



**Risk-sharing pools have surpassed commercial insurance for public entities – cities, counties, schools, and others – because they demonstrate effective government collaboration.**

**Partnership. Local public entities form risk pools to reduce and stabilize long-term insurance costs and ensure access to the coverage and service needed for critical local government functions such as public safety, education, roads and transportation, and more.**

### History

Public entities created pools beginning in the early 1970s after 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. 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.**

## *Current status*

It is estimated that there are over 500 risk-sharing pools serving municipalities, school districts, and other public entities in the United States and Canada, and pools are emerging around the world. 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.

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

Regardless of geography or other demographic factors, 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.

## *How pools offer coverage*

Pools embody the ideal of *local* control because pools are crafted to meet the specific needs of their public entity 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.

## *Pools are member-directed*

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. In doing 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, member-governed, and member-driven.

### *Appropriate collaboration with commercial insurers and other private-sector entities*

Ironically, because of pools' expertise managing public entity risks, local government agencies and schools are once again attractive to commercial insurers. 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.

Pools also develop 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.

### *Sponsored pools*

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. These member benefits have 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.

### *Degree of risk sharing*

In pools, members agree to share the cost of risk: any member's contributions to a risk pool help pay claims for all members' claims. For smaller public entities, this eases the burden of potentially volatile claim costs from one year to the next. For all members, this risk-sharing structure intensifies pool members' interest in loss control and claim management, and it helps explain why pools are especially effective in working with their members on these priorities.

State regulators understand this as an advantage because claim obligations from pools and their members are less likely to become the responsibility of the state due to insolvency of the pool.

### [Strong outcomes for public sector claimants](#)

Public entity pools provide the best possible support and compensation for deserving claimants even as they simultaneously succeed in containing long-term costs. The best pools treat financial performance and “human” outcomes as comparable authorities. For example, when a public sector worker in Virginia became a paraplegic in a worksite injury, the pool modified his house to meet his needs and helped his public employer find appropriate work alternatives. Today, this individual remains productively employed, and his claim is less than it might have been with traditional, adversarial approaches.

By way of another example, many pools offer “no-fault sewer back-up coverage” for their local government members. This coverage allows a municipality to provide homeowners with a meaningful payment to cover costs of a storm or wastewater infiltration due to events like massive rainfalls, even when there is no municipal liability for the problem. Pools help local governments solve real problems for their constituents.

Liability pools will fight claims whose settlement would set bad precedent, and settle legitimate claims, avoiding wasted time and attorney fees. Employee benefits pools invest in wellness programs for their members and the members’ employees and families; the payoff of these investments can only be measured over the long run. Through pooling, public entities achieve both short- and long-term benefits.

**Performance. Pools have sustained excellent financial performance, generated coverage innovations, and helped focus public entities on risk management as an operational priority.**

### [Strong financial performance means taxpayer savings](#)

It is estimated that pools, throughout their four-decade history, have saved taxpayers billions of dollars. Several factors drive savings that public-entity pools are able to achieve.

- Public entity risk-sharing pools do not have to deliver profit. 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 a variety of taxes that commercial insurers have to pay – and build into their premiums.
- Pools generally have lower corporate 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, over time, risk-sharing pools offer the best value proposition for public entities and the taxpayers who support them.

### [A broad view of insurance and risk management](#)

Pools do not sell insurance coverage as a commodity to participating local government members. 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 focused on 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, 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 best price. 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 current and prospective members about the advantages of pooling.

### *A cultural advantage of pools: 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. 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.

Pools are an excellent example of collaboration among local governments, inclusive of cities, counties, school districts, and other public entities.

### *Tradition of quality control*

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 is self-regulation that 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 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 public funds and improves outcomes for local governments and their taxpayers.

To further enhance self-regulation, pools might also choose to meet accreditation standards of respected national and state organizations that understand their operating sphere. This process typically requires a rigorous review and audit of all pool policies and procedures related to governance, operations and financials. This approach is similar to the manner in which institutions such as colleges, universities, and hospitals are accredited. In addition, pools typically undergo rigorous annual independent financial audits, actuarial reviews, and other independent reviews of specific operational aspects such as claims or underwriting.

#### *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”]*

This 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.”

#### *Innovations in coverage*

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. 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 imitated or replicated them. In this way, the very presence of public entity pools has raised the quality and variety of coverages available to local governments from all sources.

### *Heavy focus on innovation in risk management and collaborative programming*

Pools strive to reduce long-term claims costs through a variety of proactive practices. For example, pools invest heavily to 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 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 workers' compensation 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, street maintenance 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 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 servicing 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.

### *Strong participation and retention*

Of more than 90,000 local government entities in the United States, it is estimated that as many as 80 percent of them get at least some of their coverage needs met through risk-sharing pools. 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.

### *Lower losses through superior risk control and claims handling*

The pooling sector's long-term performance on reducing risk, as measured by complex actuarial analysis of "loss cost trends" and "pure premiums," is substantially better than the commercial insurance sector's record serving public entities. 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, and so on. These requirements are consistently lower – by 10% to 30% -- than the 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 that 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.

