

Think Tank Report: Planning for COVID-19's Impact on Pools

March 31, 2020



Introduction

On March 25 and 27, 2020, AGRiP convened a COVID-19 think tank to discuss potential impacts of the coronavirus pandemic on public entity risk pools. These materials summarize the insights generated in those meetings, outlining:

1. A framework for thinking about the crisis (impact vs. certainty)
2. Three possible “future zones” for local public entities dealing with COVID-19 in the next six months
3. The impacts for pools given what participants believed to be the most likely future for their public entity members
4. What suffering, sustained and successful pools might look like over the next nine months
5. What pools can do to avoid bad outcomes

This report is not a comprehensive analysis of all possible impacts to pools from COVID-19. There are many unknowns right now, and circumstances vary greatly by state and by pool.

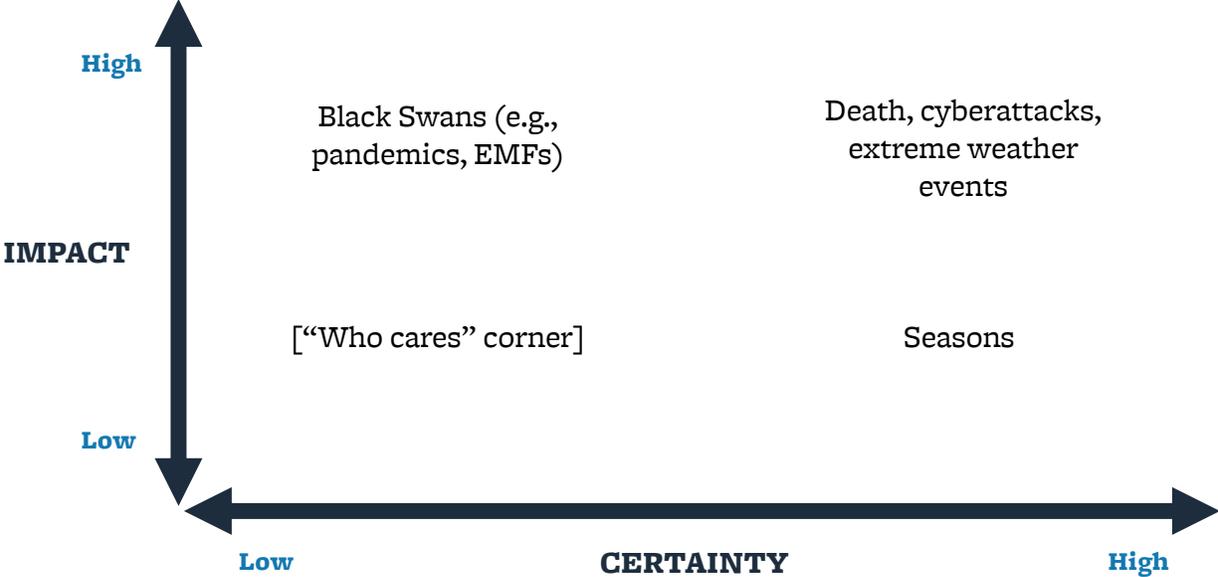
This report is intended as a springboard for your pool’s work to identify, evaluate and prepare for how the coronavirus pandemic may impact your membership and your operations.

Questions or comments about this report should be directed to Executive Director [Ann Gergen](#).

Be sure to visit our [Pooling Community COVID-19 Resource Center](#) for the most recently published pool-specific information.



