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P U B L I C H E A R I N G

before

ASSEMBLY EDUCATION COMMITTEE

on

ASSEMBLY BILL NO. 2045

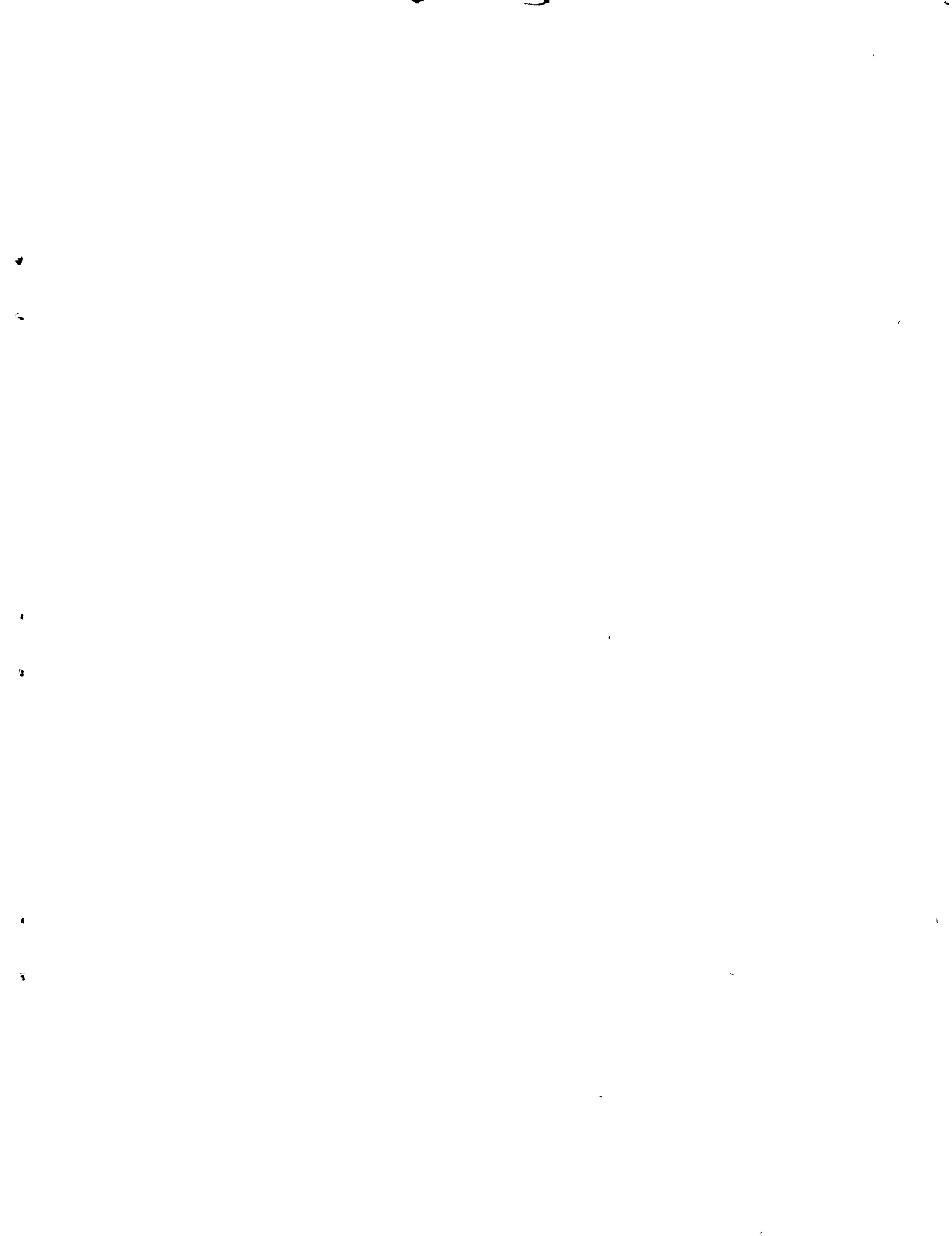
(Establishes a State Insurance Fund in the
Department of Education for School Districts)

Held:
April 27, 1971
Assembly Chamber
State House
Trenton, New Jersey

COMMITTEE MEMBER PRESENT:

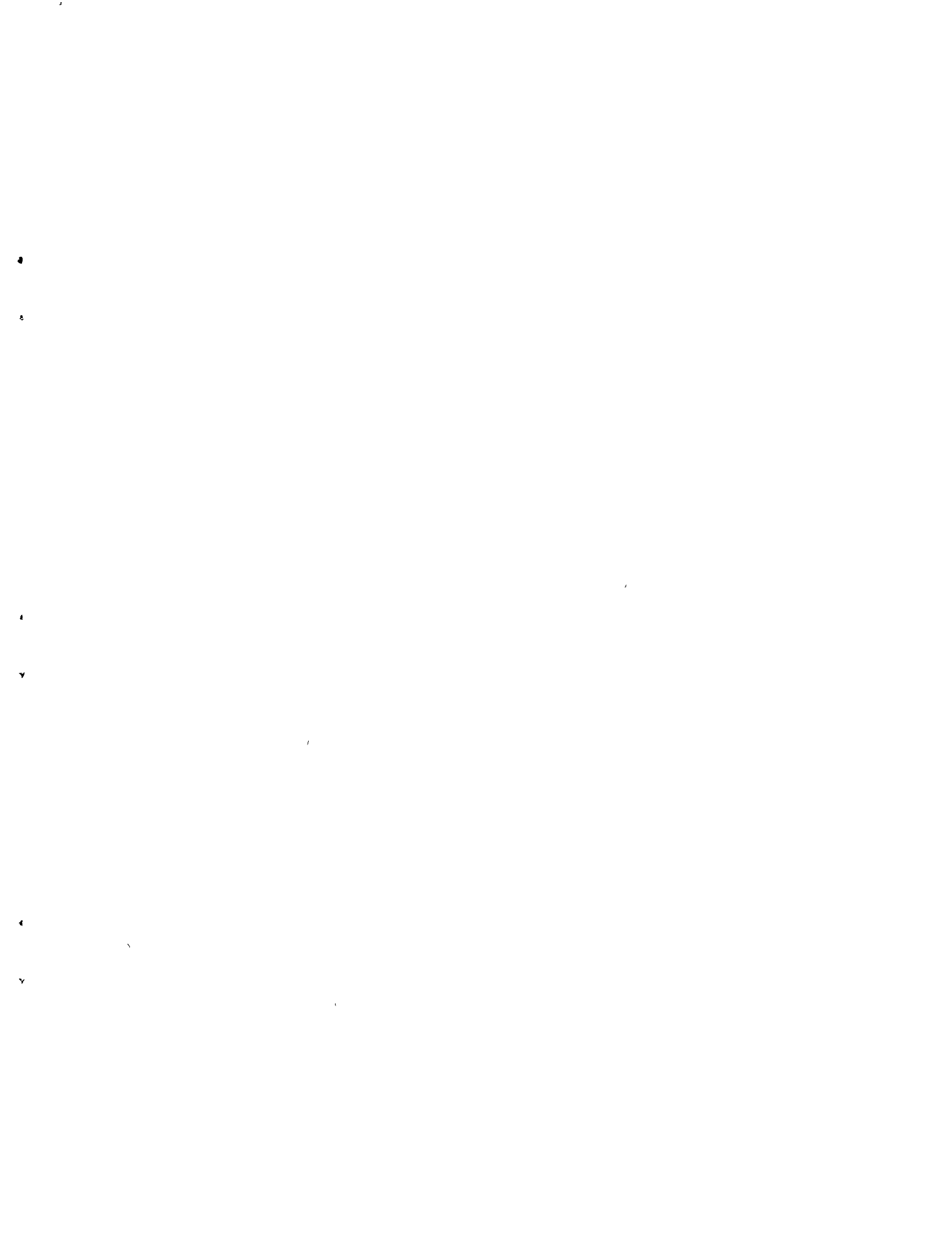
Assemblyman John H. Ewing (Chairman)

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ASSEMBLY, No. 2045

STATE OF NEW JERSEY

INTRODUCED JANUARY 25, 1971

By Assemblymen MABIE, BROWN, SHUSTED, TURNER, BLACK, ENOS, CURCIO, A. S. SMITH, DAWES, FRIEDLAND, HIGGINS, GAVAN, DEVERIN, EVERS and SCANCARELLA

Referred to Committee on Education

AN ACT concerning education and establishing a State insurance fund in the Department of Education for school districts, and amending sections 18A:20-25, 18A:20-27, 18A:20-28, 18A:20-29, 18A:20-31 and 18A:20-33 and supplementing chapter 20 of Title 18A of the New Jersey Statutes and repealing sundry statutory provisions relating thereto and revising parts of the statutory law.

1 BE IT ENACTED *by the Senate and General Assembly of the State*
2 *of New Jersey*

1 1. There is hereby established in the Department of Education
2 a State insurance fund for school districts for the purpose of
3 meeting any loss from fire or other damage to school district
4 property, including all real and personal property except auto-
5 mobiles.

1 2. The trustees of the State insurance fund for school districts
2 shall consist of the Commissioner of Education, ex officio, and the
3 Commissioner of Insurance or their designated representatives
4 and three citizen trustees appointed by the Governor with the
5 advice and consent of the Senate. The Commissioner of Education
6 shall act as chairman of the board of trustees. All trustees shall
7 serve without compensation, but shall be reimbursed for expenses.

1 3. The citizen trustees shall be appointed for 3 years, and until
2 their successors are designated and qualified, except that in making
3 the first appointments under this act, the Governor shall appoint
4 one for 1 year, one for 2 years and one for 3 years. All vacancies
5 occurring in the board of trustees of the State insurance fund for
6 school districts occasioned by death, resignation or otherwise shall
7 be filled for the unexpired term in the same manner as the original
8 appointments were made.

EXPLANATION—Matter enclosed in bold-faced brackets [thus] in the above bill is not enacted and is intended to be omitted in the law.

1 4 The trustees of the fund may employ such experts and clerical
 2 assistants as may be necessary, all of whose compensation shall be
 3 fixed by the trustees with the approval of the State Board of
 4 Education and paid out of the fund. The Attorney General shall
 5 be counsel to the State insurance fund.

1 5 a The trustees shall invest the fund and all additions and
 2 accretions thereto, subject to the qualifications hereinafter set
 3 forth. The board of trustees shall be and is hereby constituted
 4 trustees of the various funds and accounts established by this act;
 5 provided, however, that all functions, powers, and duties relating
 6-7 to the investment or reinvestment of moneys of, and purchase,
 8 sale or exchange of any investments or securities, of or for any
 9 fund or account established under this act, shall be exercised and
 10 performed by the Director of the Division of Investment in ac-
 11 cordance with the provisions of chapter 270, P L 1950, as
 12 amended and supplemented. The board of trustees shall determine
 13 from time to time the cash requirements of the various funds and
 14 accounts established by this act and the amount available for in-
 15 vestment, all of which shall be certified to the Director of the Divi-
 16 sion of Investment. A member of the board of trustees to be
 17 designated by a majority vote thereof shall serve on the State
 18 Investment Council as a representative of said board of trustees,
 19 for a term of 1 year and until his successor is elected and qualified.

20 b The trustees may adopt rules and regulations for the invest-
 21 ment and control of the fund. They shall at all times keep on hand
 22 such sum of money as they may deem sufficient, or have the same
 23 invested in such securities as can be immediately sold for cash,
 24 for the purpose of paying any loss to any of the buildings or prop-
 25 erty insured.

1 6 Whenever the trustees of the insurance fund deem it advisable
 2 they may purchase excess insurance coverage from insurance com-
 3 panies authorized to do business in this State, and the premiums
 4 for the insurance shall be paid for by the trustees from the insur-
 5 ance fund.

1 7. N. J. S. 18A:20-25 is amended to read as follows

2 18A:20-25 Every board of education shall keep all insurable
 3 property, real and personal, of the district insured *in the State*
 4 *insurance fund for school districts* against loss or damage by fire
 5 and, *extended coverage and* in its discretion, against other loss or
 6 damage.

1 8. N. J. S. 18A:20-27 is amended to read as follows

2 18A:20-27 Each school building and its contents insured in
 3 such **[municipal]** *State* insurance fund shall be insured separately

4 and for definite and determined sums respectively], except where
 5 the insurance fund commissioners have insured the same in an
 6 insurance company as provided in this subarticle.]

1 9. N. J. S. 18A:20-28 is amended to read as follows

2 18A 20-28 The insurance fund *trustees* [commissioners of
 3 such city] may fix reasonable rates of premium for all insurance
 4 carried on school buildings and school property of [the] *each*
 5 school district by the fund, and the board of education shall pay
 6 forthwith to the insurance fund [commissioners of the city]
 7 *trustees* the premium for any insurance carried by the [municipal]
 8 insurance fund on school buildings and school property of [the
 9 city] *each* school district

1 10 N J S 18A 20-29 is amended to read as follows

2 18A 20-29. All moneys received by the insurance fund [com-
 3 missioners] *trustees* for premiums on school buildings and school
 4 property insured in the [municipal] insurance fund [of the city,]
 5 except so much as may be necessary to pay premiums upon *excess*
 6 *or other* insurance coverage placed [upon any of such school build-
 7 ings and school property] with insurance companies as provided
 8 in this [subarticle] *act*, shall be invested by the [commissioners]
 9 *trustees* with the moneys of the [municipal] insurance fund and
 10 in the manner provided by law for the investment of such moneys

1 11 N J S 18A 20-31 is amended to read as follows

2 18A 20-31. In case of loss incurred by fire or other casualty
 3 insured against on any building or contents insured in the [municipal]
 4 insurance fund [and not insured in an insurance company,]
 5 if the loss be total, the [commissioners] *trustees* shall pay the
 6 whole sum from the fund to the board of education of the district
 7 within 60 days. If the loss be partial, the sum to be paid shall be
 8 fixed and adjusted by a commission of adjustment consisting of a
 9 [commissioner of the municipal] *trustee of the insurance fund*[,]
 10 *and* the president of the board of education of the school district
 11 *and* [the presiding officer of the board or body having control of
 12 the finances of the city], *if these two do not agree, a third party to*
 13 *be selected by them*

1 12 N J. S 18A 20-33 is amended to read as follows

2 18A 20-33. Whenever any of the school buildings and the
 3 furnishings thereof in any school district have been or shall have
 4 been partially or totally destroyed by fire or other casualty, the
 5 insurance moneys received by the board of education by reason
 6 thereof[, whether payable from a municipal insurance fund or
 7 otherwise,] may be used by the board for the repair, reconstruction,
 8 or rebuilding of the building and the purchase and repair of the

9 furnishings and contents thereof, but the board shall not use the
10 money for the erection of a building on a site other than that oc-
11 cupied by the building destroyed without the authority of the ap-
12 propriating power. The board of education shall not enter into a
13 contract for the construction of a building to cost more than the
14 amount of insurance moneys received until the additional amount
15 required shall have been authorized for expenditure for such pur-
16 pose and regularly appropriated.

1 13. N. J. S. 18A:20-26, 18A:20-30 and 18A:20-32 are hereby
2 repealed.

1 14 This act shall take effect July 1, 1971.

ASSEMBLYMAN JOHN H. EWING: Good morning gentlemen. We are holding a public hearing on Assembly Bill No. 2045. I am Assemblyman John Ewing, Chairman of the Assembly Education Committee, which Committee decided to hold hearings on this bill.

If there are any individuals who wish to be heard, if we do not have their names down already, please come forward.

The Committee learned previously that the State Board of Education in North Carolina had been using a plan more or less put out by Assembly Bill 2045, and I think it would be interesting for the people participating today to receive a copy of the report from North Carolina. We tried to have someone from the State Board of Education down there appear here today but, unfortunately, there was a conflict in their schedule and they could not so they sent us a written statement. I will ask Mr. Paul Muller, our staff man, to pass out copies of this to each individual here so that those of you who are not going on immediately can look at it and, if there are any points you want to discuss, you may, because we want the widest dissemination of information on this, the pros and cons; also, if there is any information you wish to put in the record at a later date, please state that. It will depend on the information obtained today as to whether we will hold a future hearing or whether this will be the only hearing.

The first to testify will be Dr. Edward Kilpatrick, Assistant Commissioner for Business and Finance, State Department of Education.

E D W A R D W. K I L P A T R I C K: Assemblyman Ewing I am Edward W. Kilpatrick, Assistant Commissioner of Education, representing Commissioner of Education, Dr. Carl L. Marburger.

The Commissioner of Education supports the concept of a State Insurance Fund as set forth in Assembly Bill 2045. This support is based upon the following major factors:

(1) The Governor's Management Commission, in its 1970 report of operations of the Department of Education, included the following recommendation:

Consolidate property insurance programs for all local school districts under the Department of Education.