**Service. Pools provide service to members, 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 pools promote service and promote and model local government collaboration.*

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, allowing 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 bedevils government.

### [The challenges pools face](#)

Building on their success, public entity risk pools face many challenges. Pools are expected to remain good stewards of the public's dollar, to be increasingly transparent, and to be more efficient and effective than ever. To remain a powerful model of local government cooperation, pools must successfully address many different challenges that have these values at their core.

- *Legislative and regulatory initiatives related to pool funding*

In some states, legislators and 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 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 significant financial resources to neutralize what would otherwise be year-to-year volatility.

For example, pools must ensure they have 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 any added financial cushion on their members’ behalf, and when prudent financial analysis allows, they return excess funds to their members through dividends or rate credits

Pool 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.

- *The need to keep pace with evolving technology*

The complex nature of risk, local government operations, and efficient business workflow requires that pools aggregate and analyze huge volumes of data. This data and insights gleaned from it help pools understand what works, and what does not, in risk management. This intensifies both the challenge and the importance of keeping pace with technology. Pool executives are especially focused on the importance of data mining, grappling with "big data," and analytics. In addition, every dollar of efficiency gain through technology is a dollar back to participating members at a time when local government needs all the financial resources possible.

- *Competition from commercial insurers*

Public entity risk pools have consistently offered public entities clear advantages over commercial insurance alternatives. These advantages include a stronger focus on sector-specific risk management and favorable long-term costs. In many cases, pools have forged strong partnerships with commercial carriers to bring better solutions to local government members.

Ultimately, though, commercial insurance is a profit-driven business and when there is opportunity to increase profitability through selling insurance to public sector entities, the commercial markets will respond. Commercial insurance entities may use their financial resources to undercut pools’ pricing, and local governments may be enticed to take advantage of short-term savings. Pools face the challenge of making sure newly elected officials and new local government

staff understand how short-term savings are easily offset or even dwarfed by longer-term pricing volatility.

Pools do not need to generate profit – which gives them a built-in pricing advantage. Over time, pools have been and will continue to be the lowest-cost, best-structured coverage option for local governments. This does not necessarily mean that a pool will offer the lowest price for coverage in any given year. This reality can challenge public entities and their officials, who face pressure from both budget needs and weary taxpayers.

- *Transitions in local government leadership*

Most of the municipal officials who founded, nurtured, and developed the best understanding of the pooling movement are gone or retiring. Newer municipal officials have less direct experience with the long-term benefits of pooling, and they probably do not remember or care much about the public risk coverage crises in the 1970s and 1980s. Keeping elected and appointed municipal officials connected to pooling concepts, invested in pooling outcomes, and committed to a long-term vision is of primary concern to pool executives and their boards of directors. Critical to this is the understanding that pooling is so much more than insurance; it is better government.

- *Fiscal pressures on public entities*

Public entities are still struggling with fiscal pressures created by the economic downturn of 2008, and the need to do more with less has become an operational requirement. Future demographic shifts will put additional pressure on tax revenues that support local government services. In these circumstances, municipal officials, especially those with little historical perspective on the long-term value of pooling, might be tempted to overlook the financial and cultural value of pools in favor of short-term price gains that they believe can be secured by rate shopping.

- *Increasing pressures from new presumption laws and changing tort protections*

At least 40 states have laws creating presumptions that certain injuries or illnesses have specific work-related causes, and in the process guaranteeing benefits or higher compensation to public employees suffering from those specific injuries or illnesses. While compensating public employees appropriately for work-related injuries and illness is important and the right thing to do,

expansion of presumption laws into areas influenced by political pressure rather than scientific evidence drives up costs for local governments, their taxpayers, and pools.

Local governments today also struggle with constant threat to longstanding governmental immunities and tort cap protections. Every day, our local government decision-makers and employees are called on to make tough decisions about expenditures, priorities, public safety, and public services. These appointed and elected officials must have leeway to make decisions based on the best outcomes and taxpayer interests, not on their fear of liability or court actions. Changes to immunities and tort cap protections increase fiscal pressures in some very unproductive ways for public entities, pools, and taxpayers.

- *The need for better explanations of pooling and its benefits*

Risk-sharing pools for local governments have succeeded for four decades by staying true to their public sector mission and operating with that primary audience in mind. Public entity pools have not concerned themselves much with public perception, PR campaigns, or other marketing to raise awareness – but have all the while been building to become a major influence within the public sector across the United States. Now, standing at the pinnacle of the pooling movement, pools realize they have to tell a broad and complex story in an easy-to-understand and compact manner. Increasing competitive, technological, and regulatory pressures – not to mention emerging risks – will inevitably require pools to change how they operate and communicate more clearly and proactively about the pooling movement. With these changes, the pooling movement can sustain its success and its standing as the nation's best example of cooperation among local governments.