1. Impact and Certainty Framework

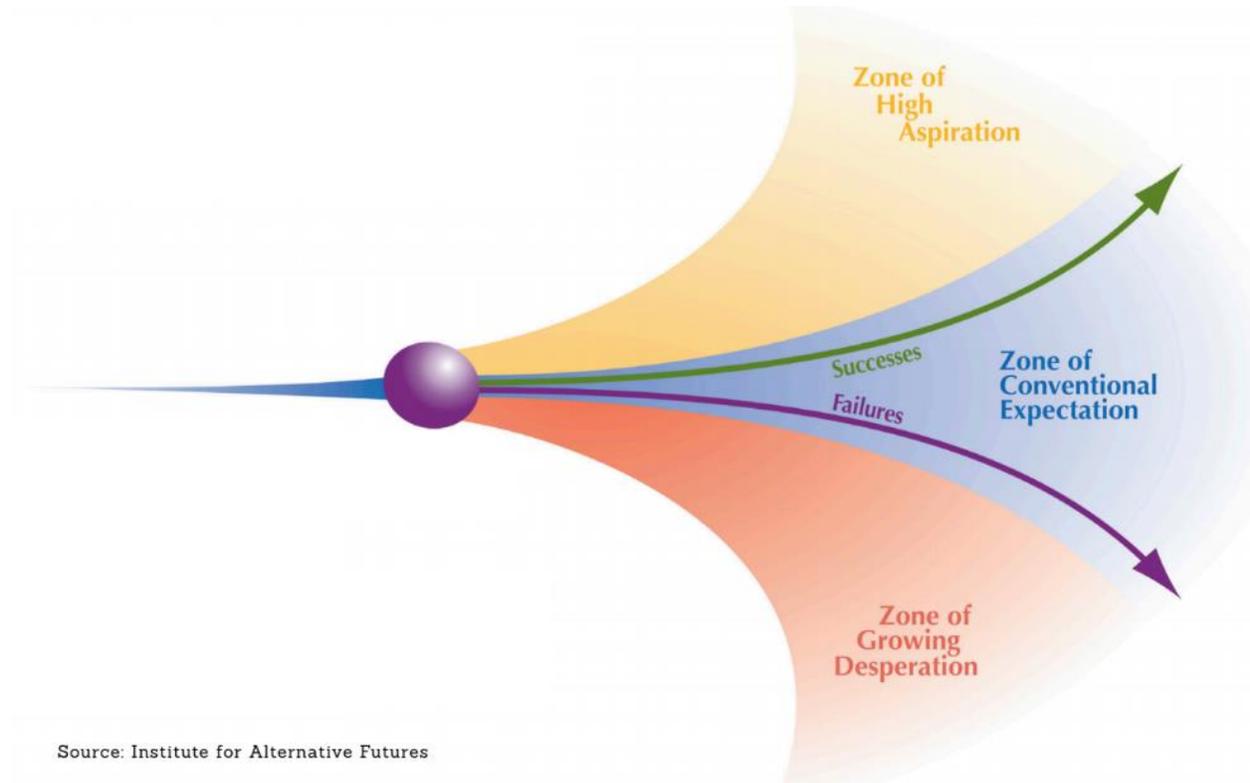


The framework above, which organizes potential events across “impact” and “certainty” axes, is a useful way to conceptualize the ongoing COVID-19 crisis.

As this pandemic was a relatively unexpected yet potentially devastating event, it was likely assessed by most public entities and pools, as well as by most other organizations or industries, as part of the “high impact, low certainty” quadrant.



2. Possible Futures for Local Public Entities



Think tank participants discussed what local public entities might be experiencing in three potential COVID-19 futures:

- A **zone of growing desperation** in which the situation is worse than expected
- A **zone of conventional expectation** in which the situation is about as expected
- A **zone of high aspiration** in which the situation is better than expected

It's important to begin with this member-focused perspective. Pools are extensions of their members and highly responsive to member needs both short- and long-term. Understanding the plausible futures of local public entities will help a pool better appreciate its own future and needs.

What's plausible for local public entities if there is "growing desperation" from COVID-19?

In this zone, things go worse than expected. The public sector is often asked to "do more with less." But the pandemic creates overwhelming needs – just as it erodes the ability and elasticity of public entities to respond. Despite best efforts, people don't get the help or structure they need.

