

Economic Impact Study of BlueCross BlueShield of Tennessee



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Introduction

BlueCross BlueShield of Tennessee (BCBST) has provided many benefits to Tennesseans since 1945 as the largest health plan in the state. Those benefits have included helping maintain a healthy population and workforce, providing health insurance for Tennessee residents, hiring workers, purchasing goods and services, and contributing to societal and charitable functions across the state.

In 2017, BCBST served 3.4 million members and more than 11,000 companies. It paid nearly \$14 billion in claims last year, and through both corporate support and the BlueCross BlueShield of Tennessee Health Foundation, gives on average \$10 million each year in charitable contributions. In 2016, the company also paid \$3.9 billion in claims to Tennessee physicians and \$5.5 billion to facilities, which included hospitals.

This economic report, completed by the Boyd Center for Business and Economic Research, describes many of the company's benefits noting the unique benefits to the state of having its headquarters in Chattanooga and regional offices with headquarters-like functions across Tennessee. This is an important distinction and economic benefit relative to BCBST's competitors.

The report specifically looks at the statewide economic benefits of BCBST, including its foundation and subsidiaries, in 2017 – analyzing the direct, indirect and induced impacts the company has on income, employment and taxes in Tennessee. In addition to the quantitative economic impact, the report examines the company's effects on both the Chattanooga community and state

of Tennessee in several intangible ways – from its employees volunteering around the community to its charitable donations and awards.

BCBST in Tennessee

This section describes the breadth of BCBST activities across Tennessee and discusses the main intangible benefits that the firm offers the state. These benefits, though very important to Tennessee, are not included in the quantitative benefits found later in the report.

Health Care Services in Tennessee

BCBST, a not-for-profit health insurance plan, serves 3.4 million members and more than 11,000 companies. In 2014, BCBST played a significant role in the Tennessee economy accounting for 27.3 percent¹ of all healthcare spending in the state. BCBST employment impacts are felt statewide, with six regional offices (Figure 1) and service centers.

Impact on Tennessee Workforce

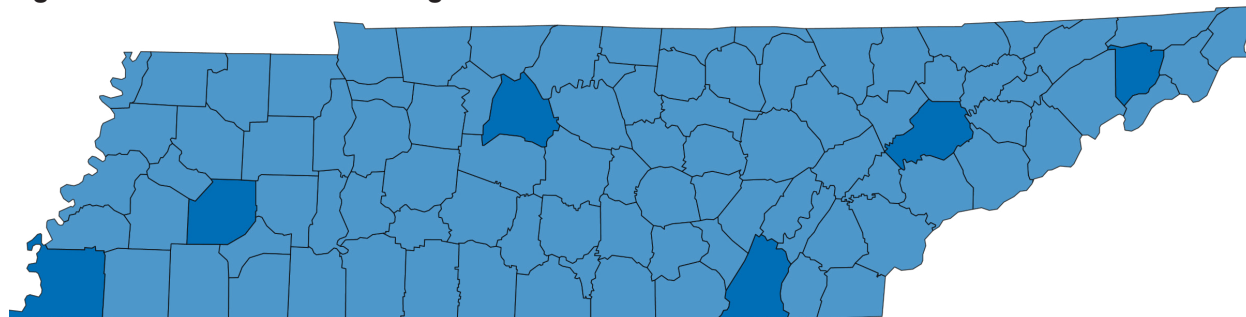
BCBST also affects Tennessee by helping the state build a robust, productive labor force. Research evidencing the importance of a healthy workforce to a productive workforce is widely available² and BCBST has a tremendous positive impact on the health of the workforce in Tennessee.

BCBST, as a health insurance provider, naturally encourages labor force participation by

¹ Calculated using CMS Health Expenditures by State of Provider, 2014.

² For example, Goetzel, Ron Z., et al. "Health, absence, disability, and presenteeism cost estimates of certain physical and mental health conditions affecting U.S. employers." *Journal of Occupational and Environmental Medicine* 46.4 (2004): 398-412.

Figure 1: Locations of BCBST Regional Offices



providing workers with confidence that they will be taken care of if they become ill. For BCBST to have this impact on the labor force, its members must feel confident that the company is stable and secure enough to pay their claims.

Stability as an Insurance Provider

BCBST, as with other insurance companies, is regulated by the state of Tennessee to hold reserves that protect its members in the event of a catastrophic event or cyclical business downturn. BCBST maintained \$1.9 billion in total statutory reserves in 2016. This total includes \$216 million in unassigned reserves. BCBST has set this aside as additional protection and as a resource to invest in future member service capabilities. These unassigned reserves are important as BCBST is not able to access capital markets like its for-profit competitors.

BCBST Employment in Tennessee

BCBST has been recognized on the national stage for its contributions to attracting and retaining workers in Tennessee and consistently providing a high-quality workplace. In 2016, it was selected by Forbes as one of the best large employers in the country. BCBST was also chosen by Modern Healthcare Magazine as one of the 100 Best Places to work in healthcare.

