Q&A prep document on public entity risk pooling

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This question-and-answer document is intended to help pools and those who speak for them to anticipate and prepare for questions they are likely to receive in interactions with stakeholders and influencers including elected officials, regulators, members and prospects, journalists, and the general public.

Please note that this document is offered as a starting point for your pool. Your unique circumstances may require you to add additional questions or to modify answers. However, by adopting and promoting themes and messages included here, the messages for your pool and for the pooling movement will grow stronger over time.

Please note also that some of these questions intentionally include loaded and/or inappropriate terms ("kickback," for example). That's because part of the preparation process is developing the skill of recognizing inappropriate or loaded terms and then responding without acknowledging or using those terms.

Please note that this document is intended solely to help pool officials prepare for challenging conversations. It is not appropriate for distribution to journalist and other stakeholders as an FAQ document.

The basics of pooling

What is a pool?

Pools are groups of public entities that unite to share their risks and insurance costs and, in the process, improve their own commitment to safety, risk management, loss control, and insurance cost containment. Since the pooling movement emerged some

40 years ago, public entity risk pools have reduced and stabilized long-term insurance costs and ensured access to the coverage and service necessary to sustain critical local government functions such as public safety, schools, roads, and more.

All pools work to decrease financial risk to taxpayers created by routine, unanticipated and catastrophic events. Collaborative work undertaken by pool members reduces all members' risks and associated costs.

Although public-entity risk pools typically share common values and core purposes, each pool is unique, with features that reflect both their members' priorities and their states' traditions, laws, and regulations.

What is the current state of the pooling movement?

There are more than 90,000 public entities in the United States. The Association of Governmental Risk Pools (AGRiP) estimates that at least 80 percent of all local public entities participate in one or more risk pools.

There are an estimated 450 risk-sharing pools serving municipalities, school districts, and other public entities in the United States and Canada, and pools exist around the world. Most public entity pools have annual member retention rates of well over 90 percent. Pools have thrived because their members understand that membership has both benefits and responsibilities, and members have embraced those responsibilities in order to better serve the public.

Pooling is prevalent among smaller and mid-sized public entities because they derive especially powerful benefits from sharing risk through a pool.

How and why did pools form?

Public entities created pools beginning in the early 1970s because most commercial insurers abandoned the public entity market. At that time, and again in the mid-1980s, commercial insurers responded to changing risks local governments faced – trends that made this market less profitable – by making coverage too expensive, or not available at all. Pools emerged as the stabilizing force the public sector needed.

Today, pools are the source of innovation public entities need to address continuing challenges in risk management, even as the insurance crisis has calmed. Pooling is best embodied in a Swedish proverb: ***The best place to find a helping hand is often at the end of your own arm.***

How do pools admit members?

Most pools are authorized by state law to offer coverage only to public entities in that state. Some pools offer only certain kinds of coverage, such as workers' compensation or liability, or health benefits; others offer multiple lines of coverage. Some pools serve only certain kinds of public entities, such as school districts or counties; others admit different types of local governmental entities.

Pools embody the ideal of local control because pools are crafted to meet the specific needs of their public entity members, and are governed by their members.

If a public entity seeks admittance to a pool, the pool typically conducts an extensive analysis of the applicant's safety record, risk management programs and claims history. These evaluations borrow from protocols and methods that are common in the insurance industry, but reflect the pool's unique knowledge of the public sector. If the applicant is admitted, its costs of insurance will reflect it safety record and approach to risk management. In rare cases, a public entity may be denied admittance to a pool if its records of safety and risk management are unusually weak.

I understand the participation in pooling is especially common among smaller municipalities and public entities. If pooling is so attractive, why don't large cities participate in the movement?

Pooling is especially prevalent in smaller public entities because pooling creates economies of scale in both the financing and management of their risk. However, larger public entities sometimes participate as well because the benefits of collaboration in understanding emerging risk and developing management tools can be beneficial to them as well. Pools use actuarial methods to be sure that there is rough equity on the risk sharing among members of different sizes.

I have heard that some pools pay a kickback to the association that founded and/or sponsors them. What, if any, benefit do pool members get from such payments? Does the presence of such payments undermine the value of pool membership compared to acquiring insurance in the commercial marketplace?

Some risk-sharing pools are sponsored by associations of counties, school boards, special districts, or cities. These associations originally existed to provide other benefits of collaboration to their constituents, such as legislative and regulatory advocacy; this value has been extended to address the unique insurance and risk management needs of their membership. Sponsored pools and their associations mutually derive value from this relationship. They often share services or employees and they may have reimbursement arrangements that reflect the nature and value of such a relationship.

I have heard that many pools admit and insure members who would be bad risks in the commercial insurance marketplace. How do pools justify this higher willingness, compared to the commercial insurance marketplace, to offer insurance to potentially bad risks? Isn't that ultimately unfair to the other pool members and their taxpayers because it exposes them to higher risks and higher costs? (In other words, why should the “good” local governments pay for the “bad” ones)?