- Public entities don't reopen facilities, don't restart programming, and don't rehire staff. Entities are forced to lay off key personnel with local government experience. There aren't enough staff to keep buildings from becoming dilapidated.
- In addition to losing income from programming, public entities lose investment income and tax revenue. Budgets tighten. Some public entities default on their payments. Others go through significant reorganizations and possibly consolidations.
- Public entities struggle to adapt to new regulations and pressures on social safety nets.
- The entire educational system grinds to a halt. Schools don't reopen for the rest of the school year, and some don't even open in the fall. Though unprepared for remote education, districts are forced to transition their programs online. Schools struggle to serve special needs students, many of whom need a traditional, brick-and-mortar classroom environment to thrive.
- Police officers and firefighters are exposed to COVID-19 on a regular basis, resulting in force reductions.
- There is high loss of life among local public entity officials, both elected and appointed. In some small rural communities, there are only one or two people left standing in government.
- Other typical local needs don't go away, but are subordinated to the COVID-19 crisis. With resources committed to pandemic response, local governments struggle to address otherwise manageable challenges and provide basic services.
- Crime rates increase. In some places, the growing desperation threatens the very ability to govern. Bad actors take advantage of the growing state of desperation.
- Financial losses and social isolation cause mental health implications for the general population. For local government, the pressure causes high rates of employee burnout. Employees are unable to take care of themselves, even as they're asked to take care of others.



- All the while, the ultimate cost of COVID-19 healthcare remains a worrying unknown – as does the question of whether insurers will be able to meet their obligations.

What’s plausible for local public entities if COVID-19 follows “conventional expectations?”

In this zone, things go generally as expected. The pandemic looks a lot like a bad natural disaster (albeit with a financial recession on top). By October, things are starting to return to normality, though a full recovery is still up to a year away.

- Local governments maintain critical functions like water, electricity and police. Some needs grow or change – e.g., more police are needed to respond to an uptick in domestic violence calls, as people are isolated together.
- Other services fall by the wayside (e.g., firefighting, building inspections, economic development activities, etc.). Volunteer fire departments lose personnel, so many fires are put out by a few trained firefighters working alongside neighbors.
- When workforces are ill or unavailable, local public entities engage in increased collaboration, delivering mutual aid and sharing services of all types.
- In some states, legislation prevents municipalities from raising revenues, resulting in limitations on non-essential services provided. But federal and state governments do more to support local public entities, changing citizens’ normal expectations of government.
- Existing problems like homelessness and evictions grow worse than usual. At best, local governments make no progress.
- Even after the pandemic’s peak, fewer people choose to use public transit unless a vaccine is available and accessible.
- Technology plays a crucial role in recovery, with meetings and services becoming virtual. However, citizens continue to prefer face-to-face interactions for certain things (e.g., court appearances).
- Public entities react in unconventional ways to support needs and deliver services. For example, law enforcement agencies switch to a “helping hands” approach – e.g., delivering food to the elderly.



- Infected or fearful staff are unwilling to return to offices, school buildings or other public facilities. Over the long term, this problem is mitigated by a move to permanent remote work.
- When society reopens, public entities experience pent-up demand for government services (e.g., driver’s licenses, child protection, licensing and inspections, etc.).

What’s plausible for local public entities if we assume “high aspirations” for the best possible outcomes from COVID-19?

In this zone, things go better than can be reasonably expected. Social distancing works well and we resume normal activities by early summer. But things don’t just “return to prior” – local public entities and communities emerge stronger.