All property insurance covering damage to buildings as a result of fire, extended coverage perils and vandalism should be placed on a blanket policy with a deductible of at least \$10,000. Based upon analysis of number of buildings, locations throughout the State, total valuation of these buildings and their contents, loss experience and an assumed loss frequency factor, preliminary study indicates a maximum rate credit of 43% could be obtained under the multiple locations rating plan. Therefore, annual savings of \$675,000 to local school districts can be effected, based on annual premiums of \$1.57 million. Additionally, assuming a 19% loss ratio (recovered to premiums paid), an estimated credit of 30% for \$10,000 deductible could be negotiated to further reduce premiums by \$268,000. This savings could be offset by assuming an estimated cost of \$100,000 in claims by local school districts to cover all uninsured losses under \$10,000.

Those are quotes from the Management Commission Report to the Commissioner and Governor.

Another factor that deeply concerns the Department is:

(2) The uncertainty that property insurance will be available to all school districts at a reasonable cost under existing procedures with commercial carriers.

There appears to be an unwillingness on the part of the commercial carriers to write school coverage particularly because of possible civil disorders and student unrest. Several school districts have found it increasingly difficult to place their property insurance with commercial carriers and, if successful, only at greatly increased costs.

Some observations concerning Assembly Bill 2045: The legislation should provide for a transition period in the transfer of the coverage from the commercial carrier to the State Fund.

While the bill proposes that in the case of a loss the whole sum shall be paid within 60 days consideration might be given to a reimbursement plan based upon the actual needs of the school district. In other words we don't believe that in case of a loss the school district would need the entire sum within the sixty days, that the loss might be paid on the basis of the needs for the actual reconstruction of the building.

I would believe that it would be necessary to set up a reserve to cover possible losses during the initial years of the effectiveness of this plan.

It may not be realistic to depend upon one of the trustees of the Fund to work on the adjustment of all partial losses incurred by local school districts unless they are to be compensated for their time but there is no reference within the bill concerning any compensation to trustees. But the language of the bill does make it mandatory upon one of the trustees to work on the adjustment of partial losses.

The proposed effective date of July 1 1971, in my opinion, is not realistic at the present time. In other words, I don't believe it would be possible to put this plan in operation so quickly.

Prior to the final consideration of Assembly Bill 2045 I would suggest your Committee might recommend that a feasibility study be authorized by the Legislature.

The State Federation of School Boards has done a tremendous amount of work on this problem but I still feel that it might be well for the Assembly and Senate to recommend a study by consultants to be sure that this plan is feasible.

Thank you very much.

ASSEMBLYMAN EWING: Dr. Kilpatrick, does the Department have any feeling as to whether this insurance fund is set up within the Department of Education or within the State?

DR. KILPATRICK: Personally, I think it could be set up within the Department, as a separate entity, of course.

ASSEMBLYMAN EWING: Have you had any contact with the Department of Education in North Carolina at all regarding this?

DR. KILPATRICK: No. Only as it related to contacts that they made with the State Federation of School Boards and the summary that you've presented this morning.

ASSEMBLYMAN EWING: Also, I believe there is another State that has - is it Wisconsin?

DR. KILPATRICK: Wisconsin, I believe, has done something on this too.

ASSEMBLYMAN EWING: Do you know anything about their plan?

DR. KILPATRICK: No, I don't.

ASSEMBLYMAN EWING: All right. Thank you very much.

DR. KILPATRICK: Thank you.

ASSEMBLYMAN EWING: The next speaker, Mr. Robert Martinez, Staff Counsel, New Jersey School Boards Association.

R O B E R T P. M A R T I N E Z: Assemblyman Ewing, I am Robert P. Martinez, Staff Counsel and Assistant Director of Special Services for the New Jersey School Boards Association. With me is Mr. William D. Mason, who served with distinction on the special committee of our Association which has investigated the subject matter of these hearings.

As you are aware, the New Jersey School Boards Association represents the 600 school boards in the State. In December, 1969, the delegates of these local boards assembled here in Trenton directed the Association to study the feasibility of establishing a mutual casualty insurance pool for the school districts of New Jersey. Pursuant to this charge, a committee of board members was convened, and spent thirteen months in carrying out its work. The Committee collected and reviewed State insurance plans from other states, the most important of which was from North Carolina. The Committee conferred with expert consultants in the field of school insurance, and with New Jersey's Deputy Commissioner of Insurance. Finally, the Committee collected data on types of insurance carried by New Jersey school districts, and their premium and claims experience over a three-year period. The final report and recommendations of the Committee will be presented to the delegates at their next meeting here in three weeks. An advance copy of that report has been made available to you this morning, and is marked NJSBA Exhibit A. (See p. 58)

We would like to take the opportunity in our testimony this morning to review briefly the findings and recommendations of our Committee and to tie these recommendations to specific revisions in Assembly bill 2045, which we feel are necessary to make that proposed law a viable one.

Much of the literature written in this area which suggests some form of self-insurance or insurance pool points to two basic concerns: the availability of adequate insurance coverage, and the rising costs of buying it. North Carolina, which established a state insurance pool for school districts some twenty-two years ago, was prompted to do so by the rising cost factor alone, although we are advised by experts from that state that availability would have become a problem in North Carolina since that time.

In New Jersey, availability has definitely been a problem. New Brunswick, for example, found it necessary to close its schools for a period of time when its insurance was not renewed and new coverage could not be easily arranged. Newark, in 1968, was forced to go to a \$25,000 deductible fire insurance policy when the Board's prime fire insurance carrier found it could not get other companies to share the risk. In 1969, Newark had to go into the assigned risk pool created by the Department of Insurance. The rates were substantially higher and the insurance had to be prepaid. Even then, \$41 million in property over the State maximum limit remained to be self-insured. For this the Board had to pay 12.5 cents per hundred dollars to secure coverage, and this insurance is written on a one-year basis, creating an annual placement problem. This problem of availability and increased costs has plagued the Newark school system despite the fact that the school suffered no damage to property during the civil disturbances in that city in 1967.

In order to determine the experience of New Jersey school districts in terms of their coverage, premiums and claims, the Association Committee designed a survey which was sent to all districts in the State. The survey was constructed so that the districts' insurance companies could provide the data. A copy of the questionnaire, an explanation of the codes used, and the tabulated results have been provided to you and are marked NJSBA Exhibit B. (See p.64) Usable responses were received from 239 districts, approximately 40% of the operating districts in the State. The response included every geographical part of the State, every size district, and both urban and non-urban communities. We are advised that the response represents a valid statistical sampling of the State for the three year period 1965-66, 1966-67, 1967-68.

To highlight the results of this survey, let me point out some specific figures. For the three year period stated, the responding districts paid a total of \$611,921, for automobile coverage, while making total claims of \$174,400. For comprehensive general liability coverage over the same period, \$910,592 were paid in premiums, and \$277,500 were collected in claims. Again for that same period, \$2,349,726 were paid in premiums for insurance of buildings and contents, while only \$443,400 was collected in claims. From these figures, we can develop loss ratios, that is, ratios of claims paid to premiums collected (exclusive of underwriting and adjustment costs) which show that New Jersey school boards do not suffer from poor experience from an insurance standpoint. We are advised that insurance companies have an underwriting profit and loss ratio of 55% or less. Three year loss ratios for these districts indicate an average of 28% for vehicle coverage, 30% for general liability coverage, and only 18% for property insurance.

In light of these facts, the Association Committee found it difficult to comprehend the increasing reluctance of insurance companies to write school coverage despite the generally good claims experience and the money boards have been paying. Pursuing its charge, the Association Committee has examined every aspect of a State insurance pool and the operation of such enterprises in other states.

In particular, the plan currently in effect in North Carolina lent itself to this study since that state parallels New Jersey quite closely in terms of makeup of school districts and size of school enrollments. The Committee met with Mr. Thomas B. Winborne, Director of North Carolina's insurance pool, and discovered that the participating school districts in that state have not had a rate increase since 1961. In fact, in many of those years, premiums were not even collected because of the sound financial construction of the pool. You have been provided with a copy of the North Carolina enabling enactment, marked NJSBA Exhibit C, and with a copy of a recent financial report of the North Carolina pool, marked NJSBA Exhibit D. May I note particularly that the last page of Exhibit D provides a nineteen year statement of the pool's premium - claims experience. (Ex. C - See p. 72) (Ex. D - See p. 76)

In light of this background and the confirmed success of similar enterprises in other states, we would like to make specific recommendations regarding the establishment and operation of an insurance pool for New Jersey school districts.

The Committee recommends that a fund be established to provide fire and other types of insurance coverage, as will be specified in a moment, to the school districts of New Jersey. The fund should be managed by a board of trustees appointed by the Governor with the consent of the Senate for three-year terms. The fund should be created within but separate from the

Department of Education, and the trustees made accountable to the State Board of Education. The initial capitalization of the fund would be provided by a loan from the State, in an amount to be determined by sound underwriting practice, but certainly not in excess of \$5 million. This loan would be repaid when the capitalization of the fund reached a specified limit. North Carolina initially contributed \$2 million without interest to establish its fund, and the debt was repaid in comparatively short time, at the rate of \$1 million each time the fund itself reached \$3 million in capitalization.

The Committee suggests that the trustees be empowered to determine the amount of the fund which shall be invested by the Director of the Division of Investments. The type of investments to be made and the kinds of liquid reserve kept on hand should be restricted in accordance with sound investment practices mandated by the State Department of Insurance for Commercial Carriers. The trustees should be further specifically empowered to hire necessary **expert personnel** to perform the management tasks of policy issuance, loss adjustment, rate determination, engineering and inspection, and premium collection. North Carolina currently operates its fund with eight employees.

The Committee recommends that participation in the fund be voluntary, not mandatory. North Carolina established its plan on a voluntary basis, and very quickly two-thirds of the districts in the state enrolled in the plan. Provisions must be built into the fund to protect it against adverse selection,

however, and to provide incentives for voluntary participation. To do this, we recommend a device similar to one used in North Carolina: that the amount of the fund be limited to 10% of the face value of the insurance in force. When the total amount of the fund, consisting of investments, liquid reserves, investment income and premium income reaches that dollar amount, the loan from the state should be repaid, and thereafter the excesses should be applied in reduction of premiums. Where a district has been a member of the fund for five consecutive years, it may become eligible to have no premium charged at all. The trustees should be empowered to explore other ways of applying the excesses, such as extending the coverage or offering other types of coverage, or possibly even granting rebates in the nature of a profit-sharing plan. It must be remembered, however, that the purpose of the fund is to guarantee the availability of adequate coverage at a reasonable cost, not to make money. The 10% dollar limit just described will assure the participants that only those goals are intended, and that a good claims experience will have a direct effect on them. The limitation is thus an incentive for participation and a type of insurance in itself.

The Committee further recommends that the fund provide insurance coverage to local districts for damage from fire, vandalism and malicious mischief, as well as the standard extended coverage. Extended coverage includes damage from lightning, windstorm, hail, explosion, riot or civil commotion, vehicle and falling aircraft, and smoke. The Committee further recommends that a \$500 deductible should apply against all direct fire and extended coverage physical losses to property, and that a per loss deductible of \$1,000 should apply to all vandalism and malicious mischief losses. However, if losses for vandalism and malicious mischief reach \$5,000 during any one policy year, there should be no further deductible applied against any additional vandalism and malicious mischief claim.

I might point out that our recommendation for a low deductible is basically to protect the many small districts we have in the State. A \$10 000 deductible may be fine for bigger districts that can take it but for many of the small ones a \$10 000 loss could wipe them out.

The Committee notes that public liability coverage, automobile and physical damage insurance, workmen's compensation insurance, and limited fire and theft coverage for service type unlicensed vehicles and equipment can also be provided by the fund. It is recognized, however, that to begin operations on a surer foot, the Legislature in its wisdom may defer the offering of such coverage until after the first year, and thereafter at the discretion of the trustees. In this regard, we must urge that legislation be enacted defining and limiting the liability of a school board to acts committed on school sites and property, on school busses while transporting students to or from school and at functions sanctioned by school districts which occur off the school sites and property.

Finally, the Committee recommends that the fund provide itself with appropriate excess insurance to protect itself against adverse claims on property losses in excess of \$1 million aggregate up to at least \$10 million. If liability insurance is also offered, reinsurance should be secured for losses in excess of \$1 million each occurrence. In this connection the Committee urges that enabling legislation clearly define the terms "accident," "cause," "occurrence," "incident," and "aggregate."

This concludes the presentation of our recommendations. We thank you for your attention, and would welcome the opportunity to answer any questions.

ASSEMBLYMAN EWING: Do you know anything about the Wisconsin Plan?

MR. MARTINEZ: Mr. Mason?

MR. MASON: I'm limitedly familiar with the Wisconsin Plan. We did receive all the documents from that State. And it is a plan which encompasses all governmental agencies of the State, including boards of education, municipal, state and county. Its program of offering of insurance is very much patterned after New Jersey's multi-peril policy offering a various scope of insurance coverage. Their experience was good. We did not seek to investigate Wisconsin too thoroughly because it was a small state by comparison to New Jersey. And when I spoke recently at a national convention of the School Boards I spoke with a member from Wisconsin. They recently experienced some adverse claims with the riots that occurred on the University of Wisconsin Campus.

MR. MARTINEZ: Assemblyman Ewing I would like to point out that our main reason for seeking to have this fund established in the Department of Education and not a statewide fund for all self-insurance of state property is that the experience of New Jersey School Districts is probably going to be much better than that of the higher education properties and also even of the county and municipal properties. That's the reason for putting it in the Department of Education.

ASSEMBLYMAN EWING: Well do you think a saving could be made in the Department of Higher Education for the institutions that come under their jurisdiction if they were included?

MR. MARTINEZ: Well, we would really have to study the feasibility of it. I think the reason that Wisconsin has gotten into some difficulty was because of the problem that they had at the University of Wisconsin and their other campuses out there, the explosions and so forth. And I don't think their fund was set up in such a way that it could stand that kind of a loss, so unanticipated. But basically, we're trying to protect the school districts which have a very good experience.

ASSEMBLYMAN EWING: Are there any other states with this type of plan or this type of insurance set-up?

MR. MASON: Only two that we know of, that's Wisconsin and North Carolina.

ASSEMBLYMAN EWING: Do you know if any are contemplating it?

MR. MARTINEZ: I believe North Dakota had contemplated it.

MR. MASON: There is one that was in force in North Dakota at one time. I think it has gone by the boards. We did not receive any other communications from any other state education agencies that indicated such a pool was in force or contemplated.

ASSEMBLYMAN EWING: Paul, do you know has E.C.S. anything on this?

MR. MULLER: I haven't contacted them.

ASSEMBLYMAN EWING: Will you contact them and see if they have anything on it?

MR. MULLER: Yes.

ASSEMBLYMAN EWING: On page 3 you said, "Even then, \$41 million in property over the State maximum limit remained to be self insured." What is the State maximum limit?

MR. MASON: This is under the fair plan which has a \$1.5 million per building limitation on what you can obtain coverage. Now there are many buildings within a district that have an individual value in excess of \$1.5 million and there you must go into other insurance, other than through the fair plan. In particular, in my own district of Fenwood-Scotch Plains, we have a high school which recently had a \$3.5 million addition put on it and the original structure was approximately \$2 million. So we figure our values are probably up around \$6 million on the structure alone, excluding contents.

ASSEMBLYMAN EWING: Who sets the maximum, the State or the insurance --

MR. MASON: The fair plan right now has a fixed maximum by the State. To my direct knowledge, it's fixed by the State.

ASSEMBLYMAN EWING: By the Department of Insurance in the State?

MR. MASON: I believe there was a separate set of trustees for the fair plan. I'm not that familiar with the inner workings of the fair plan. I know there is a per building limitation through the fair plan.

ASSEMBLYMAN EWING: On page 4 you said, "We are advised that insurance companies have an underwriting profit and loss ratio of 55% or less."

MR. MARTINEZ: That's a typographical error. It should read "have an underwriting profit on a loss ratio of 55% or less."

ASSEMBLYMAN EWING: Then on page 5 you said, "In light of this background and the confirmed success of similar enterprises in other states," but you say there are no other states other than Wisconsin.

MR. MASON: Wisconsin and North Carolina.

ASSEMBLYMAN EWING: Is there any type of insurance that you would not recommend be offered to the school districts?

MR. MASON: I can think of some types of insurance that are very adequately offered and carried by commercial carriers, one being boiler insurance where there has been no underwriting difficulties to my knowledge and there are variable inspection services provided there. I think initially workmen's compensation would not necessarily be a major problem as you can obtain that coverage through a New Jersey assigned risk plan at normal rates.

ASSEMBLYMAN EWING: Well, does North Carolina cover every single phase of insurance?

MR. MASON: No, because North Carolina has the school boards immune from tort liability, so all the automobile coverages are maintained by the State. And the North Carolina plan primarily concerns itself with property insurance.

ASSEMBLYMAN EWING: Does the State of North Carolina, on their autos, have their own pool?