Pools admit members after an underwriting process designed to assess their risk management programs and safety records. This assessment helps the pool determine appropriate charges for that particular member, reflecting the member’s risk profile. Each of these practices is consistent with approaches common in the commercial insurance sector, but fueled by the unique knowledge pools possess about local government and school operations.

In any given year and regardless of participation in a pool, there will be “winners” and “losers” in terms of the public entities that face costly claims. Over the long term, these year-to-year differences smooth out. It is a fundamental truth of pooling that there is strength in numbers. When two or more public entities agree to share their risk and the insurance costs associated with those risks, their total shared risk costs are less than the sum of the same when those entities act alone.

This approach has been proven to work. Over time, pools' members pay lower insurance costs compared to their commercial insurance options. Those members, and their taxpayers, get the additional financial and human benefit of stronger programs in risk management, loss control, and other areas. In fact, commercial insurers' 10-15 percent profit margin by itself will account for taxpayer savings over the last 40 years that easily exceed $1 billion.

Pool members generally reduce both their risks and their associated insurance costs over time, regardless of the experience in any given year.

Pools compared to commercial insurers

What is the difference between a pool and an insurance company?

A pool is a not-for-profit entity directed by its members and committed to a long-term vision of reducing and stabilizing long-term insurance costs and ensuring access to the coverage and service necessary to sustain critical local government functions such as public safety, schools, roads, and more.

Unlike the commercial insurance industry, which uses profits to measure success, all pools provide services, coverage, and risk management tools with the singular goal of serving their membership. To do so, pools are directed by boards comprised of a representative body of their public officials. Pools work because every member has skin in the game and a voice at the table. Quite simply, pools are member-owned and member-driven.

Pools also develop fruitful collaborations with private sector insurers, when needed, to increase access to protection for unpredictable risks. Pools can also extend their own financial strength to most efficiently meet local government needs. They do this by forming specialty reinsurance programs to fulfill an important market niche; these pools, in turn, may access the commercial reinsurance market. In short, public entity risk pools value commercial partnerships that increase the value of pooling to participating local governments.

Isn't it better in the long run for a public entity to take advantage of the deeper resources and longer record of experience that the commercial insurance sector offers?

In both long-term cost containment and the development of game changing innovations in services and programs, the pooling movement has consistently outpaced the commercial insurance sector.

Over time, compared to the commercial insurance sector, public entity risk-sharing pools have reduced and stabilized long-term insurance costs while ensuring that public entities can access the coverage and service necessary to sustain critical local government functions such as public safety, schools, roads, and more.

What's more, the pooling sector has developed a strong tradition of long-term risk management that helps pool members and the entire public sector improve their safety records and, as a result, reduce taxpayer costs.

At the same time, it is worth noting that pools have been willing to take appropriate advantage of the great size and strength of the commercial insurance market, and commercial insurers still play a significant role in financing public-sector risk. Many public entity pools take advantage of the raw financial strength of the commercial insurance sector by securing excess coverage or reinsurance, or by forming other unique public-private relationships to the benefit of their local government members. These public-private partnerships have developed cyber-security coverage and services, pollution coverage, business continuity services, tenant user liability insurance programs (TULIPs), student accident insurance, and airport liability coverage.

The profit motive helps the private-sector insurance industry weed out weak, unsuccessful, and uncompetitive players. The public sector, in contrast, has no such built-in mechanisms for continuously enhancing customers' operational quality. Isn't that an argument for having public entities get their insurance from the commercial insurance marketplace?

The most valuable competitive tool commercial insurers have is the choice not to write certain risks. Public entities, in contrast, have no choice but to continue to provide the services the public needs regardless of the risks. This inescapable reality makes it clear why the commercial insurance industry is not the right solution for managing public entity risk in the long run. Pools work with their members to make them better risks, rather than walking away to maximize their own profits.

Still, there is value in competition to ensure efficient and effective operations. Pools compete constantly to attract and retain members. They are always in competition with commercial insurers, with other pools, and with public entities' own ability to self-insure. For this reason, the power of vigorous competition to improve all players in a marketplace enriches pools as much as it does commercial insurers.

Governed by boards comprised of their own members, pools adopt policies and procedures to ensure that members – and by extension the taxpayers – are well served.

Public entities decide for themselves how to manage their risks and secure insurance coverage. For the last 40 years, pooling has achieved what the founders of the movement sought – and more:

- Pools have sustained excellent financial performance, generated coverage innovations, and helped focus public entities on risk management as an operational priority instead of merely buying insurance as a commodity.
- Even better, pools have become both promoters and exemplars of cooperation among local government entities. Pools promote public entity collaboration and help demonstrate how local governments and schools can improve service to the public through long-range planning and collaboration.

Commercial insurers are subject to extensive regulation, including the requirement to hold a lot of capital and surplus to be sure they can pay the claims of their policyholders. I understand that pool members are at risk of facing assessments if the pool doesn't have enough money to pay the claims. Why would I want my town or school to take on this assessment risk?