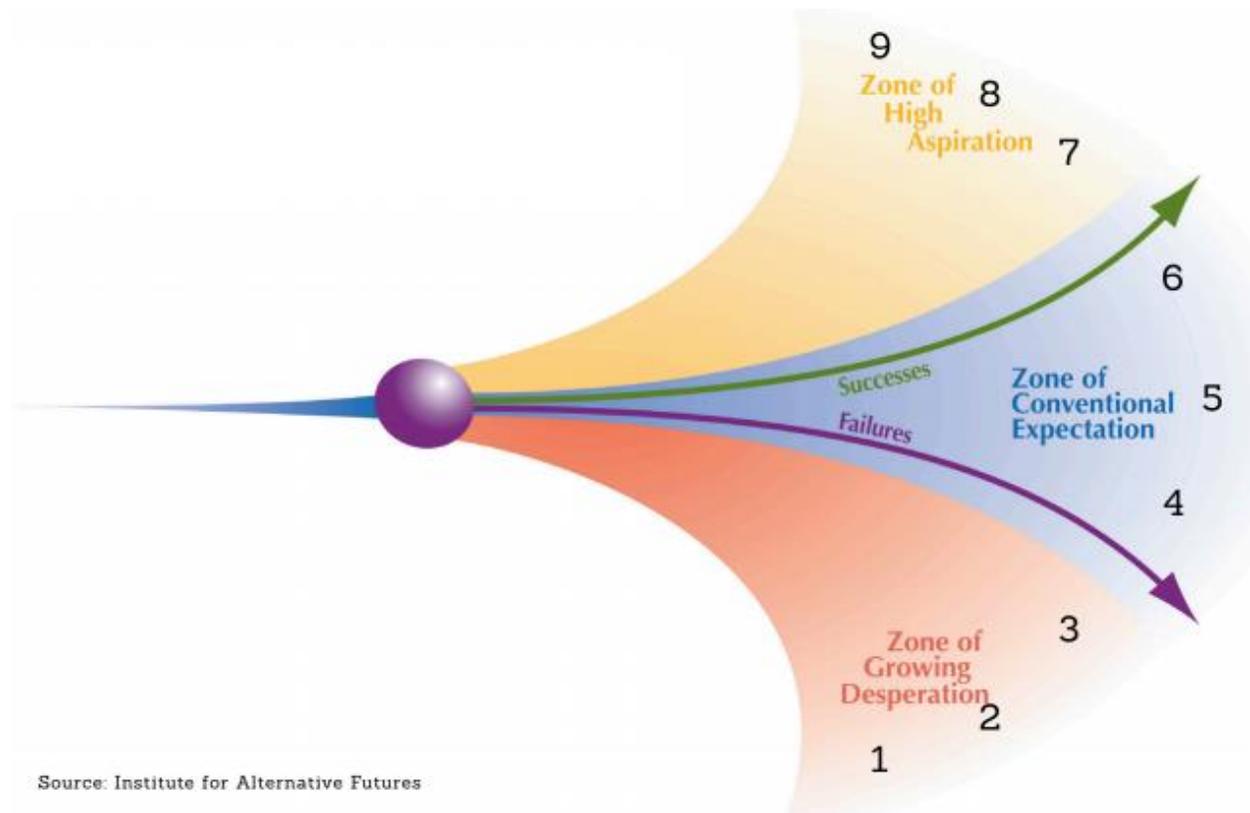
- Facilities reopen. All or almost all staff are rehired. All programs resume as expected, with some creative changes from the pandemic remaining (e.g., virtual exercise classes). School enrollment is back to normal levels quickly.
- There is not too much loss of revenue – there are strained budgets, but most local governments get back up and running faster than expected. Services resume and agencies operate normally.
- The education system improves, with an emphasis on strategic thinking.
- Citizen engagement increases. There is a renewed sense of community.
- The shift to remote work has a positive impact on previously high-traffic transportation infrastructure.
- Local governments and schools make improvements in service delivery and efficiencies. Some public entities share services in new and effective ways.
- Public entities use this crisis to better prepare for emergencies. Planning and hard work make our institutions less “brittle” over the long term. When the next pandemic strikes, we are more prepared.
- This crisis reminds the public of the reasons local government and schools are so valuable. There’s renewed support and interest in local public services and service through elected office or working at public entities.



What's the most probable future zone for local public entities (our members)?