MR. MASON: Yes, to my knowledge.

ASSEMBLYMAN EWING: They have the same type in that area as they do in the education area but run by the State.

MR. MASON: The education pool itself is for public school districts and restricts itself to property insurance, building and contents.

ASSEMBLYMAN EWING: Do you know whether the school buses come under the State?

MR. MASON: Yes, they do.

ASSEMBLYMAN EWING: Are they State owned in North Carolina or are they contracted?

MR. MASON: I'm trying to remember our discussion with Mr. Winborne and I can't specifically remember the answer to that particular question. But one point that he did make was that they were immune to tort liability which was an important factor.

ASSEMBLYMAN EWING: You recommend in here that the participation be voluntary and not mandatory. Do you feel it will be enticing enough to districts that they would automatically come in even those that have a minimal loss ratio, when they think of the areas that are susceptible to a higher?

MR. MASON: I think one of the first questions that you might consider, or problems, of course, would be that any pool on a voluntary basis would be subjected to adverse selection, that those districts that really had problems would jump to it and come right in. One of the main factors for the success of the North Carolina plan was the fact that it was voluntary. I think that with the bill as it is presently written it would not provide the necessary incentive to attract those districts which have not been adversely selected by the companies as far as cancellation and such. I can refer to our own district again in Fanwood Scotch Plains where we are losing our discount through the package. We will probably have separate policies and this will, in essence be a rate increase for us, for our particular school program.

Our losses have not been anywhere near substantial and yet in our own fashion we are being selected for a loss of discount in premium. And I feel that if we follow a plan which was developed by North Carolina, that of restricting capitalization, with sound fiscal management we will be able to achieve rate reductions or rebates for participating districts through good loss experience. And this in itself should be a very attractive incentive.

North Carolina has their plan voluntary. However, to avoid paying premiums you have to be a member of that plan for five years. So this says, all right, you don't get in in good years and get out in bad years. So we feel that some kind of financial incentive in that fashion can be very adequately incorporated into a state pool.

ASSEMBLYMAN EWING: Have the districts now been experiencing astronomical increases in their rates?

MR. MASON: Some districts have; other districts have gone along with the normal changes in cost or the insertion of larger deductibles or the withdrawal of certain coverage amounts where they must be now self-insured. Vandalism, for instance, might be withdrawn as an offering of coverage. So these erosions are, in effect, increasing the cost to the school districts because then the taxpayers must sustain these losses in their current expense of the budget portion of the school district.

ASSEMBLYMAN EWING: In a self-insured plan or I mean a plan of this type, who checks on the claims and everything? North Carolina has a staff of eight?

MR. MASON: This was amazing when we heard it, that this staff of eight - and there are professionals, Mr. Winborne was involved with insurance prior to his election, I guess, or appointment to Chairman of the Fund -- they do all of the inspection of the buildings. Each building is inspected from an engineering standpoint to reduce the hazard of fire and other losses. All of the adjustment is done by this committee or by the employees of the Fund, and provide the normal mechanics that if there is disagreement on the adjustment

then an independent third party be employed to be the arbitrator, so to speak. But they have not had any major problems in loss adjustment. They will not insure to a 100% of value; they insure to 90%. This is something that we may not recommend as a normal procedure we might want to offer full replacement cost to a district. But there have been no expressed concerns by North Carolina. When we asked them a direct question, if you had it to do all over again what would you do different, he said, "Only one thing. I'd put a \$500 deductible in to clear ourselves of the nuisance type claim."

ASSEMBLYMAN EWING: What type of claim?

MR. MASON: A \$500 deductible.

ASSEMBLYMAN EWING: On all claims?

MR. MASON: On all claims to rid themselves of the nuisance claims.

ASSEMBLYMAN EWING: Well, can't they change that now?

MR. MASON: Yes. But I mean, he said, if he had to start all over again. It was an interesting comment I thought.

MR. MARTINEZ: Assemblyman Ewing, with respect to your question before about the buses, I looked in our minutes of our meeting with Mr. Winborne and he said that the buses are self-insured by the Division of Transportation and the North Carolina Department of Education. So it is a separate thing.

ASSEMBLYMAN EWING: Are those buses owned by the school districts or are they contracted for? You know, we have both types.

MR. MASON: I would assume these might be owned by the school district.

ASSEMBLYMAN EWING: On page 8 you say, "However, if losses for vandalism and malicious mischief reach \$5,000 during any one policy year, there should be no further deductible applied against any additional vandalism." Why?

MR. MASON: This, once again, is to protect the smaller district that cannot afford in their budget a sizable cash outlay. As an initial situation, you will notice that the deductible is higher on vandalism because this is where school

districts experience a great deal of cost. And we would suggest that as each loss occurs there be \$1,000 deductible but as soon as the deductibles or the losses amount to \$5,000 there be no deductible applied to any further loss during a policy year. This is a similar type of deductible situation that we find in insurance today, that of a disappearing type but written on a slightly different basis.

ASSEMBLYMAN EWING: All right. Thank you very much.

MR. MASON: Thank you.

ASSEMBLYMAN EWING: Next is Samuel Hager, Vice President, New Jersey Association of Independent Insurance Agents.

S A M U E L H A G E R: My name is Samuel Hager. I am Vice President of Jacobson, Goldfarb & Scott, an independent insurance agency in Perth Amboy. However I am appearing here today in my capacity as Vice President of the New Jersey Association of Independent Insurance Agents. On behalf of my Association and its 5,000 members, I would like to thank this Committee for the opportunity to address this hearing.

A few years ago, there was a television program called 20 Questions. Today, I have a lot more than 20 questions to raise about this proposed legislation, Assembly Bill 2045.

My Association has studied it. We question the bill.

We question its propriety. We question its viability and even the motivation behind it. And we oppose it 110 per cent.

Self-insurance plans to protect public property are nothing new. They fill many unhappy and largely unsuccessful chapters in this nation's insurance history. During the past 70 years some 20 of the fifty states felt confident enough to give self insurance a try.

Of these 20, many finally scrapped the concept completely. Others reduced their funds to the status of small loss reserves. And several others use private insurance to cover some of their public properties.

As a matter of fact, New Jersey maintained a self-insurance plan from 1913 to 1935 when it was abandoned. Now I am sure, we are all too young to remember that far back. But as they say, "nothing succeeds like success" and if that plan had proved successful then, I am sure it would still be around today.

I promise that my remarks will be brief and to the point. But I would like to take a few moments to outline a few self-insurance "horror stories".

Take Michigan, for example, it had a healthy self-insurance program for nearly half a century. Up to 1950, there was only one year where losses exceeded premium income. And two years later: Disaster! Shock losses from a few major fires amounted to \$7 million, or more than \$5 million greater than the fund's total assets. This occurred at a time the state was in a very unstable financial position. Finally, the Legislature abolished the fund in 1965.

Experience in Colorado tells a similar story. The State Fund there was barely underway when "shock" losses began to occur. The Fund, still in the embryonic stage, was unable to cover them. Repairs for damage to a leading educational institution had to wait two years. Colorado also returned to private insurance.

Just a few months ago in Wisconsin came word that the State-operated fire insurance fund was faced with losses three times greater than its assets. The losses included the \$6 million bombing at the University of Wisconsin and a \$1 million fire at another educational institution.

Hawaii, Iowa, Minnesota, Montana, Pennsylvania, Rhode Island, Tennessee and Vermont are among the other states who have jumped off the self-insurance band wagon because of unhappy experiences.

Many states have also rejected the notion of self-insurance after thorough study, but without putting it to a trial. Proposals have been voted down in several states since 1960. And in Michigan and Montana, legislation to start such funds, is introduced but defeated every year.

We learn from the past and I hope that this lackluster history will stimulate serious second thoughts about the proposal we are here to discuss today. There is little magic and very much myth about this concept. Self-insurance generally means an additional burden on the taxpayer and not savings. When failures occur we all know it will be the taxpayer who must dig deeper.

When someone "sells" a proposal, a product or a service, the

first question that come to the mind of the buyer is, "How much is it going to cost me?" And I think that is an appropriate question for Assembly bill 2045.

What would it cost to implement? How would it be funded?

To even begin to operate on a restricted basis, the fund would have to have a capital reserve of at least \$1 million. And for the fund to generate proper reserves for underwriting purposes -- that is to meet its ultimate needs -- The State of New Jersey would have to appropriate many millions more.

Now, if we take that figure and add to it the administrative costs -- costs now borne by the private sector -- we have a pretty substantial price tag.

Private insurance companies pay state taxes on premium dollars too. Cutting out that business means fewer revenues for state coffers. And once again, it's the beleaguered taxpayer who must pick up the slack.

Next, we take great exception to the proposed administration of this plan. Insurance is a very complex business, even for the experts. Turning this over to a group of well-intentioned but non-professional part-timers would prove disastrous. I do not propose to demean the Commissioner of Education, who would command this

effort. But let's face it. Education is his business and insurance is not.

On the same basis, the idea of citizen trustees is totally unacceptable. Novices and sound insurance practices simply don't mix. The failure experience of self-insurance plans on the state level has frequently been attributed to poor management. The lack of proper administration leads to many ills, including inadequate coverage for public property.

If we pursue another approach -- the hiring of insurance professionals to administer the program -- then the alleged savings begin to evaporate.

According to the proposal, the insurance fund trustees "may fix reasonable rates of premium" for all insurance carried on school buildings. We wonder how they would accomplish that, what yardstick they would use, what expertise would they draw from.

Implementation of such a program would be a mammoth task. All the field work, inspections, etc., now carried out by the companies, would have to be absorbed by the State. New Jersey would be in the insurance business.

We do not have to look much beyond the years of postal chaos in this country to realize that government has rarely demonstrated its ability to be more economic and provide better service than private enterprise.

I challenge anyone to persuade me that an arm of state government -- in this state or any state -- will be able to satisfactorily conclude the settlement of a claim faster and more efficiently than say an insurance agent who must please his client or risk losing that business in the future.

We object to this bill in philosophy and content.

Its provision for claim settlement is unwieldy and unworkable. Another section (18A 20-27) calls for insuring each school building separately. Blanket coverage is the best insurance bargain in today's market. To abandon that for a piecemeal approach would be foolhardy and fiscally irresponsible.

There are some 600 school boards in New Jersey. We know only about five per cent have insurance problems. And both the insurance industry and insurance department have responded to problems where they exist.

Why then should all 600 boards be required to comply with this bill? Why should it be mandatory? It is my Association's conviction

that school boards by and large receive very thorough coverage at competitive rates. Why lump those who enjoy a healthy relationship with private carriers in with those who have real problems.

How would a small school district benefit when grouped with the large city boards? It would not. In effect, the urban districts with problems would be subsidized by their country cousins and, of course, by the taxpayers in those smaller districts.

The concentration of power, as recommended in this bill, would drive local districts one step closer to state control.

We concede there have been insurance problems in some districts. But we must also recognize that we have experienced an unprecedented period of social change and social problems. We feel the insurance companies now recognize this and are able to cope with it. They have responded, as is evidenced by the establishment of the Fair plan.

There are many factors which have inflated premiums. For one thing, there were inadequate rates for many years -- especially in respect to the social problems and civil strife we lived through.

And let's not forget the impact of inflated building replacement costs and just plain inflation. Claims have gone up not down. And in order to continue to provide coverage for catastrophic losses, the

companies have had to take strong measures with respect to vandalism exposure. This has meant higher deductibles and higher premiums.

But, Again, the industry is learning to respond. Our Association knows of no school board that is without property insurance. We admit there is a need for improvement, but we feel, that change for the better is on the way.

My Association is willing to stand behind a pledge we made during the New Brunswick school crisis of recent memory. If there is a school district with a serious insurance placement problem, we will work with the board to solve it. We did this in New Brunswick, Asbury Park and several other communities in the state. That pledge is still binding and we will honor it.

Before, I opened with a remark about twenty questions. Now I'd like to relate 20 basic reasons why self-insurance plans fail:

1. State and municipal self-insurance lacks an essential element of insurance in that there is no transfer of risk to an outside bearer, as in the case of private insurance.

2. A self-insurance fund confined to a single state or municipality lacks a sufficient number and spread of risks to protect the

fund against large losses. Most funds would be wiped out by one large fire.

3. Since self-insurance usually provides no opportunity for selection of risks, or for proper reflection of risks in premium rates, fundamental principles of fire insurance underwritings are disregarded.

4. Since many decades are required to build up an adequate self-insurance fund through premium payments, it is doubtful whether a given fund would ever reach a point of which it would be safe to reduce payments into the fund. Meanwhile, establishment and administration of the fund impose extra burdens on taxpayers.

5. Under self-insurance plans, it is unlikely that insurance costs actually would be reduced, since the scope of operations would be too small to realize the competitive economics of the vast private insurance companies. For comparable services, administrative costs inevitably would be higher.

6. Placement of commercial insurance through local agents, which can be handled without favoritism through state or local agents' associations, secures the services of insurance professionals in setting up and maintaining a sound insurance program. Self-insurance plans offer no substitute for such service.

7. Adherence to fire safety and accident prevention standards, and use of modern package policies, can enable a governmental unit to achieve large reductions in premiums and still get full protection from private insurance.

8. If the pressure from the fire insurance organizations for fire safety is removed, fire losses to public properties are likely to increase. When these properties are school buildings, it is not merely dollars but the lives of children that are at stake.

9. The fact that building construction is described as "fireproof" or "fire-resistive" does not guarantee that large losses will be avoided. Many major fires have occurred to so-called fire-resistive buildings owned by states and municipalities.

10. A major fire might bankrupt the fund, and necessitate a large legislative appropriation or bond issue. While money is being raised, there could be long delays in the rebuilding of destroyed properties.

11. A main function of insurance is to replace uncertainty with certainty, so that a small known cost which may be budgeted replaces an unknown, possibly large loss which can disrupt a governmental budget. No plan which gives inadequate protection against large losses can perform this function.

12. Banks and other lending institutions purchasing bonds of governmental units often require them to carry fire and other lines of insurance in sound commercial companies. Under self-insurance, this could lead to difficulty in financing new construction or capital improvements.

13. Proper investment of funds is an important part of any insurance program, yet self-insurance funds are likely to be in the hands of a busy controller or treasurer who can only give the task part of his time.

14. Local governments would have to pay people to provide the usual administrative, engineering, safety and other services of insurance, with the difference that the work would be done largely by untrained and inexperienced personnel.

15. A large majority of big industrial companies, which are in a more favorable position than local governments for proving the worth of self-insurance, carry their risks in commercial insurance companies.

16. Failure of a scheme of self-insurance will invariably bring public censure upon officials responsible for going into the plan.

17. Even if a self-insurance plan should meet all the conditions of sound insurance, there is no guarantee that succeeding administrations will maintain the soundness of the program.

18. The presence of large "idle" funds invites diversion to other public purposes, affecting the ability of the fund to furnish protection.

19. There has been no known instance where governmental unit has reduced taxes by not purchasing insurance. On the contrary, the record is filled with cases where heavy additional taxes have been levied because of uninsured losses to government property.

20. Self-insurance constitutes an invasion by government of a field or private enterprise, and such invasion is contrary to public policy and detrimental to the public welfare. (*reprinted from Journal of Insurance Information).

It is our opinion, after studying this proposal, that its main thrust is all wrong. The motivation is not to provide coverage where none exists, but to reduce costs. In today's economy, the notion that you can pay less and receive more of anything, is less than realistic. Even subsidized prices will be higher than they are now. We say the job of providing our schools with adequate coverage can be accomplished without creating another governmental agency at great expense to the taxpayer.

Let's not force the school boards to take medicine when they are not even ill. This bill proposes a solution to a problem that does not exist.

We dispute the facts and figures which allegedly were used to arrive at the conclusions promulgated in this proposal. There is certainly no doubt in my mind that a credibility gap exists here, especially when you consider that less than one-third of the 600 boards of education responded to the survey conducted by proponents of this bill. That's hardly conclusive.

We propose solving any placement problems that may develop through the Fair Plan. Let's amend it to allow higher limits and blanket coverage so that it provides coverage consistent with the needs of New Jersey school boards.

The Fair Plan is administered by the insurance industry, so the brunt of the program would not have to be carried by the taxpayer. And it also would be administered under the guidelines of Commissioner Clifford and his Insurance Department.

This would be a much more sensible approach.

Gentlemen, I thank you for your attention.

ASSEMBLYMAN EWING: Mr. Hager, why do you feel North Carolina has been successful in their plan?

MR. HAGER: For one thing, sir, it was started over 20 years ago when the social problems that exist today were not quite as prevalent. They had time to accumulate it over a period of 20 years, during that period, and they are one state which has succeeded where many, many others have failed.

ASSEMBLYMAN EWING: But I believe it was stated earlier that they have not charged any premiums or anything from 1961 or for several years in there.