Pools adopt funding philosophies that reflect the laws and regulations under which they operate as well as the needs and preferences of their members. This sometimes includes the legal ability to use assessments should funds be inadequate. Pools seldom assess their members, but having this ability ensures that the pool will never become insolvent, and that all claims will fairly and equitably be satisfied – no matter what. This is in contrast to commercial insurers which – despite regulation – are always at risk of insolvency. In fact, many public entities have experienced insolvencies of commercial insurers, such as Reliance and Kemper, which left the public entities with unpaid claims. In fact, there is more incidence of insolvency in the commercial insurance industry than among pools.

Don't public entities have a clear fiduciary responsibility not only to regularly bid out their insurance business but also to accept the lowest bid? And doesn't a public entity that joins a pool instead of taking a lower bid from a commercial insurer commit a clear violation of its fiduciary obligations?

Individual school districts, municipalities, and other public entities will have their own rules outlining fiduciary responsibilities. Naturally I cannot address each of those.

What I can say is that public entities are commonly criticized for considering short time horizons in making their operational and financial plans. The long-term cost-cutting record of pooling shows that public entities that embrace a longer timeframe both cut their costs and improve their risk management practices.

Pooling has allowed many public entities to come to understand that while purchasing insurance is a commodity, joining a pool is a professional service, and not subject to the same sort of "low bid" practices that apply to buying widgets. Managing risk is not a commodity.

Public entities considering their fiduciary responsibilities in making risk management decisions should focus most on the long-term record of the pooling movement:

- 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 the nation's most effective vehicle for promoting public entity collaboration and demonstrating how local governments and schools can improve service to the public through long-range planning and collaboration.

How can you prove your assertion that pools do more than commercial insurers to improve public entities' long-term risk and safety profiles?

The key difference between risk pools and commercial insurers is one of purpose: Pools do not exist to sell insurance coverage as a commodity to participating local government members. Thanks to this approach, pools have developed unique and focused expertise in public entity risk management that is designed to improve operations of each public entity – by reducing both the incidence and cost of risk. Pools work to improve their members' risk profiles. Pools are not concerned with short-term profitability, or return to shareholders, or how business in the public entity market stacks up against any other category of sales. Instead, pools are concerned with long-term financial value and the success of each participating public entity.

Pools work to improve members' risk profiles, which means they help to improve the effectiveness of their public entity members to serve the public, over time. The relationship between a pool and its members is a partnership, with both sides embracing a broader obligation to each other. A traditional relationship between a commercial insurer and their insured simply cannot compare. Pool members with more risk may pay more for coverage as a reflection of their operations or experience, but pools strive to help all members improve their risk profiles and thus decrease costs over time. For these reasons, pools do not sell insurance coverage as a commodity; in fact, most pools discourage – and, in some cases, exclude – local government participants that zigzag between pools and the commercial insurance market in an annual chase of the lowest pricetag. Taxpayers and local government entities benefit from stable and predictable pricing over the long haul.

At their best, pools operate with a strong commitment not only to their own members but also to the pooling movement. For this reason, pools work constantly to educate the public, municipal officials, taxpayers, and their own members and prospects about the advantages of pooling.

Tailored coverage: Pools have a long, successful history of tailoring innovations in coverage to meet unique and emerging needs within the public sector. No other coverage solutions are as adapted to public sector needs as those offered by pools. Examples include coverage for:

- Cyber risks and cyber security.
- Handling of hazardous materials and pollutants.
- Workers tasked with road maintenance.
- Underground storage tanks.
- School security to protect against violent acts.
- Specialized access to legal advice for managing special events, employment practices for civil service, planning and zoning, and other uniquely governmental situations.

Many of these programs have been so successful that commercial carriers seeking to compete with pools have tried to imitate or replicate them. In this way, the very presence of public entity pools has raised the quality and variety of coverage available to local governments from all sources.

Innovations in risk management and collaborative programming: Pools seek to contain long-term claims costs by investing heavily in training, new technologies, and consulting services for members in areas such as law enforcement, school athletics, and human resources, with a specific focus on the current and emerging challenges and needs of public entities. Examples include:

- Anti-bullying policies and programs for schools.
- Development of detailed job hazard analyses and practical return-to-work programs to protect public employees and contain work comp costs.
- Improved public safety techniques such as appropriate use of Tasers and specialized training for violent drug reactions.
- Various on-site and online training programs for law enforcement, streets and sanitation workers, and others.
- Extensive certification and training for teachers.
- Newsletters and bulletins with hot topics and loss control techniques.
- Multi-topic resource libraries on a range of issues in risk management and loss control that pool participants can share rather than each purchase on their own.
- Environmental compliance programs related to storm drain run-off practices.
- Federally mandated drug and alcohol testing programs.
- Employee assistance programs for the unique challenges faced by people serving the public.
- Single source legal advice for common public entity concerns.

Pools and their members focus on containing costs by preventing losses in the first place, and then by using specialized expertise to manage claims that do happen. Once again, pools' singular focus just on those losses that affect public entities makes it possible for them to provide innovations, cost controls, and service levels that are unsurpassed.