When the brainstorming of plausible futures was complete, think tank participants again reviewed the three zones and considered possible outcomes for their public entity members.

Imagining that each of the three zones were further graded, participants evaluated how they would characterize the most probable future for their respective members. The determination of futures varied among participants, as one might expect.



In addition, within just a few days of meeting some think tank participants reported they had reconsidered the future they believe most likely for their members. As the pandemic unfolds, perspective is shifting quickly.

The point of this report is not to know what the think tank participants believed about their members' most probable future. Rather, it's to help pools (a) consider the impacts of COVID-19 on their membership and what might be plausible futures for local public entities, and (b) help each pool think about the most probable future for the local public entities they serve.

3. Impact to Pools

Think tank participants next turned their attention to how the most likely future for underlying public entity members would in turn drive and determine the future of pools themselves.

To start, think tank participants answered three important and grounding questions:

- Based upon the outcome you believe most likely for your public entity members, what will they be asking of you (the pool)?
- What is known about the COVID-19 crisis?
- What is unknown about the COVID-19 crisis?

There was an incredibly important lesson within think tank conversation about the known and unknown factors of COVID-19 and how rapidly the crisis is evolving. Even within the span of three days as the think tank met, **some “unknowns” became “knowns.”** For instance:

- An early identified unknown was how workers’ compensation would apply to COVID-19 for public safety employees and first responders. Two days later, when the think tank met again, **two states had already moved to cover such claims as presumed work-related.** Since that time, other states have followed suit and some of the initial legislative language has been further adjusted.
- Some of the claim unknowns very quickly became more clear. During the same three-day period of think tank meetings, **pools began to hear about claims for local government enforcement of executive orders and learned about arrangements for vacant school buildings to be used as overflow hospital facilities.**

If the future of our public entity members is as predicted, what are members going to be asking for from our pools?

Most notably, members will be looking for **quick resolution of claims.** This may be challenging amid so many unknowns and operational shifts.

Members may look for **adjustments to coverage,** for instance:

- Loss of income coverage
- Expanded coverage to recoup all variety of financial losses (e.g., tax revenue, fee-based revenue, etc.)



- Continued coverage for already difficult-to-place coverage areas (e.g., law enforcement and jail liability, sexual abuse and molestation)
- Enhanced cyber coverage to support their movement to remote workforce, programs and services
- Workers' compensation coverage for COVID-19 claims
- Coordination of coverage with FEMA
- A simpler coverage renewal process

Members may also look for **services** like:

- Preparation checklists for closing and reopening facilities
- Revamping of business continuity plans and funding for continuation needs
- Expanded mental health services
- Telehealth services
- Hand-holding employees through employee benefits renewals and navigating medical systems
- Crisis communications assistance
- Information about open meetings
- More administrative services handled by the pool directly due to reduced staffing at the public entity level (the pool manages things for the member vs. telling the member how to do it)
- Superior customer service initiatives at a point of crisis

In terms of **financial support**, members may look for:

- Financial relief for contributions in all lines of coverage (e.g., lower or guaranteed stable contributions, fronting of contributions for future years, delayed contribution invoicing, contribution holidays)
- Return of member equity
- Maintaining affordable healthcare costs, including out of pocket expenditures, deductibles and contributions for employees



- Plan design changes to health program benefit offerings that will reduce costs
- Waiving of employee healthcare cost-sharing provisions for COVID-19 diagnosis and treatment

Pools may also seek **risk management support** such as:

- Guidance on how to manage high-risk populations
- Assistance with determining which of their risk management tasks are critical (since they won't be able to do them all with a reduced workforce)
- Lower expectations for risk management efforts
- Additional cyber risk programs and services

Finally, members will seek out the **intangibles pools provide**: community, an authoritative and comforting risk management voice, innovative solutions, support, etc.

Thinking about COVID-19 and our pool operations through December 2020, what do we know?