MR. HAGER: I believe the way that worked, if you had been insured in the fund for five successive years you were eligible for a lack of payment, so to speak, and that once they reached the capitalization that they needed to maintain the fund that no further payments would be necessary

ASSEMBLYMAN EWING: Yes, but they could not have forgiven the premiums if the loss ratio had been bad.

MR. HAGER: No, sir. The experience in North Carolina has been good. I would say again that this, in our opinion, would be the exception rather than the rule.

ASSEMBLYMAN EWING: And there are no alternatives at all to this bill that you see?

MR. HAGER: Well, the first thing, sir, is the thrust behind it. Is it premium, the saving of premium dollars? If it is, we think it's unrealistic. If it's a means of providing the coverage, we think that the vehicle exists by means of the Fair Plan which is already being administered. And simply to amend the provisions of the Fair Plan would give the placement problem, if there is one in certain areas, the solution that it needs.

In addition to the testimony that I have, I want to give to the gentleman over here a list of rather severe losses that have occurred since 1968, limited only to school districts throughout the country. And catastrophic losses are cropping up. As a matter of fact, Fairleigh-Dickinson just had one in

the amount of something like \$122,000.

Also, you asked a question before about school vandalism. There is a pamphlet here prepared by the American Insurance Association which indicates that the U. S. Office of Education has estimated that damage by vandals to public schools may run to \$100 million annually.

ASSEMBLYMAN EWING: You said that during the past 70 years some 20 of 50 states felt confident enough to give self-insurance a try. Was this for education only or for municipal and state government, etc.?

MR. HAGER: It was a mixed bag, some for education and some across the board.

ASSEMBLYMAN EWING: And New Jersey's self-insurance plan, what would that cover?

MR. HAGER: It was there to provide coverage to those municipalities who wished to avail themselves of it. In actual fact, I don't believe any of them ever did. It was abandoned because of lack of interest.

ASSEMBLYMAN EWING: But it was not abandoned because it went broke or anything like that?

MR. HAGER: No, sir. It was supposed to have something like \$500,000 and it never got over \$300,000.

ASSEMBLYMAN EWING: And it was for municipalities only.

MR. HAGER: No, sir. Well, it was for all municipal subdivisions. It could have been available by the school boards.

ASSEMBLYMAN EWING: On page 3 you state, "Proposals have been voted down in several states since 1960." In what states have they voted it down and was it covering only education or here again was it a general bag?

MR. HAGER: I don't have that with me but I do have the booklet which was submitted as part of their testimony. I'll X it out and give it to Mr. Muller.

ASSEMBLYMAN EWING: Thank you very much.

You also state here, "The fund would have to have a capital reserve of at least \$1 million. And for the fund to generate proper reserves for underwriting purposes - that is

to meet its ultimate needs - the State of New Jersey would have to appropriate many millions more." Wouldn't part of this accrue from premiums, etc.?

MR. HAGER: Yes, sir, it would, except that you have to start from something. You can't establish insurance today without some fund because you could have a loss the first day.

ASSEMBLYMAN EWING: But I mean, the initial amount would have to be appropriated and if successful it could be paid back.

MR. HAGER: Yes, sir. It would have to be done on a state loan bases. I believe the School Boards Association used the figure of \$5 million as a minimal amount that they would need.

ASSEMBLYMAN EWING: You say, "If we take that figure and add to it the administrative costs - costs now borne by the private sector - we have a pretty substantial price tag." What percentage of the administrative costs of the insurance company now go toward the part covered on school insurance?

MR. HAGER: I don't have any statistics on that, sir, but let me give you an example. Every building in the State of the school board has specific fire insurance rates promulgated and there are thousands upon thousands of these which means that they have to be inspected and reviewed, the engineering has to be done by the governmental bodies or, in this case, by insurance companies, and we can't overlook the safety factor in engineering.

Now when you have private industry they can come in and say, you must do this or we're not going to insure you. In this bill, if it were enacted into law, they could or could not do it and the only means they have of buying insurance is by means of this bill.

ASSEMBLYMAN EWING: Well, actually when we're discussing this bill, Assembly 2045, like anything we do in the Education Committee, we often make changes or make a completely substitute bill but this gives us a vehicle to go by because this idea was presented. So it doesn't mean that we might not diverge from A-2045 and if we come up with another plan it wouldn't have to

be that, necessarily.

MR. HAGER: Like a trial balloon.

ASSEMBLYMAN EWING: You say, "Private insurance companies pay state taxes on premium dollars." What do they pay now on that portion of the school premiums that are paid?

MR. HAGER: Well, I'm going from memory but I believe in previous testimony a rather large figure of premiums was \$2,349,000, I believe was brought out.

ASSEMBLYMAN EWING: In one area, that's right.

MR. HAGER: Well, it would depend on the insurance company and what their tax structure would be but I believe there is a minimum of 2%, sir.

ASSEMBLYMAN EWING: That's \$46,000 then, I would say, roughly.

MR. HAGER: That \$2.3 million was from those school districts that had responded to the survey which was about one-third of the total amount.

ASSEMBLYMAN EWING: Now, of the 600 school boards in New Jersey, you state, "We know only about 5% have insurance problems." So that's approximately 30 school boards. Have you any idea of what percentage of the total premiums those school boards pay?

MR. HAGER: Not off-hand, sir, I don't.

ASSEMBLYMAN EWING: It would probably be substantial.

MR. HAGER: I would think. The ones that have been called to our attention, and we've been helpful in helping them, would be the more urban schools.

ASSEMBLYMAN EWING: And the Fair Plan, is this set up by the State or in conjunction by the State and insurance companies?

MR. HAGER: Well, it was originally set up by an Assembly Bill and it was backed by federal insurance. The federal insurance said if you want to avail yourself of federal reinsurance, each state must have a self-administered fair plan. So that was the idea behind it. It's enabling legislation passed by the State of New Jersey to allow them to buy reinsurance from the federal

government in accordance with their provisions. That \$1.5 million figure that you asked me about previously is a built-in limit over which they cannot go on any one building, including contents. What we're proposing is that that be amended to allow them to do more as they need.

ASSEMBLYMAN EWING: Then what's the reinsurance with the federal government?

MR. HAGER: The reinsurance with the federal government has been set up mainly for vandalism and riot losses, although it wasn't limited to that.

ASSEMBLYMAN EWING: Who takes it out, the school board?

MR. HAGER: No, sir, all governmental units. In fact, it was originally for urban core areas but it was expanded so that anybody can provide themselves with insurance under this Fair Plan. It's like an assigned risk plan for fire insurance in the State of New Jersey.

ASSEMBLYMAN EWING: Then it's only for those who cannot get insurance?

MR. HAGER: That's the theory behind it, yes.

ASSEMBLYMAN EWING: Can other people --

MR. HAGER: Yes. Anybody can buy it. The rates, however, are not always the same as they would be - they are re-rated. Each building is re-rated by the State which is sometimes worse than what it would have been if it had just bought the insurance without a specific re-writing, because they go in there with a critical eye, as you would expect.

ASSEMBLYMAN EWING: Well is this with the federal government or the state government?

MR. HAGER: The state, sir, a fire insurance rating organization which is a division actually of the Insurance Department of the State of New Jersey but the companies themselves actually pay for it, pay for the operation of the fire rating organization.

ASSEMBLYMAN EWING: The State pays the losses.

MR. HAGER: No, sir.

ASSEMBLYMAN EWING: Well this is what I'm trying to get

at. I know nothing about insurance.

MR. HAGER: Okay. On the same principle as assigned risk, that is that the companies participate in relation to their voluntary writings in the State. As an example, a company writes \$10 million of fire insurance premiums which may represent 10% of the total placement, they would get 10% of the things assigned to them and they would pay for it out of their own coffers, out of this money.

ASSEMBLYMAN EWING: In New Brunswick, did you help solve their problems there?

MR. HAGER: Yes, sir. We used the Fair Plan vehicle up to the limit of \$1.5 million and we were able to purchase excess insurance at manual rates over the \$1.5 million limit.

ASSEMBLYMAN EWING: Have there been records of insurance companies that have gone broke?

MR. HAGER: The only insurance company in New Jersey that went broke in recent history was an insurance company that wrote primarily automobile insurance for less than standard risks.

ASSEMBLYMAN EWING: But on the school districts now, can't they go out of state to buy insurance? They don't buy just from New Jersey.

MR. HAGER: Oh, yes. Insurance is bought from non-domiciled companies; the larger insurance companies across the country all participate.

ASSEMBLYMAN EWING: Well, have any of them gone broke in past history? Haven't there been failures of insurance companies?

MR. HAGER: None of the more sound ones, sir, none of the ones that would be rated top in Bests or the ones to which insurance companies or boards of education usually limit their purchases which are those which have sound fiscal statements. That's one of the criteria that they set forth when they put out these things for bids that the companies who submit the bids must have a very sound financial structure.

ASSEMBLYMAN EWING: Well is there a rating of insurance

companies, like Moody's or something like that?

MR. HAGER: One like it which is Bests Insurance Guide and they generally use a 4A or 5A classification.

ASSEMBLYMAN EWING: And does the State limit the school boards so they can't go below?

MR. HAGER: The State does not but generally when school boards of any municipality lets out - they generally make a set of specifications to submit for bids and they put it out for bid within that municipality, and one of the criteria usually is a not less than 4A or 5A in Bests of the company who submits it.

ASSEMBLYMAN EWING: Thanks very much, Mr. Hager.

MR. HAGER: Thank you, sir.

ASSEMBLYMAN EWING: Mr. John Heher, Counsel, American Mutual Insurance Alliance.

J O H N R. H E H E R: Thank you, Mr. Chairman. We're grateful to have the opportunity to be present at this hearing.

The American Mutual Insurance Alliance is composed of substantially more than 100 member companies and, therefore, we are vitally interested in the subject matter of this hearing.

I would say very briefly, we share Mr. Hager's concern, expressed earlier this morning, regarding the past experience with the large majority of state funds. And I would briefly, again, point out perhaps the most recent example was the State Fund in Wisconsin and I would quote from an article from the Capital Times of Milwaukee dated March 3, 1971. The headline reads: "Ravaged insurance fund shows \$807,325 deficit." And I would quote from the story: "Direct losses incurred in 1970 were listed at more than \$4.23 million in the annual report. That compared unfavorably with \$908,000 generated in premiums paid by policyholders, municipalities and school districts throughout the State."

We are seriously enough concerned about this very complicated problem, Mr. Ewing, that we would like to submit, in the future, a white paper which will represent a complete study that is now under way, showing all of the pros and cons,

and our main intention here is to be of assistance to you and your committee in reaching a determination on this bill.

I would simply then ask what deadline would be imposed as we want to get this to you in good time.

ASSEMBLYMAN EWING: Have you any idea about how long it will take?

MR. HEHER: I'm not sure that I can tell you that now but if you could give us some idea, I am sure we would be willing to work within that framework to get it to you in timely fashion because it's going to require a lot of staff work, both in our New York and Chicago offices and I'm not personally prepared to give you an answer. But I think it would help them if you could give us a deadline of some kind.

ASSEMBLYMAN EWING: Well, do you think 30 days or longer?

MR. HEHER: I would presume 30 days would be enough.

ASSEMBLYMAN EWING: Because it's going to take some time to get this transcript made and we will be out of session at that time. We will be coming back in November for a few sessions but whether it will be this Legislature or the one next year that will go into the final --

MR. HEHER: Well, we'll shoot for 30 days.

ASSEMBLYMAN EWING: Let's say two months and, if it's going to be longer than that, we'll let you know.

MR. HEHER: We'll have it in Mr. Muller's hands in two months.

ASSEMBLYMAN EWING: All right. Thank you.

MR. HEHER: Thank you very much, sir.

ASSEMBLYMAN EWING: Mr. Bruce Ferm, Independent Mutual Insurance Agents.

J A M E S T. R I C K: My name is James Rick and I'm an independent insurance agent from Somerville, New Jersey, and I am testifying today on behalf of the Independent Mutual Insurance Agents Association of New Jersey. This is a professional society and service organization representing approximately 2,000 independent insurance producers in this State and I am a Vice President of this Association.

OBJECTIONS TO A2045

We recognize that some school districts are experiencing difficulty in obtaining fire insurance through the voluntary markets, and we would like to work with the State of New Jersey in solving this problem. However, we feel that the solution suggested by Assembly Bill 2045 is unnecessarily harsh, creates new inequities and that existing institutions might be used in different ways to alleviate the school board problems.

According to the provisions of A 2045, all public school districts in the State of New Jersey would be required to subscribe to a proposed State insurance fund. This is unfairly discriminatory in favor of a minority of school districts, since the majority are still able to purchase adequate insurance on satisfactory terms through the open market. Aside from arbitrarily depriving most school districts of their right to shop in the open market, the proposed fund would subsidize the few distressed districts at the expense of the many others.

We further believe that the State insurance fund proposed in A2045 would prove unworkable and unprofitable within a very short period of time. This bill, for example, contains no provision for funding the entity or for providing the professional staff necessary to operate it. It is questionable whether these funds could be readily obtained from other sources and whether they could be adequately sustained. In support of the latter contention, we point to the almost continuous bankruptcy of New Jersey's other existing state insurance fund -- namely, the Unsatisfied Claim and Judgment Fund.

The provisions for partial loss settlements and rate making in A2045 are weak and vague. For example, no specific guidelines are offered as to how the loss adjustment and rate making goals of the bill are to be achieved. In the absence of such guidelines, we assume that the fund would use techniques similar or identical to those currently used by private industry. We believe that government simply could not quickly, efficiently or economically duplicate the machinery and expertise which private industry has gained from more than two centuries of experience. Furthermore, starting rates would probably be those already in use by the Fire Insurance Rating Organization, and this automatically raises questions as to the validity of any projected cost savings.

Still another weakness lies in the very first paragraph of the bill which defines the extent of coverage as "any loss from fire or other damage to school district property, including all real and personal property except automobiles." We find this disconcertingly nebulous and wish to point out that present school insurance contracts spell out coverages in detail. This measure should do likewise.

Insuring a public school district is an immensely complex task, which requires extensive servicing. Our own member agents, who presently write school business in their own communities, maintain that school boards are among the most difficult risks to write and service because of the highly detailed nature of the information which must be compiled and the coverages afforded. The personal, localized service provided by the independent agent could not be duplicated by the proposed fund, and we feel that this loss of service would be detrimental to the school districts involved.

POSSIBLE ALTERNATIVES

As stated previously, we believe that existing institutions can be used in different ways to alleviate the school insurance problem.

One basic problem with many school buildings is that they are simply too large for most insurers to write alone. For example, it is not uncommon for a school building to be valued at more than \$3,000,000, and most insurers cannot cover a single risk of that magnitude. One school district of which we have knowledge recently constructed an addition to an existing building which raised the value of that building from \$3,500,000 to over \$6,000,000. While we appreciate logistical problems of school administrations, we would suggest that districts use discretion in their plant design in order to preclude the very kind of insurance problems they now face.

Another alternative would be to utilize both the New Jersey Insurance Underwriting Association and the existing open market. We suggest that, to provide fuller coverage, the NJIUA make deductibles of \$1,000 and \$5,000 available to school districts, instead of the present mandatory \$10,000 and \$25,000 deductibles and that insurers provide coverage for values in excess of the NJIUA's maximum limits of \$1,500,000 per building. As far as we can perceive, there would be ^{no} company problems involved in writing excess coverage over the \$1,500,000 which the NJIUA can provide on a single building.

We strongly believe that an arrangement such as this could be made to work, because of the cooperative attitude of many insurers in the State of New Jersey. Despite a tight market, many companies, particularly our domestic mutuals, have made extraordinary efforts to keep the market open for placement of school district business.

A third solution would be the creation of an industry-wide pool to reinsure any school districts which could not obtain coverage through the open market. Under this plan, a school district would be placed by its own local agent with a company which he represents; but the business would be entirely reinsured with the industry-wide pool.

This plan would differ from the NJIUA in that no arbitrary assignment of a company would be necessary, the local personal service provided by the American Agency System would not be impaired, and the same equitable industry-wide distribution of risk would be achieved. Maintenance of service and equitable distribution of risk are both of paramount importance, and this plan would be an expedient way to achieve both.

I hope that these suggestions will be of some value, and I herewith offer the fullest possible cooperation of my Association if we can be of any further help to you.

ASSEMBLYMAN EWING: You state that you recognize that some school districts are experiencing difficulty in obtaining fire insurance.

MR. RICK: Yes, sir.

ASSEMBLYMAN EWING: Are they having difficulty in obtaining other types?

MR. RICK: Not to my knowledge, no, sir.

ASSEMBLYMAN EWING: And this alternative plan which you have to offer changes the deductibles to \$1,000 and \$5,000 and then the coverage in excess of \$1.5 million that would naturally be at higher rates then?

