



New Trustee Orientation

**NLC-RISC TRUSTEES CONFERENCE
2019**

Fort Lauderdale, FL

New Trustee Questions

- Why were pools created?
- How do pools differ from each other?
- What should I know about my own pool?
- How does reinsurance fit in?
- What do I need to know about pool finances?
- What are my responsibilities as a pool board member?



New Trustee Panelists

- Rickey Childers, Retired City Manager
 - Texas Municipal League Intergovernmental Risk Pool
- D. Love, Chairman and City Councilman
 - City of Centerville, MN
 - League of Minnesota Cities Insurance Trust
- Scott Black, Chairman & City Commissioner
 - City of Dade City, FL
 - Florida Municipal Insurance Trust



LEAGUE OF
MINNESOTA
CITIES

Why were pools created?

- Insurance industry's "hard market" cycles
 - Limited insurance availability
 - Limited or no competition
 - High cost and drastic premium increases
 - Exclusions and coverage limitations

Why were pools created?

- Hard market cycles
 - 1972-1974
 - 1976-1979
 - 1984-1988
 - 2000-2003



Why were health pools created?

- Health coverage markets differ from state to state
- Reasons for forming health pools differ too

Pooling Solution

- **Like an insurance company, but different**
 - Non-profit
 - If a pool charges more than needed for losses and expenses, it's still the members' money
 - Owned and controlled by members
 - Sole purpose is to cover members' risks
 - Expertise and focus on local government risks
 - How to cover those risks
 - How to help control those risks

Does pooling work?

- Over 500 pools nationwide
 - Over 75,000 public entity members
 - Over \$17 billion in premium

The Pooling Solution

- Remember ***why*** pooling started
- Remember the pool's ***purpose***
- Remember how the pool is ***different from commercial insurance***
 - Non-profit
 - Serve members
 - Understand risks
- Remember too – we're ***running a business***

Issue

- Private insurers may be catching up to pools
 - Much improved coverage
 - Good loss control help
 - Claims & litigation management
 - Pricing is often very competitive, perhaps employing loss leaders
 - Use of predictive modeling (pricing, claims)

Things to Know

- State laws, regulations and reporting
 - What laws authorize creation of the pool and govern its operations?
 - Who regulates the pool?
 - What areas are regulated?
 - Coverage that can be offered?
 - Entities that can participate?
 - Claims practices?
 - Rate approval?
 - Minimum funding requirements?
 - Maximum funding limitations?

Things to Know

- Who can be a member of the pool?

Things to Know

- Board structure, scope and decision-making
 - How are Board members selected?
 - What programs do they oversee?
 - What is role of Board in decision-making (at what level and for what issues)?

Things to Know

- Coverages
 - What coverage does the pool offer?
 - What's the general philosophy about covering losses?
 - What coverage document is used?
- Other services
 - What other services does the pool offer?

Pool Functions

- Underwriting
 - Who do we accept for coverage?
 - What coverage do we provide?
 - What do we charge for it?
- Claims
 - Is this claim covered or not?
 - Should the claim be contested?
 - If it is covered, how much do we owe?
- Loss control
 - Can we reduce how many losses we have?
 - Can we reduce the cost of the losses that do happen?

Things to Know

- Staffing structure and how it relates to third-party contract relationships
 - What structure, roles, relationships does the pool have?
 - Why does this make sense for our operations?
 - What would we do if there was a significant shift?

Things to Know

- The League / pool relationship
 - Do the League and the pool have separate staffs?
 - Are the pool staff members League employees?
 - Do some staff members work for both the League and the pool operations?
 - What's the financial relationship between the League and the pool?

Issue

- The League-pool *financial* relationship
 - Potential source of tension between the League and the pool
 - Potential target for regulatory attention
 - Potential for legal challenge

Things to Know

- Agents
 - Does the pool use agents?
 - Required or optional?
 - What's the agent's role?
 - How is the agent compensated?

Things to Know

- Loss patterns and trends
 - What are our pool's major loss cost areas?
 - Are we seeing any changes in the frequency or cost of specific types of losses?
 - Are there other external trends that could impact our pool loss experience?

Loss Trends to Watch

- The economic climate
- Increasing medical costs
- Aging workforce
- The uncertainty surrounding the healthcare environment
- Work comp presumption legislation
- Changing weather patterns
- Tort immunity legislation / litigation

Things to Know

- Competitive environment
 - Who is our main competition and on what basis?
 - How do we view our role in the marketplace?
- Membership philosophy
 - Are there standards for who can join the pool?
 - What happens if a member leaves?
 - How are problem members treated?

Things to Know

- Underwriting and rating practices
 - What's our pool's pricing philosophy?
 - Market-driven?
 - Cost-based?
 - How much underwriting discretion do we allow?