Results: While risk measurement is complicated, the evidence that pools have “bent the cost curve” is now clear.

At the macro-level, for example, in Workers’ Compensation, pools’ actuaries use a pools’ past claims to create funding requirements for future claims based on the classes of payroll that represent the pools’ members’ activities – police, fire, teachers, custodians, public works. These requirements are consistently lower – by 10% to 30% – than requirements for funding for the same types of employees in the same states, as promulgated using commercial insurer data.

For liability claims, a variety of analysts, including the global risk management consulting firm Towers Watson, have produced studies that clearly demonstrate pools have been able to resolve claims faster, and at lower cost, than commercial insurer data would predict.

In employee benefits, the rate of medical inflation for pools that provide health benefits has been consistently lower than the general industry.

Even for property risks, in which pools continue to partner with the commercial insurance industry to provide adequate coverage for natural catastrophes and catastrophic fires, pools have worked with their members to reduce the incidence of preventable losses, protecting the member’s annual budgets and preserving assets.

Comparison of pooling and commercial insurers

What are the advantages of pools compared to commercial insurers?

Pools are not-for-profit entities that take a long-term view of aggressive risk management to both contain costs and increase the safety of public facilities. Over time, 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 both promoters and exemplars of cooperation among local government entities. Pools promote public entity collaboration and help demonstrate how local governments and schools can improve service to the public through long-range planning and collaboration.

How do you justify the assertion that pools have saved taxpayers billions of dollars?

It is estimated that pools, through their four-decade history, have saved taxpayers billions of dollars. Depending on the pool, the member, the risk, and the state, individual pool members have reduced their cost of insurance, over the long run, by an average of 10-20 percent compared to buying commercial insurance. Several factors drive savings that public-entity pools are able to achieve.

- Public entity risk-sharing pools do not have to deliver profit, while commercial insurers typically build a 10-15 percent profit margin across all lines into their pricing.
- Because pools exist solely for public entity members and are governed by local government officials, they tend to spend less on marketing and "middlemen." Over time, this can reduce costs by another 10 percent compared to commercial insurers.
- Most pools are exempt from the taxes that commercial insurers have to pay – and build into their premiums.
- Pools generally have lower overhead costs than commercial insurers.
- Most importantly, pools understand local government risks and needs and work with their members to avoid and reduce losses that would otherwise be paid for by the insurers, and then passed through in future premiums paid by the public entities and – ultimately - taxpayers.

Even before reducing losses through risk management tailored to public entity operations, pools over time can provide coverage to members at a cost typically 15-25 percent below traditional insurance. In addition, as bodies representing member collaboration and shared financial interests, pools often provide a broad array of in-depth loss control services, training, claim management and risk consultation to public entities. This risk management philosophy ensures that risk-sharing pools offer the best value proposition for public entities and the taxpayers who support them.

What are the advantages of commercial insurers compared to pools?

It's inappropriate for me to speak for the commercial insurance sector. But I can say this: Commercial insurers and pools are so different that there is little value in a direct comparison. Pools have become the predominant form of insurance and risk management for local governments precisely because pools are not *just* insurance; they offer a better way to manage and deliver public service.

Instead, what I can tell you about is the 40-year record of success that the pooling movement has built. Here are the key things to know:

- Pools have sustained excellent financial performance, generated coverage innovations, and helped focus public entities on risk management as an operational priority.
- Pools promote public entity collaboration and help demonstrate how local governments and schools can improve service to the public through long-range planning and collaboration.
- For a variety of reasons, it is estimated conservatively that pools have reduced taxpayers' costs by well over $1 billion.

Innovations and risk management practices: To contain long-term claims costs, pools invest heavily in training, new technologies, and consulting services for members in areas such as law enforcement, school athletics, and human resources, with a specific focus on the current and emerging challenges and needs of public entities. Examples include:

- Anti-bullying policies and programs for schools.
- Development of detailed job hazard analyses and practical return-to-work programs to protect public employees and contain work comp costs.
- Improved public safety techniques such as appropriate use of Tasers and specialized training for violent drug reactions.
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Pools and their members focus on containing costs by preventing losses in the first place, and then by using specialized expertise to manage claims that do happen. Once again, pools' singular focus just on those losses that affect public entities makes it possible for them to provide innovations, cost controls, and service levels that are unsurpassed.

Innovations in coverage and other services: Pools have tailored coverage to meet unique and emerging needs within the public sector. No other coverage solutions are as adapted to public sector needs as those offered by pools are. Examples include coverage for:

- Cyber risks and cyber security.
- Handling of hazardous materials and pollutants.
- Workers tasked with road maintenance.
- Underground storage tanks.
- School security to protect against violent acts.
- Specialized access to legal advice for managing special events, employment practices for civil service, planning and zoning, and other uniquely governmental situations.