MR. RICK: No, that would be at manual rates. This is being done in some districts right now where excess coverage is being written over the \$1.5 million and the excess coverage is being written at manual rates. The problem seems to be that there is an underwriting deductible of \$10,000 or \$25,000 that has been used by the New Jersey Insurance Underwriting Association and the school boards are not particularly happy about this, they would rather see this decreased and brought down to either \$1,000 deductible or \$5,000 deductible.

ASSEMBLYMAN EWING: And pay a higher premium then.

MR. RICK: Yes, it would be a slightly higher premium on a gradation basis because there is a credit for the size of the deductible.

ASSEMBLYMAN EWING: Well, are there many school buildings now that are only insured for \$1.5 million and they don't cover the rest of the risk?

MR. RICK: No, sir. The majority of school buildings, number one, are insured through the regular open market and, of course, they are insured for whatever they would like to insure themselves for. The problem comes in with those that are in the Fund. The ones that are insured for \$1.5 million can buy excess insurance over that and this does solve the problem.

ASSEMBLYMAN EWING: Thank you very much, Mr. Rick.

Mr. Gay, Manager, Mid-Atlantic Region, American Insurance

Association.

W I L L I A M J A N G A Y: My name is William Jan Gay. I am Mid-Atlantic Regional Manager for the American Insurance Association, an association of approximately 100 publicly owned insurance companies, all of which write all lines of property and casualty insurance in New Jersey, and countrywide. Our member companies have substantial writings in New Jersey. Many have branch offices in the State. I appreciate the opportunity to be present at this hearing.

We are opposed to Assembly Bill 2045 on the basis that there is no need for this legislation because a slight modification of the operational rules of the State's Fair Plan to include all school districts would take care of the situation. We feel that the agents would then be able to easily place the excess in a voluntary market.

We would also suggest that the companies should be given a credit for voluntarily writing school business against their other writings in the Fair Plan. This would act as an incentive to pull out such business, out of the Fair Plan, or to keep it out in the first place. This would thus help to depopulate the Plan.

We feel that the maximum limits are adequate at this time and that to raise them would flood the plan with school business.

We would subscribe generally to the statements made by our Mr. Hager, Vice President of the New Jersey Independent Insurance Agents, and generally to the comments of the representative of the Mutual Insurance Agents Association.

That's really all I have to say. I think that the ground has been pretty well covered as to the problems that exist with the self-insurance plan. I would only add, I do have a copy of a study on this very point conducted by the California Legislature and I would be glad to leave this with you. I have some other material but I understand it has already been entered in the record.

ASSEMBLYMAN EWING: Do you want to keep that copy and we can send for one or is that an extra copy?

MR. GAY: This is an extra copy.

ASSEMBLYMAN EWING: Oh, fine. We will accept it then. Thank you very much.

Mr. Ronald Smith. (No response)

The Representative from the New Jersey State Association of Mutual Insurance Companies.

G E O R G E H. G U P T I L L, JR.: Thank you, Mr. Chairman. My name is George Guptill. I am the Assistant Secretary of the Franklin Mutual Insurance Company, and am testifying on behalf of the New Jersey State Association of Mutual Insurance Companies, of which my company is a member. The Association, organized in 1892, represents ten mutual insurance companies, each of which is domiciled here in the State of New Jersey. Our members represent approximately 150,000 policyholders in New Jersey, with a total written annual premium in excess of \$12 million. It is estimated that we insure 15% of the school districts in New Jersey.

We appear today in opposition to A-2045 in its present form. This bill would create in the Department of Education a State insurance fund for the purpose of providing insurance against loss by fire or other damage to school properties. Each Board of Education must purchase from the fund, and the fund must provide insurance against loss at premiums established by the trustees of the fund. The thrust of this proposed legislation is to create a form of self insurance, but makes no provision, by appropriation or other funding, for cash reserves or other liquid resources upon which the fund may rely to cover losses. This, we believe, is a vital defect in the bill and, if passed in its present form, would create an illusion of protection without adequate resources to cover possible losses, especially in the event of an exceptionally bad year which could mandate an additional assessment not foreseen by the participating school districts. This could

raise havoc with a budget that must be adopted and voted upon 4-6 months before it becomes effective and runs for 12 months thereafter.

Another inherent defect in the bill is its vagueness. Although it is mandatory that all school districts insure in the fund, the coverages available to the districts would appear to be at the discretion of the fund. Criteria for rate making and the distribution of the losses and expenses of the fund are not spelled out. And we question the ability of the Department of Education to effectively and economically function as an insurance company and rating organization. To make our point, we would call your attention to New Jersey's continuously bankrupt Unsatisfied Claim and Judgement Fund which is State operated.

We are concerned also that the bill is discriminating. There are roughly 600 school districts in New Jersey, and in a letter dated July 10, 1970, the manager of the New Jersey Insurance Underwriting Association stated that 14 of these school districts, representing some 338 different school buildings, were insured in the Association. Of these 338 schools, only 7 were not fully covered by the Association and private insurers - 2 in East Orange, 4 in Plainfield, and one in Perth Amboy. To require all school districts to participate in a State insurance fund would, in our opinion, discriminate against the vast majority of school boards who are still able to obtain adequate insurance in the private market. No longer would they be able to utilize the services of experienced and professional local agents, nor would they be permitted to explore the open market for broader coverage at competitive rates. In the long run, we feel that the majority of the school districts would be subsidizing the small number who are currently running into difficulties with their insurance programs.

We do not deny that there are problems. Fire bombings, vandalism and burglaries of our schools are becoming more and more prevalent. Capacity problems in insuring schools with tremendous concentration of values, sometimes in excess

of \$5,000,000 on one building, are not uncommon. However, we suggest that a State insurance fund is not the answer. Members of our Association have always endeavored to work with the school districts we have insured, to provide proper coverage at reasonable rates. Public Law 214, which provides for increased rates with the consent of the insured, is available in those instances when the rate does not adequately reflect the exposure. The New Jersey Underwriting Association is available to cover up to \$1,500,000 at any one location and at manual rates. We suggest that on those schools valued in excess of this amount, arrangements could be made with private insurers to cover the amount over \$1.5 million on an excess of loss basis.

In short, we realize that the insurance problems of New Jersey's school districts must be resolved within the private insurance sector if we are to avoid State or Federal insurance of some sort. To this end, our Association is firmly committed. We offer our fullest cooperation and wish to thank you for listening to our views.

ASSEMBLYMAN EWING: Thank you very much, Mr. Guptill.

Are there any other individuals present here who would like to be heard? (No response)

I want to make sure we enter into the record the Report from the State Board of Education in North Carolina; and we will also hold the record open for the report from Mr. Heher.

Thank you very much.

(Hearing concluded)

W. D. HERRING
CHAIRMAN
ROSE HILL, N. C.
J. A. PRITCHETT
VICE CHAIRMAN
WINDSOR, N. C.
A. CRAIG PHILLIPS
SECRETARY
STATE SUPT. PUBLIC INSTRUCTION
H. P. TAYLOR JR.
LIEUTENANT GOVERNOR
WALESBORO, N. C.
EDWIN GILL
STATE TREASURER
G. D. AITKEN
CHARLOTTE, N. C.

NORTH CAROLINA

STATE BOARD OF EDUCATION

A. C. DAVIS, CONTROLLER
306 EDUCATION BUILDING
RALEIGH

April 15, 1971

R. BARTON HAYES
HUDSON, N. C.
CHARLES E. JORDAN
DURHAM, N. C.
MRS. FLORIANE F. LOCKEY
ARDEEN, N. C.
WILLIAM R. LYBROOK
WINSTON-SALEM, N. C.
JOHN M. REYNOLDS
ASHVILLE, N. C.
MRS. MILDRED S. STRICKLAND
SMITHFIELD, N. C.
HAROLD L. TRIGG
GREENSBORO, N. C.

Mr. Paul Muller, Research Associate
Insurance Committee
New Jersey General Assembly
Trenton, New Jersey

Dear Mr. Muller:

Enclosed is a copy of the North Carolina State Law under which this Division operates, a copy of our complete and condensed financial statement for the year ended June 30, 1970, a copy of our fire insurance rate history in North Carolina since May, 1948 and a summary of the establishment and operation of the Division of Insurance of the North Carolina State Board of Education.

I would like to add here that we have a reinsurance contract which insures the excess of our liability above \$200,000 each and every location each and every loss, with a \$2,000,000 limit. This policy works similar to a deductible automobile policy; we assume the first \$200,000 liability and our reinsurance takes over from that point on.

Each building is inspected once a year before the renewal of the policy. We issue a specific policy which has no coinsurance clause.

The rate for each particular school is based on the information obtained by our engineers on their inspection of the school, and the conditions found.

All losses are paid in full up to the full amount of insurance carried on any particular building in the schedule. Losses are adjusted promptly by the Division of Insurance in order that the local unit may proceed with the repairs immediately.

There are 155 administrative public school units in the State of North Carolina, 100 county and 55 city. The participating units may insure for either 100% or 75% of the insurable value; however, all of the units carry 100% coverage.

The insurable value of a building is the replacement cost, less a normal depreciation and such noninsurables as foundation, excavation, etc.

Mr. Paul Muller, Research Associate
Insurance Committee
New Jersey General Assembly
Trenton, New Jersey

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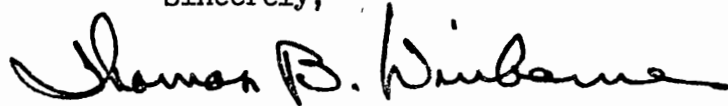
April 15, 1971

We estimate that we insure about 65% of the school value of the State.

I wish to point out here that the \$2,000,000 loan from the State Literary Fund has been completely repaid and "The Fund" is clear of all its indebtedness.

If we can be of any further assistance to you please feel free to call on us.

Sincerely,

A handwritten signature in cursive script that reads "Thomas B. Winborne". The signature is written in dark ink and is positioned above the typed name and title.

Thomas B. Winborne, Director
Division of Insurance

TBW:fa
Enclosures

STATE BOARD OF EDUCATION
PUBLIC SCHOOL INSURANCE FUND

Statement of Condition
 As of June 30, 1970

ASSETS

Cash on Deposit	\$ 737,255.65
Accounts Receivable—Insurance Premiums	5,421.98
Accrued Interest on Investments	71,593.75
Deferred Expense—Reinsurance Premium	12,219.99
Investments—U. S. Government Securities	4,214,404.57
Total Assets	<u>\$5,040,895.94</u>

LIABILITIES AND RESERVES

Liabilities

Accounts Payable	\$ 92.09
Unearned Premiums	309,377.69
Total Liabilities	<u>\$ 309,469.78</u>

Reserves for Payment of Losses

Reserve—Claims in Process of Adjustment	\$ 380,090.80
Earned Surplus	4,351,335.36
Total Reserves	<u>4,731,426.16</u>
Total Liabilities and Reserves	<u>\$5,040,895.94</u>

Statement of Income and Expenses
 For the Year Ended June 30, 1970

INCOME

Earned Insurance Premiums	\$ 815,222.92
Earnings on Investments	254,823.35
Total Income	<u>\$1,070,046.27</u>

EXPENSE

Fire and other Losses	\$793,320.16
Reinsurance Premium	54,612.50
Administrative Cost	82,337.87
Total Expense	<u>930,270.53</u>
Excess of Income over Expense	<u>\$ 139,775.74</u>

NOTE: Investments consist of U. S. Government Securities.

Article 16

STATE INSURANCE OF PUBLIC SCHOOL PROPERTY

SECTION 1. Authority and rules for the organization of the system. - The State Board of Education is hereby authorized, directed and empowered to establish a division to manage and operate a system of insurance for public school property. The Board shall adopt such rules and regulations as, in its discretion, may be necessary to provide all details inherent in the insurance of public school property. The Board shall employ a director, safety inspectors, engineers and other personnel with suitable training and experience, which in its opinion is necessary to insure and protect effectively public school property, and it shall fix their compensation with the approval of the Personnel Department.

SECTION 2. Public School Insurance Fund; decrease of premiums when fund reaches five per cent (5%) of total insurance in force. - There shall be set up in the books of the State Treasurer a fund to be known as designated as the "Public School Insurance Fund," which fund hereafter in this Article is referred to as "the fund." In order to provide adequate reserves against losses which may be incurred on account of the risks insured against as provided in this Article and to provide payment for such losses as may be incurred therein, there is hereby appropriated to "the fund" the sum of two million dollars (\$2,000,000.00), which shall be paid from and charged to the State Literary Fund as set up and defined in this Chapter. When the reserves in "the fund" shall be increased by the payment of premiums by the governing boards of county and city administrative school units, or otherwise, to the extent of one million dollars (\$1,000,000.00), there shall be transferred from "the fund" back to the State Literary Fund the sum of one million dollars (\$1,000,000.00) and when "the fund" shall again be increased to the extent of another one million dollars (\$1,000,000.00), there shall be transferred therefrom back to the State Literary Fund an additional sum of one million dollars (\$1,000,000.00) in full reimbursement of the sum of two million dollars (\$2,000,000.00), which is authorized to be transferred from the State Literary Fund by the provisions hereof. All funds paid over to the State Treasurer for premiums on insurance by the governing boards of county and city school administrative units and all money received from interest or from loans and deposits and from any other source connected with the insurance of the property hereinafter referred to shall be held by the State Treasurer in "the fund" for the purpose of paying all fire, lightning, wind-storm, hail and explosion losses for which the said fund shall be liable and the expenses necessary for the proper conduct of the insurance of said property, together with such premiums for reinsurance of such part of said insurance as the State Board of Education may deem necessary to reinsure, as provided for in this Article. Such part of the money in "the fund" as may not be needed for the payment of current demands thereon shall be invested by the State Treasurer in such securities as constitute permissible investments for State sinking funds, and all of the earnings thereon shall be paid into "the fund." The State Treasurer shall annually report to the State Board of Education and to the General Assembly the status of "the fund" and a detailed statement of the investments therein and earnings therefrom.

When the fund herein provided for reaches the sum of five percent (5%) of the total insurance in force, then annually thereafter the State Board of Education shall proportionately decrease the premiums on insurance to an amount which will be sufficient to maintain "the fund" at five per cent (5%) of the total insurance in force, and in the event in the judgment of the State Board of Education the income from the investments of "the fund" are sufficient to maintain the same at five per cent (5%) of the total insurance in force, no premiums shall be charged for the ensuing year, provided that no building or property insured shall cease to pay premiums until five annual payments of premiums have been made whether or not through such payments the fund shall be increased beyond five per cent (5%) of the total insurance in force, unless such building or property shall cease to be insurable within the meaning of this Article within such five-year period.

SECTION 3. Insurance of property by school governing boards; notice of election to insure and information to be furnished; outstanding policies. - All county and city boards of education may insure all property within their units against the direct loss of damage by fire, lightning, windstorm, hail or explosions resulting by reason of defects in equipment in public school buildings and other public school properties in "the fund" hereinbefore set up and provided for. Any property covered by an insurance policy in effect on the date when the property of a unit is insured in "the fund" shall be insured by "the fund" as of the expiration of the policy. Each school governing board shall give notice of its election to insure in "the fund" at least thirty days prior to such insurance becoming effective and shall furnish to the State Board of Education a full and complete list of all outstanding fire insurance policies, giving in complete detail the name of the insurers, the amount of the insurance and expirations thereof. While the said insurance policies remain in effect, "the fund" shall act as co-insurer of the properties covered by such insurance to the same extent and in the same manner as is provided for co-insurance under the provisions of the standard form of fire insurance as provided by law, and in the event of loss shall have the same rights and duties as required by participating insurance companies.

SECTION 4. Inspections of insured public school properties. - The State Board of Education shall provide for periodic inspections of all public school properties in the State of North Carolina insured under the provisions hereof, the said inspections for safety of buildings and particularly school buildings, against the loss or damage from fire and explosions. The inspections shall be the basis for offering such engineering advice as may be thought to be necessary to safeguard the children in the public schools from death and injury from school fires or explosions and to protect said school properties from loss, and the local school authorities shall be required so far as possible, and reasonable, to carry out and put into effect such recommendations in respect thereto as may be made by the State Board of Education.

SECTION 5. Information to be furnished prior to insuring in the fund; providing for payment of premiums. - County and city boards of education shall at least thirty days before insuring in "the fund," furnish to the State Board of Education a complete and detailed list of all school buildings and contents thereof and other insurable school property, together with an estimate of the present value of the said property. Valuation for purposes of insuring in "the fund" shall be reached by agreement in accordance with the procedure hereinafter set up for adjustment of losses. County and city boards of education and the tax levying authorities shall be required to provide for the payment of premiums for insurance on the school properties of each unit respectively, to the extent of not less than seventy-five per cent (75%) of the current insurable value of the said properties, including the insurance in fire insurance companies and the insurance provided by "the fund" as set out herein.