The company employs more than 6,000

professionals, including telecommuters, who earned approximately \$450 million in 2017. The company also employs about 1,700 contractors. A breakdown of employment by BCBST location is presented in Table 1. The workers are both highly skilled and competitively compensated – of its 6,000 employees, 44 percent are professional or technical experts.

BCBST also works to develop the skills of Tennessee workers by offering a range of professional development opportunities. For example, in 2017, the Institute for Corporate Productivity recognized BCBST, among national companies like Ford and Intel, with the Next Practice Award for its innovative career development program.

The company has made intentional efforts to hire a diverse workforce including the creation of employee resource groups that center on a common dimension of diversity, mentoring programs, cultural awareness sessions and a CEO-led executive diversity council. In January 2018, the company was recognized again by Forbes as one of the country’s top employers for diversity.

The company has also awarded more than \$100,000 to minority students in Tennessee who are studying for careers in health care fields. Since 2014, the company has also increased its spending with minority-owned businesses by 10 percent.

Table 1: Number of Employees by Location, 2017

Chattanooga	5,003
Nashville	489
Memphis	324
Knoxville	112
Tri-Cities	94
Jackson	60

BCBST Contributions to the Community

BCBST and its employees contribute throughout the communities where they are located and the state. In 2017, BCBST invested \$10.7 million into local Tennessee charities that focus on helping individuals

gain access to healthcare, promote activity and help individuals achieve better physical well-being, and assist individuals who are battling addiction.

Through its community outreach efforts, BCBST has fostered a workplace culture that also allows its employees to give back. In 2017, approximately two-thirds of BCBST employees,

nearly 4,000 people, volunteered to local causes logging about 8,000 hours volunteering.

Economic Benefits to Tennessee

As stated before, BCBST’s benefits to the state mirror its mission to provide “peace of mind through better health” – from providing health insurance for Tennessee residents to its many societal and charitable commitments across the state.

Operation of the BCBST headquarters in Tennessee is an important distinction and economic benefit of BCBST relative to its competitors. This section uses detailed

revenue and expenditure data provided by BCBST to examine the economic impact from the operations of the BCBST headquarters and regional offices with headquarters-like functions on the Tennessee economy. We estimate how much income, how many jobs, and the amount of state and local tax revenue that are generated from total spending by BCBST in 2017.

A summary of the general findings is presented in Table 2. We estimate that BCBST’s headquarters’ functions are responsible for \$1.6 billion in income, 18,043 jobs, and \$367.9 million in tax revenue for Tennessee.

Table 2: Summary of Economic Benefits Associated with BCBST, 2017

Income Generated	\$1,596.0
Tax Revenue Generated	\$367.9
Employment Generated	18,043

Dollar values in millions

Income Effects

Operations of the BCBST headquarters increase economic activity in several ways. First, the company generates income directly though the payment of its employee salaries and benefits, thereby creating jobs and income for Tennesseans. In addition, the company makes many non-payroll purchases such as equipment, office furniture, and consulting services. Goods and services purchased from vendors within the state create jobs and income for the vendor’s employees and owners. A breakdown of BCBST’s payroll and non-payroll spending in their top five markets are presented in Tables 3 and 4, respectively.³

Furthermore, additional jobs and income are created through the multiplier effect whereby

money is spent and re-spent elsewhere in Tennessee such that each dollar can generate more than one dollar in economic activity. For example, multiplier benefits occur as BCBST employees spend their incomes buying homes and clothing, going out to dinner, and visiting Tennessee tourism spots allowing the owners and workers at these businesses to also earn income. In turn, these other workers spend their incomes and the process multiplies through the economy.

Table 5 presents the economic benefit from BCBST’s two main sources of spending – payroll and non-payroll spending. BCBST payroll spending, including the payment of salaries and benefits, totaled \$569.2 million in 2017, and generated an additional \$714.6 million of income for Tennesseans through the multiplier effect. The company generated an additional \$312.2 million from non-payroll spending and the related multiplier effects. In total we estimate that operations of the BCBST headquarters generate \$1.6 billion in income for Tennesseans every year.

³ The analysis includes all non-payroll expenditures. We recognize that some of these dollars were remitted to non-resident vendors, though much of the activity took place in Tennessee. Still it is impossible to know the full extent to which they generated economic impact within the state’s borders. As such, ours may be an upper-bound estimate of the impact of non-payroll spending.