Collaboration with commercial insurers: It is also worth noting that pools often collaborate with commercial insurers. Pools have developed fruitful collaborations with other private sector businesses to address such needs as data breach recovery and disaster preparedness and recovery. Moreover, pools extend their own operations in order to most efficiently meet local government needs, through formation of specialty reinsurance programs to fulfill an important market niche. In short, public entity risk pools value the commercial partnerships that increase the value of pooling to participating local governments.

Shared accountability: Members of public entity risk pools encourage or require shared accountability. Members with less-than-ideal loss experience generally pay more for coverage. In extreme cases, members that are unresponsive to risk control efforts can face non-renewal by the pool. But first and foremost, pool members actively help one another take steps to reduce risks and improve safety profiles with the goal of reducing costs for individual members and the pool as a whole.

Pool members share accountability with one another because the pool is merely an extension of the membership with shared goals for risk outcomes. Members of pools are not just insurance policyholders; they are “co-owners” of the pool. This means that pool members rely on one another not just for coverage, claims management, and loss control but also for new ideas, best practices, and help solving problems. What's more, both within and between pools, there is a culture of collaboration, rather than

competition, which has allowed pools and their individual members to learn from one other and share resources.

How risk-sharing works

Why is it a benefit to the taxpayers of Northville to share risks with the taxpayers of Southville?

It is a fundamental truth of "insurance” that there is strength in numbers. Any insurance mechanism, whether a commercial insurance product or a pool, spreads risk and reduces volatility by sharing risks among separate organizations.

However, if Northville and Southville buy commercial insurance, they share risks with all of the policyholders that insurer writes. If they join a pool, they share risks only with similarly purposed public entities.

It is important to understand how pools' members’ commitment to shared accountability benefits all participating public entities and their taxpayers. Members of public entity risk pools encourage or require shared accountability. Members with less-than-ideal loss experience generally pay more for coverage. In extreme cases, members that are unresponsive to risk control efforts can face non-renewal by the pool. But first and foremost, pool members actively help one another take steps to reduce risks and improve safety profiles with the goal of reducing costs for individual members and the pool as a whole.

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This approach has been proven to work. Over time, pool members pay lower insurance costs compared to their commercial insurance options. Those members, and their taxpayers, get the additional financial and human benefit of stronger programs in risk management, loss control, and other areas. In fact, commercial insurers' 10-15 percent profit margin by itself will account for taxpayer savings over the last 40 years that easily exceed $1 billion.

If one pool member pays too little attention to keeping its facilities, events, and worksites safe, doesn't that create unfair risks and costs for taxpayers in another pool member that does a better job managing risk and safety?

In pools, members agree to share risks and the costs of claims. They do so knowing that two or more entities that share risks face lower aggregate costs.

However, public entities that join pools are still rewarded for good behavior and good safety records and punished for less successful approaches to risk management and loss control. A public entity with a strong record will pay lower annual costs; a public entity with a weak record will pay higher costs. In some cases, public entities that exhibit a long-term failure to improve operational weaknesses and reduce risks can be expelled from a pool.

Pools' long-term record of containing the risks and associated taxpayer costs is both clear and favorable:

- Pools have sustained excellent financial performance, generated coverage innovations, and helped focus public entities on risk management as an operational priority.
- For a variety of reasons, it is estimated conservatively that pools have reduced taxpayer's costs by well over $1 billion.
- Pools promote public entity collaboration and help demonstrate how local governments and schools can improve service to the public through long-range planning and collaboration.

By taking insurance business away from the private sector and moving it to pools that are quasi-public sector entities, aren't public entities simply finding another way to undermine private-sector employment and increase the role and strength of the public sector in the nation's employment profile?

Pools compete every day with the commercial insurance sector and, in some cases, with other pools. As a result, they produce the same beneficial effects on economic activity and innovation as any other competitor. Pools create jobs if they compete effectively, and they lose jobs to the commercial insurance sector if they don't.

The long-term effects of pooling have been favorable, not only for taxpayers but also for segments of the insurance industry. Pools have pioneered many innovative kinds of coverage; commercial insurers have tried to replicate many of these innovations. Pools have also worked with the commercial insurance sector to develop innovative partnerships and programs that did not emerge when commercial insurers competed only against each other before the pooling movement formed.

In what percentage of pools do members share joint and several liability with one another? What do pools do to explain the implications of shared risk and joint and several liability before they ask public entities to join?

Although there are no exact numbers or percentages of pools that embrace some form of joint and several liability, most do. Still, different pools define "shared liability" differently, so these numbers, even if they were available, would not be especially instructive.

Pools generally admit members only after carefully explaining how they work and how their long-term approach to risk management and insurance cost-containment is different from the approach of commercial insurers. Those explanations include reviews of the mechanics of pooling and explanations of how pool members can improve their risk profiles and contain costs by participating. Members join pools by entering into contractual agreements – often called “interlocal agreements” – that clearly define the benefits and responsibilities of membership. The relationship between a pool and its members is one of total transparency, and pools work continuously to educate their members about their benefits and responsibilities, because active, knowledgeable, engaged members make pools stronger.

How pools manage members' risk and risk profiles

What specific things do pools do to improve their members' risk profiles over time?