SECTION 6. Determination and adjustment of premium rates; certificate as to insurance carried; no lapsation; notice as to premiums required, and payment thereof. - The State Board of Education shall determine the annual premium rate to be charged for insurance of school properties as herein provided, which said rate shall not, however, be in excess of the rates fixed by law for insurance of such properties in effect on May 31, 1948, and such rates shall be adjusted from time to time so as to provide insurance against damage or loss resulting from fires, lightning, windstorm, hail or explosions resulting from defects in equipment in public school buildings and properties for the local school units at the lowest cost possible in keeping with the payment of cost of administration of this Article, and the creation of adequate reserves to pay losses which may be incurred. The State Board of Education shall furnish to each county and city administrative unit annually and, at such times as changes may require, a certificate showing the amount of insurance carried on each item of insurable property. The said insurance shall not lapse but shall remain in force until the county or city board of education requests that said insurance be cancelled or until such property becomes uninsurable in the manner set out in section 8 of this Article.

From time to time the local school authorities shall be notified as to the amount of the premiums required to be paid for said insurance and the amounts thereof shall be provided for in the annual budget of such schools. The tax levying authorities shall provide by taxation or otherwise a sum sufficient to pay the required premiums thereon.

The local school authorities shall within thirty (30) days from notice thereof pay to the State Board of Education the premiums on such insurance, and in the event that there are no funds on hand at such time with which to make said payment, the same shall be paid out of the first funds available to such school board. Delayed payments shall bear interest at the rate of six per cent (6%) per annum.

SECTION 7. Adjustment of losses; determination and report of appraisers; payment of amounts to treasurers of local units; disbursement of funds. - In the event of loss or damage by fire, lightning, windstorm, hail, or explosions resulting from defects in equipment in public school buildings and properties for the local school units, "the fund" shall pay the loss in the same proportion as the amount of insurance carried bore to the valuation of the property at the time it was insured, but not exceeding the amount which it would cost to repair or replace the property with material of like quality within a reasonable time after such loss, not in excess of the amount of insurance provided for said property, and not in excess of the amount of such loss which "the fund" is required to pay in participation with fire insurance companies having policies of insurance in force on said properties at the time of the loss or damage, and "the fund" shall not be liable for a greater proportion of any loss than the amount of insurance thereon shall bear to the whole insurance covering the property against the peril involved.

In the event of loss or damage by fire, lightning, windstorm, hail, or explosions resulting from defects in equipment in public school buildings and properties of the local school units, to the property insured, when an agreement as to the extent of such loss or damage cannot be arrived at between the State Board of Education and the local officials having charge of the said property, the amount of such loss or damage shall be determined by three appraisers; one to be named by the State Board of Education, one by the local governing board having charge of the property, and the two so appointed shall select a third--all of whom shall be disinterested persons, and qualified from experience to appraise and value such property: Provided, however, if the appraisers appointed by the State Board of Education and the local governing board shall fail for fifteen days to agree upon the third appraiser, then, on request of the State Board of Education or the local governing board having charge of the property, such third appraiser shall be selected by the resident judge of the superior court of the judicial district in which the property is located. The appraisers so named shall file their written report with the State Board of Education and with the local governing board having such property in charge. The costs of the appraisal shall be paid by "the fund." Upon the determination of the loss by the appraisers, the State Board of Education shall pay the amount of such loss or damage to school property in the control of the county administrative unit to the county treasurer, and pay the amount of loss or damage to property of a city administrative unit to the treasurer of said unit upon proper warrant of the State Board of Education. Said funds shall be paid out by the treasurer of said units, as provided by this Chapter for the disbursement of the funds of such unit.

SECTION 8. Maintenance of inspection and engineering service; cancellation of insurance. - The State Board of Education is authorized and empowered to maintain an inspection and engineering service deemed by it appropriate and necessary to reduce the hazards of fire in public school buildings insured in "the fund" as hereinbefore provided, and to expend for such purpose not in excess of ten per cent (10%) of the annual premiums collected from the local school authorities. The State Board of Education is hereby authorized and empowered to cancel any insurance on any school property when, in its opinion, because of dilapidation and depreciation such property is no longer insurable. Before cancellation, the local school board shall be given at least thirty (30) days' notice, and in the event said property can be restored to

insurable condition, the State Board of Education may make such orders with respect to the continuance of such coverage as may be deemed proper: Provided, that the findings and results of the inspection of local school property by the agents of the Board shall be reported to county and city boards of education and to the board of county commissioners of such units as carry insurance with the State thirty (30) days before budget making time in order that all school property shall be properly taken care of and made safe from fire hazards.

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SCHOOL INSURANCE FUND UNIQUE IN NATION

North Carolina can name many "firsts" A list of them might be topped with the birth of Virginia Dare and the flight at Kitty Hawk. It is probable, however, that North Carolina's Public School Insurance Fund might be overlooked on the list.

Comparable to a small fire insurance company, the Fund is the only insurance operation run by a state board of education to provide low-cost fire insurance and extended coverage to public schools. Insuring with the Fund is optional. A school system may choose to insure with a stock or mutual company instead. But Thomas B. Winborne, director, contends that schools can save money by insuring with the Fund. Some 101 of the State's 152 school systems do just that.

Winborne has been with the Fund since its establishment in 1949, and director since 1950. The Fund actually got its start in 1948, when a 25 percent increase in the fire insurance rates on public schools went into effect.

The General Assembly, to combat the increase, authorized the State Board of Education to set up and operate a school building insurance fund. To begin it, \$2 million was loaned for reserve purposes from the State Literary Fund, which is used to loan money to local systems for building purposes (At that time, according to Winborne, the Literary Fund was little used since schools could secure equal interest rates from commercial institutions.)

The \$2 million was repaid by 1962. Actually, not a penny was ever used in the payment of losses, said Winborne. Reserves at the present time amount to almost \$5 million. Investments of the Fund — handled by the State Treasury — are in U. S. Treasury bonds, notes, and so forth.

According to Winborne, one of the first results of the Fund was a slash in rates charged public schools by commercial insurance companies. Shortly after the establishment of the Fund, insurance companies petitioned the Insurance Commissioner to reduce public school fire insurance rates. Since then, these rates have been further decreased. "I am convinced that no such relief would have been granted if the insurance companies had not been forced to compete for business," said Winborne.

Sufficient coverage of school buildings is another asset. When the Fund was established, many school systems were carrying insufficient insurance. Today these same units have taken advantage of lower charges to increase their coverage.

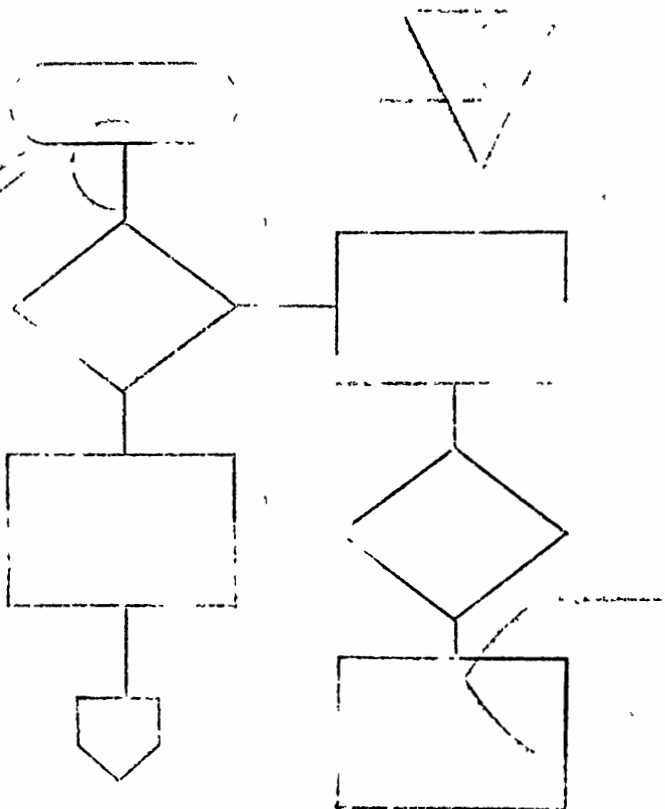
The greatest benefit, according to Winborne, has been the establishment and maintenance of a fire inspection service by the State. He said that about one-half of the budget of the Fund goes to inspection activities designed to minimize the risk of fire. Four engineers are employed by the State Board of Education for this purpose.

The 21st year of the operation of the Public School Insurance Fund ended June 30, 1970. As of that date, there were 77 county and 24 city school systems, 21 technical institutes, and 6 community colleges insuring their properties through the Fund.

Total insurance in force was \$624,027,000. Earned premiums for the year were \$815,222.92, with losses of \$793,320.16, for a loss ratio to earned premiums of 97.31 percent.

VOLUME 35 / NUMBER 3 / SEPTEMBER 1971

NORTH
CAROLINA
SCHOOL INSURANCE
FUND



FIRE INSURANCE RATE HISTORY IN NORTH CAROLINA SINCE MAY, 1948

1. Fire Insurance Rates on public schools in North Carolina, private schools excluded, were increased as of June 1, 1948 a flat 25%.
2. The 1949 General Assembly authorized the State Board of Education to set up a self-insurance fund for the public schools of North Carolina; participation in this program being optional for the administrative school units.
3. In March, 1949 the Rating Bureau authorized a credit of 5% in rates on schools under public fire protection in cities and towns, Class 1-9, and 10% credit in cities and towns, Class 10 and Country, for self-inspection.
4. On July 1, 1949 the Division of Insurance of the State Board of Education began operation with base rates 68% of the Bureau rates in effect in May, 1948, before the 25% increase.
5. In November, 1949, less than six months after the Division of Insurance started operation, the Rating Bureau reduced rates on schools from 10% to 17% and established the same rates for all schools both public and private.
6. By February, 1952 the self-inspection credit had been changed to a 10% credit on all buildings, except fire resistive, or AAA buildings where the credit was 5%.
7. In April, 1953 the Rating Bureau gave credits of from 5% - 15% on certain schools:
 - Frame schools protected - - - - - 15% credit
 - Masonry schools unprotected - - - - - 5% credit
 - Frame schools unprotected - - - - - 10% credit
8. By March, 1954 the self-inspection credit was changed to a flat 10% on all buildings.

9. In April, 1954 the Rating Bureau gave additional credits. These credits added to the credits of 1953 amounted to a 20% reduction in rates on all schools protected and unprotected except on fire resistive types, or AAA school buildings.
10. In April, 1955 the Rating Bureau added to the list of schools to receive a 20% credit the fire resistive type, or AAA school building.

This completes the cycle of reductions to date, and means a 20% reduction in rates on schools of all types by the Rating Bureau since the new base rates were established November, 1949, plus 10% for self-inspection.

Now, what does all this mean? It is this; since March, 1949, when the General Assembly authorized the establishment of a self-insurance program for our schools, the rates on public schools of North Carolina have been reduced from 35.2% to 40%. This saving has benefited all the public schools in the state. The schools insuring their properties with "The Fund" have received even greater saving, as we haven't found an administrative unit that couldn't save by insuring with "The Fund."

The insurance program, as set up by "The Fund", is the best the schools of North Carolina have ever had. The engineering and inspection service is by far the best the schools have had, and in most instances, the first such service for the schools.

NORTH CAROLINA STATE BOARD OF EDUCATION

PUBLIC SCHOOL INSURANCE FUND

In the summer of 1948 the Insurance Commissioner of North Carolina without any public hearing whatsoever approved a horizontal increase of 25% in the fire insurance rates for public schools. This resulted in an immediate increase of approximately \$200,000 in the insurance costs of the local administrative unit. The State Board of Education protested this increase, but without avail. The Insurance Commissioner refused to cancel or to modify the increase.

It was then that the State Board of Education sought from the 1949 General Assembly authority to set up and operate a school building insurance fund. The insurance interests, including the companies and the agents, opposed the legislation most vigorously. The State Board of Education, however, managed to obtain favorable action from the General Assembly, and the Public School Insurance Fund began operation July 1, 1949.

Participation in the Public School Insurance Fund by the school administrative units is entirely voluntary. The administrative units are free to place their insurance with the stock or mutual insurance companies if they so desire.

One of the first results of the establishment of The Fund was a slash in the rates charged by the insurance companies. Within a few months after the establishment of The Fund the insurance companies petitioned the Insurance Commissioner to reduce the fire insurance rates on public schools. Since then these rates have been further decreased. The State Board of Education is convinced that no such relief would have been granted if the insurance companies had not been forced to compete for business.

The Public School Insurance Fund has made, during its brief operation, a very substantial profit which has gone into surplus. At the time when The Fund was established, the General Assembly authorized the State Literary Fund to lend The Fund two million dollars to be repaid in the future, in units of one million dollars. Not a penny of this fund has ever been actually used in the payment of losses. The State Literary Fund is a fund which lends money to the local units in small sums for building purposes. It was more or less inactive, and the transfer of the two million dollars involved no hardship as the money was either in the banks or in short term federal securities. The two million dollars was repaid to the State Literary Fund by February, 1962.

The State Board of Education thinks that a state school building insurance fund is entirely sound both as to the purposes which it seeks to serve and as to the financial basis upon which it rests. As you well know, private business with a scattered risk would operate as a self-insurer, such as a large chain store. The risk is scattered, and there is little or no moral hazard attaching to the coverage.

Of course, if and when you propose state insurance, you will be met with the arguments of socialism, communism, etc. The state is not selling insurance to private individuals or corporations. It is merely underwriting the risks of its political subdivisions. A state insurance fund is sound business and nothing else.

In 1949 when The Fund was established school administrative units were carrying insufficient insurance. Today you will find that these administrative units have taken advantage of the lower insurance charges to increase their coverage materially. This is true of the units that do not participate in The Fund as well as those who do place their insurance with The Fund.

One of the greatest benefits flowing from The Fund has been the establishment and maintenance by the state of a fine inspection service. Approximately one-half of the budget of The Fund goes to inspection activities designed to minimize the risk of fire. Whenever a unit has a fire, The Fund makes prompt and full settlement. It is interested in seeing to it that the school unit replaces the destroyed structure as speedily as possible, but The Fund undertakes to prevent the fire through highly effective inspection service.

Community Colleges, Technical Institutes and Industrial Education Centers are authorized to insure their properties with the Public School Insurance Fund. Public School Laws of North Carolina; (Chapter 115A-34, General Statutes of North Carolina).



**New Jersey
School Boards Association**

407 West State Street, P. O. Box 909, Trenton, New Jersey 08605

MRS RUTH H PAGE
Executive Director

DR MARK W HURWITZ
Assistant Executive Director

FINAL REPORT

MUTUAL CASUALTY INSURANCE POOL
STUDY COMMITTEE

NJSBA

by

EXHIBIT A

WILLIAM BELL, CHAIRMAN

PREPARED FOR THE ANNUAL DELEGATES MEETING
May 15, 1971

At the Semi-Annual Delegates Meeting of December 6, 1969, the delegates assembled supported a resolution submitted by the Brick Township Board of Education (Ocean County) petitioning the New Jersey School Boards Association to study the feasibility of and possible economies that might result from the creation of a statewide mutual casualty insurance pool. The resolution further called upon the Association to recommend appropriate legislation should the findings of the study committee so indicate.

In the same month, P. Paul Ricci, then President of the Association, appointed a committee to carry out the delegates' direction.

BACKGROUND AND FINDINGS

The Mutual Casualty Insurance Pool Study Committee met for thirteen months in pursuing its charge. The Committee collected and reviewed state insurance plans from North Carolina and Wisconsin, employed the consultant services of experts in the field of school insurance; discussed legal aspects of an insurance pool with the New Jersey Deputy Commissioner of Insurance; and surveyed the New Jersey school boards on the type of insurance carried, premiums paid, claims paid, etc. to determine the scope of the problem confronting the New Jersey public schools.

In its investigations, the Committee quickly discovered that the costs of property and casualty insurance are a small percentage of most school budgets; that the major problem confronting New Jersey boards of education is the availability of property insurance at a reasonable cost; and that a subtle problem exists in the casualty area of liability relating to the questions of when liability begins and ends, and what is an occurrence or an accident.

(over)

71/317
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The Committee designed a survey to be sent to all New Jersey school boards. The survey was constructed in such a fashion that the district's insurance company would provide the data. The response to the survey, (40% of the districts), represented a sampling of every conceivable part of the State, every size district, and both urban and non-urban communities. The intent of the survey was to provide information (based on a 3-year period 1965-1968) as to premiums paid for automobile insurance, general liability and property insurance, claims paid under subdivisions within these three main areas of coverage, and limits of liability carried and values of property insured.

In its deliberations on the survey tabulations, the Committee observed that the 239 districts responding did provide a reliable credible sampling of the State, and that the developed loss ratios of claims paid to premiums collected (exclusive of underwriting and adjustment expenses) showed that boards did not suffer from poor experience from an insurance standpoint. Three year loss ratios indicated an average 28% for automobile coverages, 30% for general liability and 18% for property insurance. An insurance company has an underwriting profit on a loss ratio of 55% or less.

