Fact Sheet: Public Entity Risk Pools

Overview

- Local public entities form risk pools to reduce risks and associated insurance costs.
- Pools were created to reduce and stabilize long-term insurance costs and ensure access to coverage and service needed to sustain key local government functions.
- It worked. Pools have sustained strong fiscal performance, created new coverages, and reduced risk by helping member public entities focus on risk management as an operational priority.
- Even better, pools exemplify non-bureaucratic, efficient, and effective public entity collaboration. They show how schools, counties, municipalities and other local governments can collaborate to improve service and long-range planning.

History and current status of pools

- Local governments began forming pools after commercial insurers abandoned the municipal market in the 1970s, and then again in the 1980s.
- Today about 450 pools serve municipalities, school districts, and other U.S. and Canadian public entities. There are of more than 90,000 public entities in the United States. The Association of Governmental Risk Pools (AGRiP) estimates that at least 80 percent of them participate in one or more pools.

How pools work

- Pools are not-for-profit, member-driven public organizations. Participating public entities are co-owners of the pool, and pools are governed by elected member boards.

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- Pools share core values, but each is unique. Some serve only certain entities (such as school districts); others offer only some kinds of insurance (e.g. workers' comp).
- Pools provide long-term risk management; they do not offer insurance as a commodity. Their goal is to contain and stabilize long-term costs while reducing risks and increasing safety.
- Pools harness the power of group leverage: When two or more public entities share risk, aggregate costs are less than the sum of participating entities' costs. All members' contributions to a risk pool help pay claims for any member's claims. When pool members share knowledge and information, they learn to reduce the risk associated with their primary purpose: providing critical public services.
- Many pools transfer excess risk to commercial reinsurers. Some have worked with commercial insurers to develop innovative risk-reduction programs (addressing needs such as data breach recovery and disaster preparedness and recovery).
- Some pools are sponsored by associations. Both these pools and their sponsors get value from this relationship – for example, by sharing services or employees. They may have reimbursement arrangements that reflect the value of this relationship.

Advantages of pools

- Pools have saved taxpayers billions of dollars. Several factors create savings:
  - ✓ Unlike commercial insurers, pools add no profit margin (typically at least 10-15 percent) to rates.
  - ✓ Pools spend less than commercial insurers on administration and middlemen.
  - ✓ Pools are often exempt from the taxes that commercial insurers pay.
  - ✓ Most importantly, pools emphasize helping members avoid and reduce losses.
- 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 annually compared to buying commercial insurance.
- Pools view risk management and insurance broadly. They do not sell insurance as a commodity, focusing solely on annual costs. Instead, pools focus on long-term cost containment created by a long-term focus on risk management and loss control, and effective claim management.
- Pools emphasize shared accountability. Although pool members with weaker risk-management records pay more, the culture of pooling emphasizes helping all public entities reduce their risk and, in the process, reduce associated costs.
- Pools generate innovations in insurance coverage (cyber-security; hazardous materials and pollutants; underground storage tanks) as well as risk management (anti-bullying programs; informational services; wellness; training and certification programs).

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Regulation of pools

- All pools practice self-regulation through member-based boards of directors. This is the most effective form of regulation because the directors – and the members they represent – understand the risks they are managing and have skin in the game.
- Some states regulate pools. Pools in those states strive to ensure that regulators understand basic differences between pools and insurers – so each is regulated appropriately.
- Many pools ensure appropriate governance and operations by undergoing the rigorous standards or accreditation processes of respected national and state organizations.
  - ✓ Industry-developed pooling standards, reviews or accreditation processes typically require a rigorous review and audit of all policies and procedures related to governance, operations, and financials.
  - ✓ Pools usually undergo other tough 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.

How pools model inter-governmental collaboration

- Public entity pools first modeled government collaboration in risk management by sharing risk to reduce the cost of insurance and sharing knowledge to reduce risk, overall. Today, pools foster collaboration in many areas of local government activity, such as:
  - ✓ Training officials from municipalities, schools, and special districts in effective governance and administration.
  - ✓ Managing public crises (hurricanes, floods, school shootings).
  - ✓ Helping state agencies seek solutions to local government issues.
  - ✓ Monitoring regulatory and legislative developments to protect local public entities from adverse developments and to encourage laws that protect the public entities from undue burdens.

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