The list of ways that pools have improved public sector risk is very long, but can be summarized in a few categories:

1) The right incentives: Because a pool's members are its owners, the incentives to reduce risk are in perfect alignment among pools and their members. “Follow the money!”
2) The right knowledge: Pools are governed by public officials drawn from the membership. These individuals are generally experts in the business of the members – running schools, or counties, or towns, or special districts – so the policies they set and the guidance they provide are directly informed by relevant experience and expertise.
3) The right investments: Pools generally invest significantly in prevention and loss control services because these up-front investments reduce the larger, longer

term losses. Because pools position themselves for long-term relationships with their members, they embrace investments that pay off slowly but surely. Examples include wellness programs that are offered as part of health benefits; safety training for public employees; infrastructure improvements in public works; and safety retrofitting of schools.

4) The right information: With 40 years of focused work in public sector risk management, pools are the premiere repository of the data and information for analysis of what has gone wrong, and what works, in preventing and reducing these risks. In fact, with all the good pools have already done, this trove of information – and improving technology for analyzing it – promises that pools are positioned to continue to have positive impacts of public sector risk into the future.

Can you cite one example of a public entity that has been expelled from a pool, or denied admittance to a pool, because of its weak safety record?

In most cases, pools work with their members to improve their practices to avoid risk, and there are many more examples of this continuous improvement process than there are of pools simply "expelling" members. The growth, prevalence, and success of pooling over the past 40 years confirms the prevalence of this preference for improvement over expulsion., Nonetheless, there are times when severing the relationship with a non-responsive member is required. Pools do not like to broadcast the names of former members; however, there are a number of examples where pools have taken action to protect the integrity of the pool by refusing to continue membership for individual organizations. Here are a few examples with the name of the pool omitted:

- A municipal pool over the course of two years employed a well-defined "Performance Improvement Plan" to try to help one member improve its bad experience in police professional liability lawsuits. In the end, the member's management refused to embrace the recommended changes that the pool saw as necessary. As a result, the pool terminated the member.

- A school pool had a member for which hiring and firing practices were generating many lawsuits. The pool provided the data and analysis to demonstrate the problem and offered methods to address it. However, the member refused to accept the pool's recommendations. As a result, the pool discontinued offering this member liability coverage for employment practices.

Isn't it true that pools admit members, and provide coverage for those members, faster, more willingly, and with less rigorous underwriting than commercial insurers do? Isn't underwriting an essential step that prevents the insurer from accepting inappropriate levels of risk – in the case of a pool, for other public entities?

Pools admit members after a thorough review of their operational practices, safety records, and risk profiles. This review is necessary to calculate the costs the public entity will pay to participate in the pool. Like any individual or entity seeking insurance coverage, public entities joining pools will pay more if they have a weak approach to risk management and less if their commitment to risk management is strong.

Having said that, pools are not motivated by profits but by a commitment to improving risk management in the public sector. For this reason, pools will sometimes admit public entities with room to improve in their risk management practices out of a belief that the strengths and collective wisdom of the pool can help the new participating public entity.

What services do pools offer in the way of training, loss control, and risk management? How do they compare to comparable services offered by the leading commercial insurers?

To contain long-term claims costs, pools have a long tradition of investing heavily to develop and provide training, introduce new technologies, and provide consulting services to members in areas such as law enforcement, school athletics, and human resources, with a specific focus on the current and emerging challenges and needs of public entities. Examples of these service innovations developed by pools include:

- Anti-bullying policies and programs for schools.
- Development of detailed job hazard analyses and practical return-to-work programs to protect public employees and contain work comp costs.
- Improved public safety techniques such as appropriate use of Tasers and specialized training for violent drug reactions.
- Various on-site and online training programs for law enforcement, streets and sanitation workers, and others.
- Extensive certification and training for teachers.
- Newsletters and bulletins with hot topics and loss control techniques.
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- Environmental compliance programs related to storm drain run-off practices.
- Federally mandated drug and alcohol testing programs.

- Employee assistance programs for the unique challenges faced by people servicing the public.
- Single source legal advice for common public entity concerns.

You assert that pools exemplify inter-government collaboration, and that this collaboration has been so successful that pools now offer programs that are less directly related to risk management. What examples can you give?

There are countless examples of public entity pools influencing local government decision-making to improve the public sector as a whole. A sampling from pools around the country illustrates how meaningful their influence can be.

- *Training for new officials in school districts and local governments*

  Many pools conduct training sessions for members' newly elected or appointed officials. This basic training covers all areas of governance, and not just those directly related to risk management. Pools recognize that improving governance by broadly increasing competence and knowledge of governing officials will ultimately reduce risks faced by the governing body and associated operations.

- *Managing crises in public entity administration*

  Pools provide essential service and direction during disasters and crises, such as large-scale fires, school shootings, floods, and hurricanes. Examples include: the Newtown school shooting in Connecticut; the tragic deaths of 19 firefighters battling an Arizona wildfire in 2013; the 2007 collapse of Interstate 35 over the Mississippi River in Minnesota; the Station Nightclub fire in 2003 in Rhode Island; and the 2003 explosion of a Texas plant belonging to the West Fertilizer Company.