The Committee noted also that commercial carriers write policies and base premiums on what they consider to be the reasonable chance of loss. These same carriers provide valuable services in the area of safety engineering and claims adjustment. The independent insurance agent also performs valuable services through professional recommendations of coverage to be carried, providing reliable markets and individualized attention to his insured's best interests.

In view of the above information the Committee found it difficult to understand the exact cause for concern that commercial carriers displayed relating to providing New Jersey boards of education with proper and adequate insurance coverage. As the Committee noted in its interim report of December 5, 1970, civil unrest and student unrest are not predictable. Insurance companies have become increasingly reluctant to write school coverage despite the generally good claims experience. Districts in which there has been no experience of disorder or adverse claims experience still find themselves facing extreme insurance premium increases and even cancellation of insurance. It is interesting to note, for example, that the Newark school system suffered no damage to property during the riots in that city in 1967. The lack of certainty of estimating the probabilities of loss has created for the insurance companies a situation unfavorable to the State's public schools.

The Committee after further deliberation, determined that the problems facing the public schools of New Jersey are two-fold. One relates to availability of property insurance and the other relates to a more legal problem of clearly defining the scope and limit of liability

for public schools. Public schools, like municipalities, are plagued by this liability problem which now clearly indicates, in the opinion of the Committee, that such terms as "occurrence", "incident", "aggregate", and "right of subrogation" must be legislated and limited through law. There is a constant problem in these words and their intent and use. For example, vandalism is often a cause of damage. When a child is involved an "accident" has taken place. Confusion enters when several children are involved with the same cause, vandalism. Difficulties arise in determining whether an "accident" has taken place or an "occurrence". If an "occurrence" has taken place, then "aggregate" is involved, entailing total numbers of losses, etc.

The Committee, in its last meeting, discussed with Mr. Thomas B. Winborne, Director, Division of Insurance, State of North Carolina, that State's insurance plan. North Carolina as a state parallels New Jersey quite closely as far as the makeup of school districts and size of school enrollments. The State of North Carolina has had an insurance pool in existence for twenty years and over that twenty year period has experienced a 65% loss ratio. Because of the makeup of the pool the school districts have not had a rate increase in that twenty year period and over many of the years have not collected premiums due to the financial construction of the pool. The Committee also discussed the recently released report of the Governor's Management Study Commission. The report of the Commission has basically reinforced the conclusions of the Committee, but the Committee felt that in any consolidation of insurance coverages, the premiums, expenses, and loss information of public schools should be kept separate and apart from other pool members. The Committee did not explore the consolidation of either workmen's compensation insurance or health insurance benefits.

CONCLUSIONS

The Committee, having concluded its deliberations and analysis of its charge, concluded as follows:

1. That an insurance pool for New Jersey public schools would provide a definite service to the schools and should be established under the department of education;
2. That insurance can be provided at a reasonable cost;
3. That availability of insurance would be certain;
4. That membership in the pool should be voluntary;
5. That the pool could sustain itself profitably and thereby reduce costs for insurance;

(over)

6. That this pool should provide property insurance for buildings and contents of public schools against loss by fire, lightning, windstorm, hail, explosion, riot or civil commotion vehicle damage, falling aircraft, smoke and vandalism and malicious mischief;
7. That a \$500 deductible should apply against all direct fire and extended coverage physical losses to property and that a per loss deductible of \$1,000 should apply to all vandalism and malicious mischief losses; however, when losses for vandalism and malicious mischief reach \$5,000 during any one policy year then there would be no further deductible applied against any additional vandalism and malicious mischief claim;
8. That public liability coverage can be provided by this pool;
9. That automobile liability and physical damage insurance can also be provided with this pool with appropriate collision and comprehensive fire and theft deductibles applying of either \$250 or \$500 for all licensed road vehicles owned and operated by public school districts;
10. That limited fire and theft coverages should be provided for all service type unlicensed vehicles and equipment which are in excess of \$1,000 valuation with a \$250 deductible to apply to each fire and theft claim;
11. That the pool should provide itself with appropriate excess insurance to protect itself against adverse claims on property losses in excess of \$1,000,000 aggregate and liability losses in excess of \$1,000,000 each occurrence;
12. That enabling legislation should be enacted to establish said insurance pool and accomplish reform in defining and limiting liability of public schools.

RECOMMENDATIONS

1. That enabling legislation be enacted to establish an insurance pool for the benefit of the New Jersey public schools by and through a division of the State Department of Education for the purpose of underwriting insurance to provide property, liability and automobile insurance.
2. That legislation be enacted to define and limit liability of a school board to acts committed on school sites and property,

on school buses while transporting students to or from school and at functions sanctioned by the school district which occur off the school sites and property.

3. That a limit of recovery of \$10,000 be enacted as it relates to property damage claims in a manner now enjoyed by the municipalities.
4. That all public school liability insurance, automobile insurance and workmen's compensation insurance be consolidated on a statewide basis as is stated in the Governor's Management Study Commission Report.
5. That the ethics, need and desirability as to limiting to \$25,000 an individual's right of claim against a public school system for compensatory damages be explored; and that legislation be drafted to accomplish this, or in a more conclusive fashion, that legislation be drafted to declare public school systems immune to tort liability.
6. That legislation be enacted to define, as they relate to public school districts, the terms "accident", "cause", "occurrence", "incident" and "aggregate".

Respectfully submitted,

William Bell
Chairman

WB/RPM/jc

MUTUAL CASUALTY INSURANCE POOL STUDY COMMITTEE

May 15, 1971

MEMBERS

William Bell, Chairman; Brick Township Board of Education, Ocean County

John Beddoe, Northern Valley Regional High School Board of Education,
Bergen County

Theodore K. Graham, Jr., Lawrence Township Board of Education, Mercer
County

J. Bernard Hart, Mansfield Township Board of Education, Burlington County

Robert B. Hopkins, Passaic Board of Education, Passaic County

Allan Krim, Newark Board of Education, Essex County

William D. Mason, Scotch Plains-Fanwood Regional Board of Education,
Union County

John J. Rosenbaum, Brigantine Board of Education, Atlantic County

Joseph F. Zach, Asbury Park Board of Education, Monmouth County

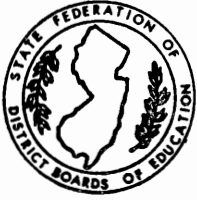
STAFF

Robert P. Martinez, Esquire, Assistant Director of Special Services,
New Jersey School Boards Association

EX OFFICIO

Mrs. Myra Malovany, President, New Jersey School Boards Association,
Caldwell-West Caldwell Board of Education, Essex County

71/328
4/20/71



New Jersey
State Federation of District Boards of Education
407 West State Street, P. O. Box 909, Trenton, New Jersey 08605

MRS RUTH H PAGE
Executive Director

NJSBA

EXHIBIT B

SCHOOL DISTRICT INSURANCE QUESTIONNAIRE

Type of District K-6 () K-8 () K-12 () Regional 7-12 () Regional 9-12 ()

Other (specify) _____

Number of Students in District _____

INSURANCE LOSS SCHEDULE AND PREMIUM EXPERIENCE

Type of Coverage	Policy Year		
	1965-1966	1966-1967	1967-1968
A AUTO			
1. Number of vehicles insured	_____	_____	_____
2. Premiums Paid	\$ _____	\$ _____	\$ _____
3. Claims Paid			
Bodily Injury	\$ _____	\$ _____	\$ _____
Property Damage	\$ _____	\$ _____	\$ _____
Comprehensive	\$ _____	\$ _____	\$ _____
Collision	\$ _____	\$ _____	\$ _____
4. Number of Claims Involving Litigation	_____	_____	_____
5. Number of Claims Over \$25,000	_____	_____	_____

Type of Coverage (continued)	Policy Year		
	1965-1966	1966-1967	1967-1968
A AUTO (continued)			
6 Limits of Liability Carried			
Bodily Injury			
each person	\$ _____	\$ _____	\$ _____
each accident	\$ _____	\$ _____	\$ _____
Property Damage			
each accident	\$ _____	\$ _____	\$ _____
Comprehensive			
ACV	()	()	()
\$50 deductible	()	()	()
Collision			
\$ 50 deductible	()	()	()
\$100 deductible	()	()	()
Higher	()	()	()
B COMPREHENSIVE GENERAL LIABILITY			
1 Number of Buildings and/or Scheduled Locations	_____	_____	_____
2 Premiums Paid	\$ _____	\$ _____	\$ _____
3 Claims Paid			
Bodily Injury	\$ _____	\$ _____	\$ _____
Property Damage	\$ _____	\$ _____	\$ _____
4 Limits of Liability Carried			
Bodily Injury			
each person	\$ _____	\$ _____	\$ _____
each accident	\$ _____	\$ _____	\$ _____
Property Damage			
each accident	\$ _____	\$ _____	\$ _____

Type of Coverage (continued)	Policy Year		
	1965-1966	1966-1967	1967-1968
B COMPREHENSIVE GENERAL LIABILITY (continued)			
5 Number of Claims Involving Litigation	_____	_____	_____
6 Number of Claims Over \$25,000	_____	_____	_____
7 Do you Carry "Excess" or Umbrella Liability	Yes ()	No ()	
C PROPERTY INSURANCE (building and contents)			
1 Number of Buildings Insured	_____	_____	_____
2 Premiums Paid	\$ _____	\$ _____	\$ _____
3 Total Building Valuations	\$ _____	\$ _____	\$ _____
4 Total Contents Valuation	\$ _____	\$ _____	\$ _____
5 Do you use an outside appraisal service	Yes ()	No ()	
6 Do you have replacement cost coverage	Yes ()	No ()	
7 Do you maintain broader coverage than fire, extended coverage, vandalism and malicious mischief	Yes ()	No ()	
8 Claims Paid			
Fire	\$ _____	\$ _____	\$ _____
Extended Coverage	\$ _____	\$ _____	\$ _____
V & MM	\$ _____	\$ _____	\$ _____
9 Number of claims over \$25,000	_____	_____	_____

D MISCELLANEOUS QUESTIONS

1 What effort or efforts do you use to combat vandalism

Type of Coverage (continued)

D MISCELLANEOUS QUESTIONS (continued)

2 What % of your vandalism is caused during

school hours _____ %

after school hours _____ %

3 Do you carry these other forms of insurance

a musical instrument floater Yes () No ()

b boiler and machinery Yes () No ()

c miscellaneous equipment floater Yes () No ()

SCHOOL DISTRICT INSURANCE SURVEY

LINE NUMBER CODES CORRESPOND TO THOSE ON THE QUESTIONNAIRE

A. AUTOMOBILE COVERAGE

- A2 Premiums paid
- A3 Claims paid
 - 3.1 Bodily injury
 - 3.2 Property damage
 - 3.3 Comprehensive
 - 3.4 Collision
- A4 Number of claims involving litigation
- A5 Number of claims over \$25,000

B. COMPREHENSIVE GENERAL LIABILITY COVERAGE

- B2 Premiums paid
- B3 Claims paid
 - 3.1 Bodily injury
 - 3.2 Property damage
- B5 Number of claims involving litigation
- B6 Number of claims over \$25,000

C. PROPERTY COVERAGE (Buildings and Contents)

- C2 Premiums paid
- C3 Total building valuations
- C4 Total contents valuation
- C8 Claims paid
 - 8.1 Fire
 - 8.2 Extended coverage
 - 8.3 Vandalism and malicious mischief
- C9 Number of claims over \$25,000

70-654
10-9-70

SCHOOL DISTRICT INSURANCE SURVEY

URBAN DISTRICTS

N = 129

		1	2	3	4
		1965-66	1966-67	1967-68	3 YEARS
1	A2	77139	109631	129642	316412
2					
3	A3.1	16400	10800	10200	37400
4	3.2	6700	10400	11700	28800
5	3.3	1800	3500	4800	10100
6	3.4	5000	6400	9300	20700
7					
8	TOTAL A3	29900 ²⁸⁷	31100 ²⁸³	36000 ²⁷⁸	97000 ³⁰⁶
9					
10	A2 LESS A3	47239 ⁶¹²	78531 ⁷¹⁶	93642 ⁷²²	219412 ⁶⁹³
11					
12	A4	3	0	88	91
13					
14	A5	0	0	0	0
15					
16	B2	120877	109230	146765	376872
17					
18	B3.1	27000	41000	23800	91800
19	3.2	5000	2100	3600	10700
20					
21	TOTAL B3	32000 ²⁶⁵	43100 ³⁹⁵	27400 ¹⁸⁶	102500 ²⁷²
22					
23	B2 LESS B3	88877 ⁷³⁵	66130 ⁶⁰⁵	119365 ⁶¹⁴	274372 ⁷²⁸
24					
25	B5	6	7	13	26
26					
27	B6	0	1	4	5
28					
29	C2	275315	288054	411628	974997
30					
31	C3	878700000	411300000	509200000	1299200000
32					
33	C4	21020000	22720000	25780000	69520000
34					
35	C8.1	28100	14200	39100	81400
36	B.2	4400	2500	6100	13000
37	B.3	12100	12100	37000	61200
38	TOTAL CB	44600 ¹⁶²	28800 ¹⁰⁰	82200 ²⁹⁰	155600 ¹⁵⁹
39	C2 LESS CB	230715 ⁸³⁶	259254 ⁷⁰⁰	329428 ⁸⁰⁰	819397 ⁶⁴⁰
40					
	C9	69	1	3	14

SCHOOL DISTRICT INSURANCE SURVEY

NONURBAN DISTRICTS

N = 110

		1	2	3	4
		1965-66	1966-67	1967-68	3 YEARS
1	A2	75530	97363	122616	295509
2					
3	A3.1	3600	2500	10,500	16600
4	3.2	9700	9600	7400	26700
5	3.3	3400	3400	5900	12700
6	3.4	2400	6000	13000	21400
7					
8	TOTAL A3	19100 ^{25.28}	21500 ^{22.08}	36800 ^{30.01}	77400 ^{26.1}
9					
10	A2 LESS A3	56430 ^{74.7}	75863 ^{77.9}	85816 ^{69.7}	218109 ^{73.0}
11					
12	A4	1	1	5	7
13					
14	A5	0	0	0	0
15					
16	B2	158769	169714	205237	533720
17					
18	B3.1	53000	50200	64700	167900
19	3.2	3400	700	3000	7100
20					
21	TOTAL B3	56400^{35.58} 102369	50900^{30.06} 118814	67700^{32.18} 137537	175000 ^{32.5}
22					
23	B2 LESS B3	102369 ^{64.5}	118814 ^{70.0}	137537 ^{67.1}	358720 ^{67.2}
24					
25	B5	43	38	46	127
26					
27	B6	1	2	3	6
28					
29	C2	407361	430235	537133	1374729
30					
31	C3	482100000	511600000	560300000	1554000000
32					
33	C4	325100000	313500000	349300000	987900000
34					
35	CB.1	25500	55000	70300	150800
36	B2	16800	27200	17100	61100
37	B3	10300	26900	38700	75900
38	TOTAL CB	52600 ^{21.91}	109100 ^{25.95}	126100 ^{23.47}	287800 ^{20.7}
39	C2 LESS CB	354761 ^{87.1}	321135 ^{74.6}	411033 ^{76.6}	1086929 ^{77.1}
40					
	C9	70	0	1	2
					3

SCHOOL DISTRICT INSURANCE SURVEY

ALL DISTRICTS 1965-66 THRU 1967-68

N = 239

	1	2	3	4
1	A2	611921		
2				
3	A3.1	54000		
4	3.2	55500		
5	3.3	22800		
6	3.4	42100		
7				
8	TOTAL A3	174400 ²⁰⁵		
9				
10	A2 LESS A3	437521 ⁷¹⁵		
11				
12	A4	98		
13				
14	A5	0		
15				
16	B2	910592		
17				
18	B3.1	259700		
19	3.2	17800		
20				
21	TOTAL B3	277500 ²⁰⁵		
22				
23	B2 LESS B3	633092 ⁶⁹²		
24				
25	B5	153		
26				
27	B6	11		
28				
29	C2	2349726		
30				
31	C3	2853200000		
32				
33	C4	168310000		
34				
35	CB.1	232200		
36	B.2	74100		
37	B.3	137100		
38	TOTAL CB	443400 ¹⁸⁹		
39	C2 LESS CB	1906326 ⁸¹¹		
40				
	C9	71	17	

STATE INSURANCE OF PUBLIC SCHOOL PROPERTY

EXHIBIT C

SECTION 1. Authority and rules for the organization of the system. - The State Board of Education is hereby authorized, directed and empowered to establish a division to manage and operate a system of insurance for public school property. The Board shall adopt such rules and regulations as, in its discretion, may be necessary to provide all details inherent in the insurance of public school property. The Board shall employ a director, safety inspectors, engineers and other personnel with suitable training and experience, which in its opinion is necessary to insure and protect effectively public school property, and it shall fix their compensation with the approval of the Personnel Department.