Table 3: Payroll Spending in Top 5 Markets, 2017

Chattanooga	\$475.5
Nashville	\$53.4
Memphis	\$29.1
Knoxville	\$11.2
Tri-Cities	\$9.3

Dollar values in millions

Table 4: Non-payroll Spending in Top 5 Markets, 2017

Nashville	\$23.1
Chattanooga	\$13.5
Memphis	\$2.3
Tri-Cities	\$1.6
Knoxville	\$0.3

Dollar values in millions

Table 5: Summary of Income Effects by Source

Payroll Spending	
Direct Payroll Spending	\$569.20
Indirect & Multiplier Effects	\$714.60
Total Payroll Spending Effects	\$1,283.80
Non-payroll Spending	
Total Non-payroll Spending Effects	\$312.20
Total Income Effects	\$1,596.00

Dollar values in millions

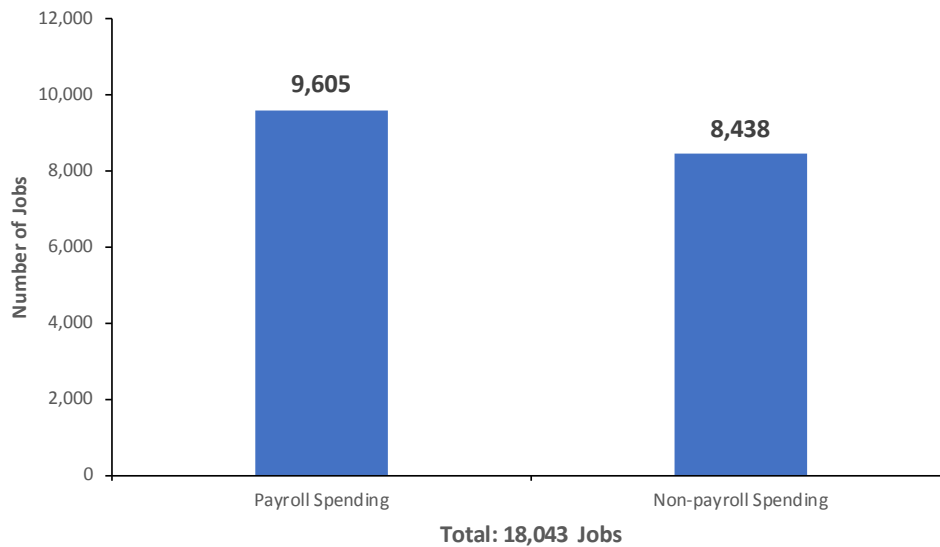
Employment Effects

Operations of the BCBST headquarters in Tennessee creates employment through the same avenues as it does income. We estimate that a total of 18,043 jobs are created because the company's headquarters is in the state. Some of these jobs are at the BCBST headquarters and regional offices, some are with the company's suppliers, and others are created by

the multiplier effect which generates jobs in a variety of industries throughout the state. The multiplier effects for jobs work much like those for income, with jobs created by the spending and re-spending process across the state.

Figure 2 reports the employment impacts of the BCBST headquarters from 2017. Payroll spending generates 9,605 full-time jobs in Tennessee, while non-payroll spending creates an additional 8,438 full-time jobs.

Figure 2: Summary of Employment Effects by Source



Tax Effects

Tennessee and its local governments obtain tax revenues because of payments made directly by the company and from the spending and incomes associated with the BCBST headquarters. Insurance companies are subject to a special premium tax rate, which is 2.5 percent of gross premiums for health insurance companies. In addition, taxes are paid as workers earn incomes and spend them on sales taxable goods and services, gasoline taxes on their fuel purchases, property taxes on their

housing and so forth. In total, we estimate that the company generated \$367.9 million in state and local tax revenues – \$245.2 million of which came in the form of premium tax revenue, \$50.1 million from sales tax revenue, and \$72.6 from other tax revenue.⁴ These results are presented in Table 6.⁵

⁴ Sales and other tax revenues consist of both tax payments made directly by BCBST as well as tax revenues associated with the economic activity generated by BCBST. Conversely, premium tax revenues consist solely of tax payments made by BCBST directly.

⁵ BCBST also paid \$184.4 million in federal taxes.

Table 6: Summary of State and Local Government Tax Revenues by Source

Premium Tax Revenue	\$245.2
Sales Tax Revenue	\$50.1
Other Tax Revenue	\$72.6
Total	\$367.9

Dollar values in millions

Conclusion

BCBST provides many benefits for Tennessee that are described but not quantified here. For example, research shows the positive relationship that quality healthcare has on the overall economy. BCBST has a dedicated history of providing many benefits to the Tennessee community and economy, not just through providing insurance to residents, but also in its overall goals of “improving and sustaining the physical, financial and community health of Tennesseans.” Further, BCBST has proven to be

a top employer and to make successful efforts to enhance diversity in its workforce.

This report used operations at BCBST’s headquarters in Chattanooga and regional offices with headquarters-like functions in Tennessee to quantify how the company is contributing to the overall state economy. Overall, the company’s headquarters and regional offices are increasing economic activity in the state in a variety of ways. We estimate that in 2017 BCBST was responsible for \$1.6 billion in income, 18,043 jobs and \$367.9 million in tax revenue for Tennessee.