  In these kinds of events, pools serve as an on-the-ground extension of the local governments and schools they serve, offering staffing and resource support, meeting with families to explain benefits, helping first responders get the equipment they need, and assuring every effort is made to reduce the ultimate impact of any crisis. And, pools make sure their members have financial resources immediately available in order to respond quickly and effectively.

  Even when the crisis is the result of local government operations – an event that is thankfully infrequent – pools are still part of the solution. California state lawmakers and regulators asked for help from the pool when a small city's operations were driven into bankruptcy by alleged malfeasance of a municipal official.

On a broader basis, pools have been financially disciplined, managing their resources so that they can withstand large losses. Pools in hurricane-exposed states withstood tens of millions of dollars of losses from Katrina, Rita and Wilma in 2005; pools in tornado alley have helped their members recover from devastating events of recent years; pools throughout the upper Midwest have responded to member flood losses that commercial insurers would not have covered. Employee benefits pools have been able to manage smooth-out spikes in medical cost inflation that commercial carriers pass on in the form of sudden 15 or 20 percent premium increases. In all of these cases, the funding came from the pools' reserves and any added financial cushion, and their prudent use of reinsurance to protect public entities – and their taxpayers – from sudden budgetary increases. This has been especially valuable through the recent financial downturn, as local governments and schools faced extreme financial pressure.

- *Participation in state efforts to address local government problems*

Pools use their risk information and resources to collaborate actively with state agencies and evaluate the impact from possible changes to state policies. For example, a risk pool for school districts in California worked closely with the state Commission on Health and Safety and Workers' Compensation to develop and implement solutions to increasing workers compensation costs that required significant concessions by unions. Another example is how a group of pools from throughout the United States worked to evaluate available research on cancer prevalence among public safety personnel. This analysis was used by states to consider expanding workers' compensation benefits to those municipal employees. Recently, pools and public entities throughout New Jersey have formed a Safety Alliance that leverages resources and access to information and services to keep employees – and the public they serve – safe.

- *Support for inter-government collaboration*

Many pools have streamlined coverage language to allow local government emergency responders to provide assistance across jurisdictional lines, without being stymied by potential arguments around how to handle a piece of equipment sustaining damage, or an emergency responder who is hurt while providing mutual aid. For example, the Virginia Municipal League Insurance

Programs (VMLIP) collaborated with the state and other stakeholders to craft a statewide mutual aid agreement for this very reason. Pools find similar solutions for public entities that want to share an employee or contract between agencies to take maximum advantage of available skills. Pools have not only avoided becoming big and bureaucratic, but have also broken through the traditional bureaucracy that often afflicts government.

Regulation

Isn't it true that pool costs are lower because there is little or no regulation, and commercial insurers labor under a much tougher and costlier regulatory burden?

Commercial insurers and pools are fundamentally different and therefore should be regulated differently. Commercial insurers, unlike pools, are for-profit entities. They reach across many industries and jurisdictions. They also have a history of insolvencies and customer complaints. For this reason, they require an approach to regulation that is not relevant to member-owned, member-driven pools. To the extent the burden created by regulation of commercial insurers is costly, it is one that public entities can avoid through pool membership.

Pools' long-term record of success containing costs and improving public entities' risk management records is generally driven by factors other than the level of government regulation. For example, pools are not-for-profit entities and therefore do not build into their prices a profit margin that is typically 10-15 percent or more for commercial insurers. Pools also have lower administrative overhead costs, and they do not pay taxes that commercial insurers pay.

It is important to understand that pools in all states are subject to rigorous oversight by their own governing boards. These boards are made up of members who have the most at stake – regardless of whether their efforts are supplemented by state regulation or other third-party review processes.

The most important pool regulation comes from members themselves through board oversight and governance. Local government entities, through their dedicated service on pool boards, oversee and manage pool-wide outcomes. This self-regulation works.

External regulation of pools varies from state to state and by type of risk. In some states, regulation of pools is comparable to regulation of insurance companies; in others, regulation derives exclusively from traditional local government oversight; and in still others, the regulatory practice lies somewhere in between. Any approach to regulation must understand, however, that pools are fundamentally different from commercial insurers in purpose, core values and operations. Pools pay claims like insurers do, but pools do much more. Commercial insurers are in business to make money; pools' purpose is to reduce risk and enhance public services – which in turn saves money and improves outcomes for local governments and their taxpayers.

Many pools ensure appropriate governance and operations by undergoing the rigorous standards or accreditation processes of respected national and state agencies.

- Industry-developed pooling standards reviews or accreditation processes typically require a thorough review and audit of all policies and procedures related to governance, operations, and financials.
- Pools usually undergo other rigorous reviews: independent audits, actuarial reviews, and reviews of claims, underwriting, and other operational areas.
- This "self-regulation" by pooling industry groups has been most effective because the pools themselves understand that they all benefit from the effectiveness of the others.

