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## Economic Impact of State Farm Insurance's Michigan Operations Center on the Marshall Area and Calhoun County

Brad R. Watts

*W.E. Upjohn Institute for Employment Research*

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## ***W.E. Upjohn Institute for Employment Research***

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**300 South Westnedge Avenue • Kalamazoo, Michigan 49007-4686 • U.S.A.  
Telephone (269) 343-5541 • FAX (269) 343-7310**

### **Economic Impact of State Farm Insurance's Michigan Operations Center on the Marshall Area and Calhoun County**

**August 22, 2003**

**Brad R. Watts**

This analysis estimates the potential economic impact of the closing of State Farm Insurance Company's Michigan Operations Center on both the Marshall Area<sup>1</sup> and Calhoun County. All numbers regarding company employment levels and payroll have been provided through the City of Marshall's economic development office, working in conjunction with representatives of State Farm Insurance. The Upjohn Institute assumes these numbers to be accurate and current at the writing of this report.

State Farm Insurance Company's Michigan Operations Center currently employs 569 people, making it the third largest employer in the City of Marshall. It is one of only a few major private non-manufacturing firms in the area, and one of the top employers in Calhoun County.<sup>2</sup> The insurance company's average yearly payroll is approximately \$20 million.

The total economic impact of State Farm is much greater than these numbers, however. It is the sum of both the direct and indirect impact of the facility's operation on the surrounding area. While the direct impact is easy to determine—it is equal to the jobs and payroll at the Michigan Operations Center—the indirect impact is a bit more difficult to calculate. More simply stated, the indirect impact is equal to the “spin-off” jobs and income generated through the expenditures of employees and the local operational expenditures of the business.

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<sup>1</sup> “Marshall Area” refers to the City of Marshall and Marshall Township, or the area approximately represented by the 49014 and 49068 postal zip codes.

<sup>2</sup> Based on firm employment levels published by Battle Creek Unlimited.

To perform this analysis, the Upjohn Institute uses an economic modeling software package custom created for us by Regional Economic Models, Inc.<sup>3</sup> It uses three separate components which together allow a complete analysis of the total impact of any change in the local economy.

These components are:

- An input-output model that estimates the impact on the local economy of changes in inter-industry purchases. This component of the model captures the impact of an increase in orders to local suppliers of goods and services, as well as, the impact of households increasing their purchases of consumer goods and services.
- A relative wage component that estimates the impact of the expected changes in the area's cost structure due to changes in economic activity. For instance when a major employer leaves the area, it can cause wages to decline across most all industries due to the decreased demand for workers and other local resources.
- A forecasting and demographic component that forecasts the resulting changes in future employment and population levels due to a change in economic activity.

These allow us to construct what are essentially two separate economic realities for Calhoun County and the Marshall Area: one with the Michigan Operations Center and one without. The difference between the two is the economic impact of the facility.

The table on the following page details our estimates of the employment, income and population impacts of the Michigan Operations Center offices on the area. In total, their business operations, combined with the consumer expenditures of State Farm employees, supported an additional 351 workers and \$22.4 million in wage, salary and proprietor income, countywide. Of these, approximately 65 workers and \$4.1 million in wage, salary and proprietor income are based in the Marshall Area.

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<sup>3</sup> The REMI model provides county-level economic analysis. To estimate the more localized impact on the Marshall Area, we have applied relevant population, residency, and industrial sector ratios to the model's analysis of Calhoun County.

**2003 Economic Impact  
Michigan Operations Center in Marshall, MI**

Total Direct Employment = 569			
Annual Payroll = \$20.0 million			
<b>Indirect Impact</b>	<b>Marshall Area</b>	<b>Remainder of Calhoun County</b>	<b>Countywide Impact (Sum)</b>
Employment	65	286	351
Retail and Eating & Drinking	33	71	104
Services and Other	32	216	247
Employment Multiplier	1.11		1.62
Income (millions \$)	\$4.1	\$18.3	\$22.4
<b>Population</b>			
Five-year Population Change	280	525	805
School Ages (5-19)	80	149	229
Adult Worker Ages (25-64)	134	250	384
<b>Sum of Direct and Indirect Impact</b>			
Total Employment	634	286	920
Income (millions \$)	\$24.1	\$18.3	\$42.4

In total, the Michigan Operations Center supports a total of 920 jobs and \$42.4 million in total income in Calhoun County. This represents about 1.5 percent of total employment and 1.4 percent of total income in 2003, countywide.<sup>4</sup> For the Marshall Area, these operations account for an even larger share of the economy. The combined direct and indirect impact—634 jobs—represents approximately 5.8 percent of total employment in the Marshall Area.<sup>5</sup> We estimate that the combined income impact would be even greater than 5.8 percent of total, due to the fact that State Farm’s Michigan Operations Center is one of only two major professional employers in what is primarily a retail, manufacturing and service-based local economy.

<sup>4</sup> Total 2003 employment for Calhoun County is based on the 2003 1<sup>st</sup> quarter seasonally-adjusted estimate published in *Business Outlook for Michigan*, June 2003. Total 2003 income for Calhoun County is based on data from Regional Economic Models, Inc.

<sup>5</sup> Based on County Business Patterns, Zip Code Business Patterns, 2001.

Since this impact study is being prepared with the understanding that the possible closure of Marshall's Michigan Operations Center is being discussed, we feel it is also important to examine the population impact which would result if the Company were to close its Marshall office. Certainly, people are much harder to move than jobs. Other aspects of life such as family, friends, home ownership, and the employment of one's spouse can make it difficult to just "pick up and leave" when a job ends. Still, after a period of months or years, a lack of employment opportunities will eventually cause some degree of economic-related out-migration. Therefore, we estimate that 805 persons will have left the County five years after a hypothetical loss of 569 insurance industry jobs. Of that number, school-age children will number approximately 229, or 28 percent of economic out-migrants, since they are tied to their working-age adult parents.

As with employment and income, the population hit will be especially strong in the Marshall area, where many Michigan Operations Center employees currently live. Within five years of the insurance facility's closing, we would expect the Marshall Area population to have dropped by 280 persons, 80 of whom would be children of school age—the equivalent of several classrooms full of children.

This increased rate of out-migration is also likely to impact the local real estate market. If State Farm Insurance Company follows through with plans to offer jobs elsewhere in the company to as many as 85 percent of current Michigan Operations Center employees, it could substantially increase the number of houses on the market in the period immediately following closure of the facility. Assuming a typical relocation package acceptance rate<sup>6</sup>, we estimate that of the 805 persons anticipated to leave the county within five years of closure, around 300 persons would leave the area very quickly—most likely within less than six months. Of these 300 early-leavers, we estimate that 105 would come from the Marshall Area.

Ultimately, the full impact of the closing of State Farm Insurance Company's Michigan Operations Center in Marshall may be impossible to calculate. For one thing, numbers fail to capture the impact such a closing has on individual lives. Secondly, as one of a very small number of professional white collar employers in Calhoun County, the loss of this facility would greatly diminish the mix of future employment opportunities, as well as hurt the community's attempts to improve its image and attract new professional businesses in the future. Certainly, to both Calhoun County and the small community of Marshall, this closure would be a significant blow.

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<sup>6</sup> For the purposes of this analysis, a 25 percent acceptance rate was used. Articles from Runzheimer International and Atlas World Group suggest that acceptance rates typically range from 7 to 35 percent. The total number of persons leaving is based on the estimate of the number of accepted relocation offers, multiplied by the Census Bureau's average household size for Calhoun County: 2.47 individuals.