- We know reinsurance costs will go up.
- We know the makeup of our current membership (and those retained through upcoming renewals).
- We know our own administrative and operational budgets.
- We will soon know the state of our own employee illnesses and recoveries (as well as for our vendor/service provider groups, our members and our governing body).
- We know the medical codes that will be billed for COVID-19, since cost data and actuarial projections are emerging.
- We know about one third of our population are first responders and many will have workers' compensation claims for COVID-19.
- We know we have lost money in our investments.



Thinking about COVID-19 and our pool operations through December 2020, what don't we know?

- What will be the reinsurance conditions and costs to our pool? Will there be changes to coverages and terms? Will availability be the same?
- How will our staff work together, and will they be effective? How will staff availability be affected due to illness or caring for others?
- Will workers' compensation cover COVID-19 claims?
- How will the commercial insurance market be affected and respond?
- What new or different claims will we face? Will there be offsetting claims savings for claim increases? What will the rebound of claims look like when the crisis is over?
- How much money will we have left by the end of 2020?
- What's going to happen to the investment market?
- How are we going to control for medical claims that go out-of-network?
- How much of these costs should we roll into upcoming rate renewals?
- How will our modeling and assumptions for the coming years need to change? How do we communicate updated models?
- How will our legislators and courts respond to coverage and claims issues? Will there be more efforts to retroactively expand claims?
- What's the "snapback"? What's the relief mechanism? What does it look like, and when is it going to come?



4. Possible Futures for Pools

Upon completion of these conversations and using the same baseline schematic of three possible futures, think tank participants discussed what pools themselves might be experiencing in three potential COVID-19 futures:

- A **zone of suffering** in which the pool's situation is worse than expected
- A **zone of sustaining** in which the pool's situation is about as expected
- A **zone of surprising success** in which the pool's situation is better than expected

What's the story of a pool suffering by December 2020?

The pool tries to be too accommodating, accepting claims that otherwise wouldn't have been accepted. Members ignore that the risk environment is changing and don't act to stop problems, and reserves are entirely depleted by unanticipated claims costs.

To compound the problem, the pool is ruined by legislative mandates for coverages and claims that were never underwritten for.

Meanwhile, the pool suffers investment losses. Members can't make required contributions or assessments. Reinsurance is uncollectible. The pool doesn't charge for new or additional risks presented by COVID-19. As a result, it runs out of money before any state or federal relief arrives.

More broadly, the pool fails to look at the issue from all areas of risk management, operationally and for its members. As the crisis grows, there are major leadership casualties on the pool staff and governing body, or among member entities.

Members begin to experience panic and uncertainty, some turning to the commercial market.

What's the story of a pool sustaining itself by December 2020?

The pool maintains sufficient liquidity right now. Its investment approach minimizes market losses. It begins meeting with experts to reassess its modeling and expectations. It focuses on making informed decisions, not jumping to action too quickly.

It implements technological advancements to be as productive and efficient as possible – immediately.

The pool talks to members right now, is open and honest about what will happen next, and maintains regular (but not overwhelming) communication. Because its members have new expectations, it identifies ways to provide services in areas it otherwise would not have.



Thinking ahead, the pool adjusts strategic plans to reflect current needs of its members, letting go of things that were important six months ago but may not be relevant right now. It stops all non-essential focus in order to spend time doing this planning/response work.

Lastly, the pool doesn't just look inward, but embraces collaboration with other pools to better understand the totality of this new environment.

What's the story of a pool ending up surprisingly successful by December 2020?

The pool uses staff members who are no longer traveling to develop new services and programs for members. Pool members and the governing body (and regulators) start to fully appreciate the value of having substantial amount of equity.

Pool members take a new view of the importance of risk management programs. Members also see the value of the services and attention the pool provided during crisis, which increases loyalty.

The crisis is a catalyst for technology innovation, allowing for new and more efficient operating models at the pool. As pool leadership begins to think more nimbly, it learns to better plan for major disruptions and how to better adapt. This serves to improve future decision-making.