This approach is similar to the manner in which institutions such as colleges, universities, and hospitals are accredited.

AGRiP Advisory Standards (for pools that have achieved "AGRiP Recognition")

Many pools embrace good governance and quality control through the AGRiP Recognition Program, crafted on the collective experience and expertise of the first 30 years of pooling leaders. Recognition status is built on self-evaluation by the pool of its compliance with the AGRiP Advisory Standards for Public Entity Risk and Employee Benefits Pools. The recognition process allows pool staff and service providers to ensure that they are operating consistent with the recognized standards of successful pools, and allows pools' boards to ensure that they are meeting their fiduciary responsibility.

CAJPA Accreditation [for pools that have achieved "CAJPA Accreditation"]

The CAJPA Accreditation Program is designed to ensure quality and professional standards for all risk management pools in California, regardless of size, scope of operation, or membership structure. The process involves a detailed program study and evaluation, committee review, and issuance of a report conferring "Accreditation" or "Accreditation with Excellence."

Shouldn't public entities that in many cases promulgate their own regulations welcome the benefits of government regulations to help ensure that they themselves operate efficiently and properly?

Many pools operate successfully in their state's regulatory environments and reasonable oversight is welcomed. Pools are not averse to regulation and oversight which appropriately recognizes the nature of the member-owned, member-governed collaborations that they represent – which is of course quite different than either an individual public entity, or a commercial insurer.

Regardless of the level of regulation imposed by their state governments, all pools embrace transparency and responsible oversight. Pools recognize that their long-term success depends on effective governance, and efficient operations based on appropriate financial methods and models. All successful pools act aggressively to ensure that their oversight processes help create and sustain the right operational and financial systems.

The challenges facing pooling

At a time when most local government entities are facing historic pressures on their budgets and on their ability to collect tax revenues, pools are maintaining reserves and surpluses that are beyond what their regulators require – or even beyond what their own members might hold as reserves. Shouldn't pools be required to return surpluses to the public coffers for schools, highways, and public health?

In some states, legislators and/or regulators have begun to question what their role should be in pooling because pools do not fit neatly into preconceived notions of either "insurance" or "government entity." Pools – which are separate legal entities comprised of their members -- exist so that many local government entities can share their risks and insurance costs over many years. By its nature, this approach to risk management requires the commitment of financial resources consistent with the members' own risk appetite – as reflected in its board's actions – to neutralize what would otherwise be year-to-year volatility.

For example, most pools' members want the pool to ensure it has sufficient funding to pay claims in which the full cost may not be known for many years, as well as any catastrophic losses that could occur outside typical expectations. Appropriate pool funding is based on a series of complicated calculations of needed reserves. The amounts needed are estimated, reviewed, and endorsed by actuaries and other experts. These reviews are conducted in compliance with state regulations and/or accepted insurance industry standards. Pool members have access to all of the pool's financial records, projections, and supporting analyses.

While pools are similar to commercial insurance providers in that they collect contributions from participating members and establish fund balances over time, there is a fundamental difference. When commercial insurers collect more money than they ultimately need to pay claims and related expenses, that surplus ultimately becomes profit. In the case of pools, any funds that are in excess of 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. There is no "profit" in pooling: pools invest reserves and surplus on their members behalf, and when prudent financial analysis allows, they return excess funds to their members through dividends or rate credits.

Pools' funding considerations such as these add to the ultimate taxpayer value of this inter-governmental cooperation, but can be difficult to understand and compare easily to traditional governmental budgeting practices or commercial insurance regulatory structures.

Shouldn't pools be required to book more modest levels of reserves so that these funds are available for the same public priorities of unquestioned value?

Pool funding strategies are based on a series of complicated calculations of needed reserves. Reserves are funds set aside to meet the obligations of known claims and estimates of expected claims from incidents that have occurred but not been reported. This practice is comparable to a household practice of setting aside funds for no future obligations, such as mortgage payments and utility costs. Money is set aside for these purposes as part of the best possible financial management plan, and funds cannot be considered available for other purposes or free to be "returned" to anyone.

Pools establish their own policies and procedures for funding claims, reserves, and surplus, assuring these policies and procedures are consistent with minimum standards that established by external regulators. Reserved amounts needed are estimated, reviewed, and endorsed by actuaries and other experts. These reviews are conducted in compliance with state regulations and/or accepted insurance industry standards. Pool members have access to all of the pool's financial records, projections, and supporting analyses.

If public entity pools are overseen by elected boards composed of public entity officials, isn't the strength of that oversight undermined continuously by the inevitable turnover in the ranks of public officials due to elections, retirements, and so on?

Pools are subject to the same positive and negative effects of turnover among public servants. They are no different from any other entity in this regard. Because pooling is so fundamentally different from commercial insurance in its emphasis on risk management and treating insurance as something other than a commodity to be bought at the best price, the leaders of the pooling movement work constantly to educate all of their stakeholders about how pooling works. These stakeholders include public officials with public entities that are or could be pool members, as well as elected officials, regulators, and the general public.