Things to Know

- Nature and degree of risk sharing
 - Experience rating?
 - Deductibles and co-pays?
 - Multi-year risk sharing?

Things to Know

- Investment practices and policies
 - What investments can our pool make?
 - How are our investments managed?
 - What outcome are we looking for?
 - How long-term is our view?
 - Can we withstand large swings from one year to next?

Things to Know

- Self insurance and reinsurance structures
 - How much risk does the pool retain?
 - Asset/Credit Risk
 - Underwriting Risk
 - Reserving Risk
 - Operating Risk
 - Why is that right amount of risk for us?
 - Who are our reinsurers and how stable are the relationships?
 - Have we planned for the ways reinsurance can go wrong?
 - Multi-member or multi-line losses
 - Reinsurer insolvency
 - Difficulty resolving claims

Reinsurance

- Reasons to buy reinsurance
- Some basics to be aware of
- Things you'll want to know about your pool's reinsurance

Reasons to Buy Reinsurance

- Protect the pool's finances
 - Cost of a very large loss
 - Cost of an unusually high number of losses
- Capacity
- Specific risks

Excess of Loss vs. Quota Share

- Excess of loss
 - Reinsurer reimburses the pool for costs over a specified dollar amount
 - Called the “retention” or the “self-insured retention” (SIR)
- Quota share
 - Reinsurer reimburses the pool for a specified percentage of each loss

Retention

- How much risk is the pool retaining in different situations ?

Retention

- With a **higher** retention
 - Cost will be lower, all else being equal
 - Financial results will be more variable
 - Net cost – losses plus reinsurance cost – will ***probably*** be lower in the long term
- With a **lower** retention
 - Cost will be higher, all else being equal
 - Financial results will be more consistent and predictable
 - Net cost will ***probably*** be higher in the long term

Reinsurance Relationships

- Be forthright
- Evaluate the importance of long-term relationships
- Reinsurance structure

Questions to Ask

- Who are our reinsurers?
- How solid are our reinsurers?
 - Ratings, financial ratios, size, reputation
- What would it mean for the pool if one of our reinsurers were to default on a claim?
- What's our reinsurance purchasing strategy?
 - Develop long-term relationships?
 - Low bid approach?
- Are there any areas where the coverage we're providing to our members is broader than what our reinsurers are covering for us?

Questions to Ask

- How much could the cost to the pool be if...
 - a storm or earthquake damages many buildings in many different member cities?
 - there are liability claims against several different member cities, all arising from a single incident?
 - a single event results in property claims, liability claims, and work comp claims?
 - a liability claim results in extraordinarily high defense costs?
 - there's a class action suit against a member city, involving claims by many claimants based on many separate incidents?

Issue(s)

