



[Date]

[Name]

[Title]

[Address]

[City, State, Zip]

Dear [name]:

I enjoyed talking with you [date] at [specify event] and reviewing the core values and protocols of risk pools. You raised important questions about some of our financial practices, and they deserve a more thorough answer than was appropriate at the event. So I write to elaborate.

Background on pools and pooling

Let me start by telling you the three most important things to understand about the pooling movement. In brief, pools are about *partnership*, *performance*, and *service*.

- These partnerships first emerged in the early 1970s, when local public entities formed risk pools to reduce and stabilize long-term insurance costs and ensure access to the coverage and service necessary to sustain critical local government functions.
- It worked: Pools' performance has been consistently strong. Pools have sustained excellent financial performance, generated coverage innovations, and helped focus public entities on risk management as an operational priority.
- Even better, pools have become models of public-sector service – by providing outstanding service to their members, by promoting public entity collaboration,

and by showing how local governments and schools can improve service to the public through long-range planning and collaboration.

Pools' financial values and practices

At the foundation of the success, for our pool and for the pooling movement itself, are sound and well-established financial practices. Pools embrace this financial discipline in pursuit of an obvious and worthy goal: to manage their resources so they can pay claims and withstand the impact of especially catastrophic claims.

That's the core challenge – making sure there is enough money to pay claims over the long run. Remember, like all insurers, pools must set aside funds to pay claims even when the full cost of the claim may not be known for many years. Pools also must prepare for catastrophic losses that could occur outside typical expectations. Fires, school shootings or hurricanes are just three examples.

Appropriate pool funding is based on a series of complicated calculations of how much is needed for this purpose. This is called establishing reserves. The amount that is needed for reserves is estimated, reviewed, and endorsed by actuaries and other experts. These experts' reviews are conducted in compliance with state regulations and/or accepted insurance industry standards. To put it in plainer language, a household that sets aside money for a mortgage payment is essentially creating a reserve – because it knows it will encounter that obligation. When it sets aside another fund for emergencies, it creates the kind of sensible financial cushion that pools also create. The household may "have" that money, but it knows it is not free to spend it on just anything.

Commercial insurers also book reserves, of course. This is a standard, established, and essential industry practice. Commercial insurers must also accumulate an extra cushion which they call surplus, and that surplus, if not used, eventually contributes to their profit. Pools also need to cushion unexpected financial fluctuations. But pools are not-for-profit entities, so this cushion does not become profit; instead, it benefits the members. First, it smooths out results from year to year; then it contributes interest earnings as the pool keeps it invested while it is held; and finally, if it is not called on for adverse events, it is returned to members in the form of reduced future rates and/or dividends. But most importantly, any pool funds that are in excess of current needs – as determined by sound financial and actuarial evaluations and careful oversight by a pool's board of directors – is regarded first as an essential cushion against unexpected risk. This allows pools to provide needed budgetary stability.

The key bottom line is this: Pools' responsible financial practices enhance the ultimate taxpayer value of this inter-governmental cooperation. Please let me know if you have any questions or I can tell you anything else.

Sincerely,

[Name]