this study, data for employee count, labor earnings, and gross firm revenues from Captive Management firms as well as the professional service industry firms, all derived from the survey instrument, are considered “direct” economic effects.

**Domicile:** The legal jurisdiction, whether a US State, foreign country, or overseas territory, within which a Captive entity is licensed and established according to local laws and regulations.

**Economic Contribution:** The gross change in economic activity associated with an industry, event, or policy in an existing regional economy.

**Economic Impact:** The net changes in new economic activity associated with an industry, event, or policy in an existing regional economy.

**Economic Incentive:** Factors which motivate economic behavior and decision making. For the context of this study, Vermont’s currently favorable regulatory and legal infrastructure with regard to Captive Insurance regulations are intended to cause organizations seeking to establish a Captive to choose Vermont as the legal jurisdiction within which to license and establish a Captive legal entity.

**Goods Producing Firm/Industry Sector:** Firms categorized within the agriculture, forestry, fishing and hunting, mining, construction, or manufacturing NAICS industry sectors, typically associated with resource-intensive or extractive and/or high-pollution economic activity.

**Gross Domestic Product/Output:** The dollar value of a State’s economic output from all goods and services produced, including the sum total of all value added from each economic activity within the State.

**Indirect Economic Effect:** includes the effect of firms purchasing goods and services from other industries. For this study, these include the goods and services purchased by survey respondents for operation of their business activity.

**Household Income:** A measure of the combined incomes of all people sharing a particular place of residence.

**Input-Output Tool/Model:** An Input-Output Tool is used in regional economics to estimate the total economic effects of a change in final demand within a regional economy—like a state. An I-O model can be constructed for a geographic region as a representation of the flows of economic activity within a region. For the purposes of this study, the I-O Model for the state of Vermont was constructed using the software tool (REDYN) which calculated the economic effects on the Vermont economy due to the economic activities of the Captive Insurance Industry. These estimates were developed using survey respondent data for calendar year 2018 from known industry participants in 2018. These respondents’ data were used as input data (expressed as jobs, wages, revenues) and to construct appropriate

assumptions to systematically and statistically describe the direct and indirect effects of Captive industry operations.

**Induced Economic Effect:** The effect of household re-spending of incomes derived from direct and indirect activity within the Vermont economy. For the purposes of this study, induced effects also include the economic contribution from visitor spending.

**Jobs:** The number of full-time and part-time jobs/positions during a designated time period. Job creation occurs when an economic activity increases the number of jobs in an economic region due to direct, indirect, or induced economic effects of the industry's economic activities. For the purposes of this study, the job counts reported are the number of full-time and part-time jobs which existed within the Vermont economy due to Captive insurance activity in the State during calendar year 2018.

**Labor Income:** The sum of employee compensation in terms of wages and salaries in addition to proprietor incomes.

**North American Industry Classification System (NAICS):** Is the standard industry classification typology used by Federal agencies to classify business establishments by what they produce for the purposes of collecting, analyzing, and publishing statistical data related to the US business economy. For this study, the two main industries of focus to which the Captive Insurance Industry contributes directly, classified within NAICS 524: Insurance Carriers and Related Activities, and NAICS 541: Professional, Scientific, and Technical Services.

**Proprietor Income:** Payments or incomes received by self-employed individuals or unincorporated business owner. This includes current-production income of sole proprietorships, partnerships, and tax-exempt cooperatives, but excluding dividends, monetary interest, and rental income received by persons not primarily engaged in real estate.

**Service Providing Firm/Industry Sector:** Firms that earn revenue through providing intangible products and services and are involved in wholesale trade, retail trade, transportation and warehousing, utilities, information, financial activities, professional and business services, education and health services, leisure and hospitality, and other sectors, typically associated with non-resource-intensive or extractive, low-pollution economic activity.

**Visitor:** A visitor is a person making a visit to a main destination outside his/her usual environment for a period of less than a year for any purpose including holidays, leisure and recreation, business, health, education, or any other purpose. This is a concept which includes individuals outside a traditional definition of "tourists" who are generally travelling for leisure purposes.

**Visitor Spending:** Estimated personal expenditure activity undertaken by a "visitor" within the regional economy of the visitor's main destination.

**Day Visitors:** A short-term visitor who does not spend the night in the place visited. Day visitors have a different, and smaller spending profile versus over-night overnight (who generally stay for a longer-duration for their trip) visitors.

**Overnight Visitors:** A visitor who spends one or multiple nights in the place visited. Overnight visitors typically have a profile that involves higher amounts of visitor spending (e.g. for an overnight stay) versus day visitors.