Because of the nature of its crisis response, and because the commercial market gets out of the public sector due to high risks, the pool grows rather than withers.



5. What Pools Can Do

Perhaps the most important exercise undertaken by the think tank was the final point of conversation.

With their brainstorming complete and upon reflection, participants were charged with two important questions about how a pool might avoid a future of suffering and most effectively boost its public entity members out of the zone of growing desperation.

What steps do pools need to take now to avoid a future of suffering?

- **Secure cash availability.** Make sure reinsurance agreements and relationships (and coverage) are solid and member contributions are being paid.
- **Begin talking with actuaries about how to model upcoming losses** (recognizing it will take a while for models to catch up).
- **Carefully consider the use of surplus for rate stability at renewal and the long-term impacts of doing so.** Pools are now presented with new and emerging risks for which contribution must be charged to maintain long-term financial strength.
- **Stay connected with members, communicating and understanding their needs in order to respond accordingly.** Develop a proactive communication cadence for the weeks to come. Be open about unknowns.
- **Slow down to make good decisions for the long term, not just for crisis.** Remember how much we still don't know, and be careful not to make decisions too quickly. Being deliberate about action will help a pool make sure that the right things are being done.
- **Ask governing body members to weigh in with their local public entity needs and perspectives.** They have insight pools need right now.
- **Keep pool staff engaged and aligned in what's likely to be a remote working world for several months.** There's no turning back, so adjust leadership styles and adapt immediately.
- **Prepare for even greater disruption to normal work cycles at the pool and within your membership.** Some employees may go offline for weeks while they're sick or caring for others.
- **Let go of all the other things or priorities that were on the pool's current strategic plans, and redeploy resources immediately.**



What steps can pools take right now to help public entity members avoid growing desperation?

- **Call members.** Reach out to convey that the pool is here and ready to help. Tell members what level of communication to expect. Send out concise information to avoid overwhelming them. Project calmness and stability.
- **Reiterate the things we do know and how that compares to unknowns.** Help members slow down on decisions and manage a greater degree of uncertainty than they're used to. Pools can be important leaders and guides for member public entities in categorizing knowns and unknowns to aid decisions.
- **Listen to member ideas and new ways to solve problems.** Look for the “best of the best” to share among all members.
- **Accept imperfections and empower members.** Convey your pool's belief that members know best. They may or may not make perfect decisions, but the pool will accept it and be here six or nine months from now to help sort out issues.



Special Thanks

These think tanks were facilitated by Rebecca Ryan, AGRiP's 2017 Resident Futurist.

Several pooling professionals participated in the think tank meetings, sharing their time and input while they were busy adjusting their own pool operations and responding to member questions. These individuals included:

- Matthew Brodersen, Executive Director, Missouri Intergovernmental Risk Management Association
- Jonathan Calpas, Deputy General Counsel, Delaware Valley Trusts
- Tracey Christianson, Executive Director, Washington State Transit Insurance Pool
- Brett Davis, CEO, Park District Risk Management Agency
- François Dufault, CFO, Mutuelle des municipalités du Québec
- Tanya Edwards, Deputy Executive Director, Kairos Health Arizona, Inc.
- Margo Ely, Executive Director, and Susan Garvey, Director of Legal Services, Intergovernmental Risk Management Agency
- Amy Guilford, Chief Program Administrator, MASB-SEG Property/Casualty Pool, Inc.
- Jennifer Hoff, Executive Director, TML Health Benefits Pool
- David Luke, Administrator/CEO, Kansas County Association Multiline Pool
- Tami Tanoue, Executive Director, Colorado Intergovernmental Risk Sharing Agency
- Jennifer Wolf, Senior Staff Counsel for Risk Control, Minnesota Counties Intergovernmental Trust
- Ann Gergen, Executive Director, Association of Governmental Risk Pools