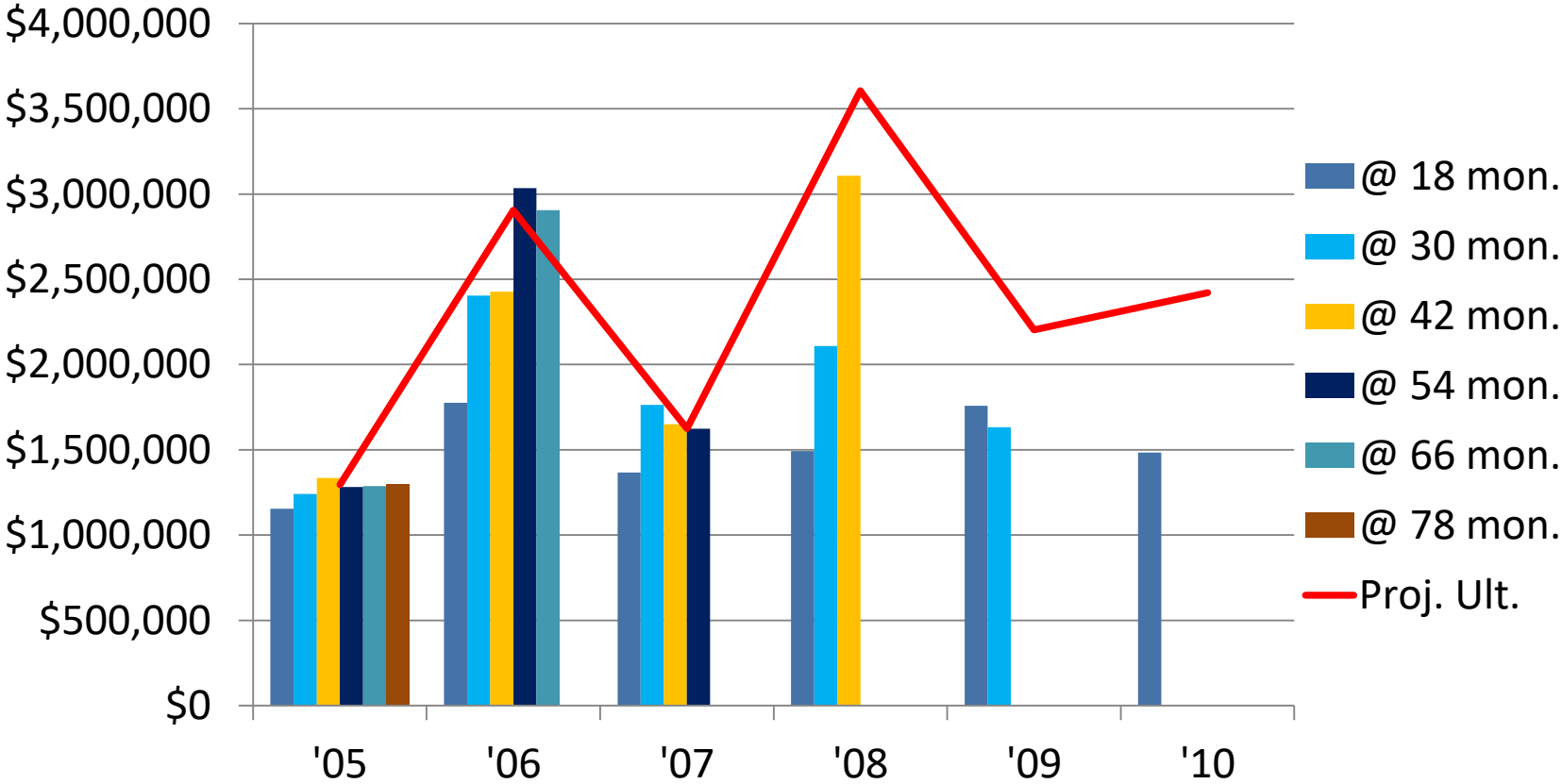
- What would we do if....
 - the reinsurance market hardens and reinsurance becomes much more expensive?
 - one of our reinsurers goes broke?
 - there's a series of catastrophes worldwide that exhausts the reinsurers financially, and the reinsurance we need is simply not available?

Pool Finances

- What are those actuaries really doing?
- What should I be looking for on a pool financial statement?
- How much fund balance* should we have?
- Setting premium rates: What do I need to think about?

* Or “surplus” or “member equity” or “retained earnings” or whatever your pool calls it

Pool Finances



Issue

- Suppose a regulator or a legislator or a member says the pool has more money than it needs and should return the excess to the members?
 - Do we have a policy on how much fund balance we need?
 - Can we explain why the target we've chosen is appropriate?
 - Have we been following our policy and returning any unneeded funds to our members?

Trustee Responsibilities

“Although board members and trustees may not have personally participated in or benefited from the apparent improprieties, their failure to provide adequate oversight appeared to contribute to the climate that allowed the questionable conduct.”

“Interviews of board members and trustees revealed that in most instance they failed to employ even modest independent examination or evaluation of staff proposals and action, but instead relied entirely on the judgment and integrity of staff.”

“We also noted that personnel did not always provide to board members and trustees complete or accurate information regarding proposed projects and plans. Therefore, it appears board members and trustees made decisions without being provided with (or independently gathering) essential information to determine if the proposals were in the best interest of TSBA or the trusts.”

-Extracted From 2005 Investigative Audit of TSBA, TNRMF and TNUET

Trustee Responsibilities

“However, we believe (1) at least some of the Trustees may not have adequately read the Trust and By-laws document, and (2) all lacked experience with the management and oversight of a self-insured group offering workers’ compensation insurance. This apparent lack of involvement and relevant experience of the Trustees may have been at least partially responsible for some of the issues cited in this section as well as throughout our report.

“...no evidence in any of the Trustee meeting minutes obtained to indicate discussions occurred about what number to use within the actuarially calculated range to record at any year-end.”

“...Trustees did not have input on the claims reserves balance recorded for any year-end.”

“...could not determine what role, if any, the Trustees had in determining the claims reserves balance to record at each year-end.”

Extracted From 2010 Forensic Audit of OHI

Trustee Responsibilities

- Seek information about the pool's mission, services, policies, and programs
- Review agenda and supporting materials prior to Board meetings
- Learn the basics
- Work to ensure financial, legal and programmatic integrity
- If something seems odd, check it out further
- Make sure decisions are appropriately justified and reasoned
- Ask questions -- silence is complicity

Trustee Responsibilities

- Represent your entity, ***but more importantly*** represent ALL members of the pool
- Refrain from making special requests from staff
- Protect assets and provide for financial oversight (you are a fiduciary)
- Keep building on your knowledge as a Trustee
 - Your pool's resources
 - NLC-RISC
 - AGRiP