SECTION 2. Public School Insurance Fund; decrease of premiums when fund reaches five per cent (5%) of total insurance in force. - There shall be set up in the books of the State Treasurer a fund to be known as designated as the "Public School Insurance Fund," which fund hereafter in this Article is referred to as "the fund." In order to provide adequate reserves against losses which may be incurred on account of the risks insured against as provided in this Article and to provide payment for such losses as may be incurred therein, there is hereby appropriated to "the fund" the sum of two million dollars (\$2,000,000.00), which shall be paid from and charged to the State Literary Fund as set up and defined in this Chapter. When the reserves in "the fund" shall be increased by the payment of premiums by the governing boards of county and city administrative school units, or otherwise, to the extent of one million dollars (\$1,000,000.00), there shall be transferred from "the fund" back to the State Literary Fund the sum of one million dollars (\$1,000,000.00) and when "the fund" shall again be increased to the extent of another one million dollars (\$1,000,000.00), there shall be transferred therefrom back to the State Literary Fund an additional sum of one million dollars (\$1,000,000.00) in full reimbursement of the sum of two million dollars (\$2,000,000.00), which is authorized to be transferred from the State Literary Fund by the provisions hereof. All funds paid over to the State Treasurer for premiums on insurance by the governing boards of county and city school administrative units and all money received from interest or from loans and deposits and from any other source connected with the insurance of the property hereinafter referred to shall be held by the State Treasurer in "the fund" for the purpose of paying all fire, lightning, wind-storm, hail and explosion losses for which the said fund shall be liable and the expenses necessary for the proper conduct of the insurance of said property, together with such premiums for reinsurance of such part of said insurance as the State Board of Education may deem necessary to reinsure, as provided for in this Article. Such part of the money in "the fund" as may not be needed for the payment of current demands thereon shall be invested by the State Treasurer in such securities as constitute permissible investments for State sinking funds, and all of the earnings thereon shall be paid into "the fund." The State Treasurer shall annually report to the State Board of Education and to the General Assembly the status of "the fund" and a detailed statement of the investments therein and earnings therefrom.

When the fund herein provided for reaches the sum of five percent (5%) of the total insurance in force, then annually thereafter the State Board of Education shall proportionately decrease the premiums on insurance to an amount which will be sufficient to maintain "the fund" at five per cent (5%) of the total insurance in force, and in the event in the judgment of the State Board of Education the income from the investments of "the fund" are sufficient to maintain the same at five per cent (5%) of the total insurance in force, no premiums shall be charged for the ensuing year, provided that no building or property insured shall cease to pay premiums until five annual payments of premiums have been made whether or not through such payments the fund shall be increased beyond five per cent (5%) of the total insurance in force, unless such building or property shall cease to be insurable within the meaning of this Article within such five-year period.

SECTION 3. Insurance of property by school governing boards; notice of election to insure and information to be furnished; outstanding policies. - All county and city boards of education may insure all property within their units against the direct loss of damage by fire, lightning, windstorm, hail or explosions resulting by reason of defects in equipment in public school buildings and other public school properties in "the fund" hereinbefore set up and provided for. Any property covered by an insurance policy in effect on the date when the property of a unit is insured in "the fund" shall be insured by "the fund" as of the expiration of the policy. Each school governing board shall give notice of its election to insure in "the fund" at least thirty days prior to such insurance becoming effective and shall furnish to the State Board of Education a full and complete list of all outstanding fire insurance policies, giving in complete detail the name of the insurers, the amount of the insurance and expirations thereof. While the said insurance policies remain in effect, "the fund" shall act as co-insurer of the properties covered by such insurance to the same extent and in the same manner as is provided for co-insurance under the provisions of the standard form of fire insurance as provided by law, and in the event of loss shall have the same rights and duties as required by participating insurance companies.

SECTION 4. Inspections of insured public school properties. - The State Board of Education shall provide for periodic inspections of all public school properties in the State of North Carolina insured under the provisions hereof, the said inspections for safety of buildings and particularly school buildings, against the loss or damage from fire and explosions. The inspections shall be the basis for offering such engineering advice as may be thought to be necessary to safeguard the children in the public schools from death and injury from school fires or explosions and to protect said school properties from loss, and the local school authorities shall be required so far as possible, and reasonable, to carry out and put into effect such recommendations in respect thereto as may be made by the State Board of Education.

SECTION 5. Information to be furnished prior to insuring in the fund; providing for payment of premiums. - County and city boards of education shall at least thirty days before insuring in "the fund," furnish to the State Board of Education a complete and detailed list of all school buildings and contents thereof and other insurable school property, together with an estimate of the present value of the said property. Valuation for purposes of insuring in "the fund" shall be reached by agreement in accordance with the procedure hereinafter set up for adjustment of losses. County and city boards of educations and the tax levying authorities shall be required to provide for the payment of premiums for insurance on the school properties of each unit respectively, to the extent of not less than seventy-five per cent (75%) of the current insurable value of the said properties, including the insurance in fire insurance companies and the insurance provided by "the fund" as set out herein.

SECTION 6. Determination and adjustment of premium rates; certificate as to insurance carried; no lapsation; notice as to premiums required, and payment thereof. - The State Board of Education shall determine the annual premium rate to be charged for insurance of school properties as herein provided, which said rate shall not, however, be in excess of the rates fixed by law for insurance of such properties in effect on May 31, 1948, and such rates shall be adjusted from time to time so as to provide insurance against damage or loss resulting from fires, lightning, windstorm, hail or explosions resulting from defects in equipment in public school buildings and properties for the local school units at the lowest cost possible in keeping with the payment of cost of administration of this Article, and the creation of adequate reserves to pay losses which may be incurred. The State Board of Education shall furnish to each county and city administrative unit annually and, at such times as changes may require, a certificate showing the amount of insurance carried on each item of insurable property. The said insurance shall not lapse but shall remain in force until the county or city board of education requests that said insurance be cancelled or until such property becomes uninsurable in the manner set out in section 8 of this Article.

From time to time the local school authorities shall be notified as to the amount of the premiums required to be paid for said insurance and the amounts thereof shall be provided for in the annual budget of such schools. The tax levying authorities shall provide by taxation or otherwise a sum sufficient to pay the required premiums thereon.

The local school authorities shall within thirty (30) days from notice thereof pay to the State Board of Education the premiums on such insurance, and in the event that there are no funds on hand at such time with which to make said payment, the same shall be paid out of the first funds available to such school board. Delayed payments shall bear interest at the rate of six per cent (6%) per annum.

SECTION 7. Adjustment of losses; determination and report of appraisers; payment of amounts to treasurers of local units; disbursement of funds. - In the event of loss or damage by fire, lightning, windstorm, hail, or explosions resulting from defects in equipment in public school buildings and properties for the local school units, "the fund" shall pay the loss in the same proportion as the amount of insurance carried bore to the valuation of the property at the time it was insured, but not exceeding the amount which it would cost to repair or replace the property with material of like quality within a reasonable time after such loss, not in excess of the amount of insurance provided for said property, and not in excess of the amount of such loss which "the fund" is required to pay in participation with fire insurance companies having policies of insurance in force on said properties at the time of the loss or damage, and "the fund" shall not be liable for a greater proportion of any loss than the amount of insurance thereon shall bear to the whole insurance covering the property against the peril involved.

In the event of loss or damage by fire, lightning, windstorm, hail, or explosions resulting from defects in equipment in public school buildings and properties of the local school units, to the property insured, when an agreement as to the extent of such loss or damage cannot be arrived at between the State Board of Education and the local officials having charge of the said property, the amount of such loss or damage shall be determined by three appraisers; one to be named by the State Board of Education, one by the local governing board having charge of the property, and the two so appointed shall select a third--all of whom shall be disinterested persons, and qualified from experience to appraise and value such property: Provided, however, if the appraisers appointed by the State Board of Education and the local governing board shall fail for fifteen days to agree upon the third appraiser, then, on request of the State Board of Education or the local governing board having charge of the property, such third appraiser shall be selected by the resident judge of the superior court of the judicial district in which the property is located. The appraisers so named shall file their written report with the State Board of Education and with the local governing board having such property in charge. The costs of the appraisal shall be paid by "the fund." Upon the determination of the loss by the appraisers, the State Board of Education shall pay the amount of such loss or damage to school property in the control of the county administrative unit to the county treasurer, and pay the amount of loss or damage to property of a city administrative unit to the treasurer of said unit upon proper warrant of the State Board of Education. Said funds shall be paid out by the treasurer of said units, as provided by this Chapter for the disbursement of the funds of such unit.

SECTION 8. Maintenance of inspection and engineering service; cancellation of insurance. - The State Board of Education is authorized and empowered to maintain an inspection and engineering service deemed by it appropriate and necessary to reduce the hazards of fire in public school buildings insured in "the fund" as hereinbefore provided, and to expend for such purpose not in excess of ten per cent (10%) of the annual premiums collected from the local school authorities. The State Board of Education is hereby authorized and empowered to cancel any insurance on any school property when, in its opinion, because of dilapidation and depreciation such property is no longer insurable. Before cancellation, the local school board shall be given at least thirty (30) days' notice, and in the event said property can be restored to

insurable condition, the State Board of Education may make such orders with respect to the continuance of such coverage as may be deemed proper: Provided, that the findings and results of the inspection of local school property by the agents of the Board shall be reported to county and city boards of education and to the board of county commissioners of such units as carry insurance with the State thirty (30) days before budget making time in order that all school property shall be properly taken care of and made safe from fire hazards.

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STATE BOARD OF EDUCATION
PUBLIC SCHOOL INSURANCE FUND
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1969

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- Schedule A-2 Statement of Receipts and Disbursements
- Schedule A-3 Statement of Changes in Surplus
- Schedule A-4 Statement of Changes in Investments
- Schedule A-5 Statement of Insurance in Force, Earned Premiums, Unearned Premiums, Accounts Receivable, and Fire and Other Losses
- Schedule A-6 Statement of Comparative Data 1950 to 1969

STATE BOARD OF EDUCATION
PUBLIC SCHOOL INSURANCE FUND
STATEMENT OF PROFIT AND LOSS

SCHEDULE A-1

	FISCAL YEAR ENDED JUNE 30, 1968		FISCAL YEAR ENDED JUNE 30, 1969		DIFFERENCE	
INCOME :						
EARNED PREMIUMS (SCHEDULE A-5)		\$695,306.96		\$753,937.08		\$ 58,630.12
INTEREST EARNED ON INVESTMENTS		115,505.88		155,386.54		39,880.66
REINSURANCE PROCEEDS COLLECTED - RECOVERY ON FIRE LOSS		--		--		--
TOTAL INCOME		\$810,812.84		\$909,323.62		\$ 98,510.78
EXPENSE :						
ADMINISTRATION						
SALARIES AND WAGES	\$ 58,405.61		\$ 56,946.00		\$ (1,459.61)	
SUPPLIES AND MATERIALS	477.28		141.65		(335.63)	
POSTAGE, TELEPHONE AND TELEGRAPH	1,011.13		1,030.14		19.01	
TRAVEL EXPENSE	5,031.48		4,969.54		(61.94)	
PRINTING AND BINDING	92.85		101.73		8.90	
REPAIRS TO OFFICE EQUIPMENT	10.74		201.81		191.07	
RETIREMENT CONTRIBUTION	4,450.50		4,339.32		(111.18)	
SOCIAL SECURITY CONTRIBUTION	1,821.22		1,984.86		163.64	
OFFICE EQUIPMENT	990.00		--		(990.00)	
TOTAL ADMINISTRATION	\$ 72,290.81		\$ 69,715.07		\$ (2,575.74)	
REINSURANCE PREMIUM	34,767.77		44,824.07		10,056.30	
FIRE AND OTHER LOSSES	207,487.79		628,714.81		421,227.02	
TOTAL EXPENSE		314,546.37		743,253.95		428,707.58
NET PROFIT (LOSS)		\$496,266.47		\$166,069.67		(\$330,196.80)
*ADJUSTED FOR ACTUAL PAYMENT OF CLAIMS IN PROCESS AT JUNE 30, 1968						
() MINUS						

STATE BOARD OF EDUCATION
PUBLIC SCHOOL INSURANCE FUND
STATEMENT OF RECEIPTS AND DISBURSEMENTS

SCHEDULE A-2

	FISCAL YEAR ENDED JUNE 30, 1968		FISCAL YEAR ENDED JUNE 30, 1969		DIFFERENCE	
<u>CASH BALANCE JULY 1</u>		\$ 451,654.36		\$ 563,149.51		\$ 111,495.15
<u>RECEIPTS:</u>						
SALE OF INVESTMENTS (PRINCIPAL)	\$1,600,000.00		\$2,500,000.00		\$900,000.00	
LESS: UNEARNED DISCOUNT	--		--		--	
TOTAL INVESTMENTS SOLD	\$1,600,000.00		\$2,500,000.00		\$900,000.00	
INTEREST RECEIVED ON INVESTMENTS	72,336.55		96,612.36		24,275.81	
INSURANCE PREMIUMS COLLECTED	750,241.49		762,672.63		12,431.14	
REINSURANCE PROCEEDS COLLECTED - RECOVERY ON FIRE LOSS	--		--		--	
TOTAL RECEIPTS		2,422,578.04		3,359,284.99		936,706.95
BEGINNING BALANCE AND RECEIPTS		\$2,874,232.40		\$3,922,434.50		\$1,048,202.10
<u>DISBURSEMENTS:</u>						
<u>ADMINISTRATION</u>						
SALARIES AND WAGES	\$ 58,405.61		\$ 56,946.00		\$ (1,459.61)	
SUPPLIES AND MATERIALS	486.09		444.02		(42.07)	
POSTAGE, TELEPHONE AND TELEGRAPH	1,004.75		1,030.14		25.39	
TRAVEL EXPENSE	4,784.39		4,668.46		(115.93)	
PRINTING AND BINDING	92.85		101.75		8.90	
REPAIRS TO OFFICE EQUIPMENT	10.74		201.81		191.07	
OFFICE EQUIPMENT	990.00		--		(990.00)	
RETIREMENT AND SOCIAL SECURITY CONTRI.	6,271.72		5,324.18		52.46	
TOTAL ADMINISTRATION	\$ 72,046.15		\$ 69,716.36		\$ 2,329.79	
<u>INVESTMENTS PURCHASED</u>						
FACE VALUE	\$2,000,000.00		\$2,750,000.00		\$750,000.00	
ACCUMULATED INTEREST PURCHASED	--		2,737.77		2,737.77	
LESS: DISCOUNT	43,975.00		48,436.04		4,461.04	
TOTAL INVESTMENTS PURCHASED	\$1,956,025.00		\$2,704,301.73		\$748,276.73	
PAYMENTS TO UNITS FOR FIRE AND OTHER LOSSES	246,735.83		461,081.02		214,345.19	
REINSURANCE PREMIUM	35,562.71		46,968.94		11,406.23	
REFUND OF INSURANCE PREMIUMS COLLECTED	713.29		494.83		(218.37)	
TOTAL DISBURSEMENTS		2,311,082.89		3,282,562.88		971,479.99
<u>CASH BALANCE JUNE 30</u>		<u>\$ 563,149.51</u>		<u>\$ 639,871.62</u>		<u>\$ 76,722.11</u>
() MINUS						

STATE BOARD OF EDUCATION
PUBLIC SCHOOL INSURANCE FUND
STATEMENT OF CHANGES IN SURPLUS

YEAR ENDED JUNE 30, 1969

SCHEDULE A-3

Surplus July 1, 1968		\$4,043,267.62
Add: Net Underpayment of Claims in Process at June 30, 1968		
Haywood County	\$808.24	
Marion City	(645.04)	
Moore County	<u>232.00</u>	<u>395.20</u>
Adjusted Surplus, July 1, 1968		\$4,043,662.82
Add: Net Profit for Fiscal Year Ended June 30, 1969 (Schedule A-1)		<u>166,069.67</u>
Surplus, June 30, 1969		<u><u>\$4,209,732.49</u></u>

STATE BOARD OF EDUCATION

PUBLIC SCHOOL INSURE FUND

STATEMENT OF CHANGES IN INVESTMENTS

YEAR ENDED JULY 30, 1969

SC-57, P. 1A-A

INVESTMENTS U.S. TRAVEL	MATURITY DATE	RATE OF INTEREST	BOOK VALUE JULY 1, 1968		ADDITIONS		DEDUCTIONS		BOOK VALUE JULY 1, 1969		INTEREST ACCUMULATED AT JULY 30, 1969
			PRINCIPAL ACCOUNT	UNA ACCRUED PREMIUM OR DISCOUNT	INVESTMENTS PURCHASED		INVESTMENTS SOLD OR REMOVED - PRINCIPAL ACCOUNT	ACCRUED AMOUNT OF PREMIUM OR DISCOUNT*	PRINCIPAL ACCOUNT	UNA ACCRUED PREMIUM OR DISCOUNT*	
					PRINCIPAL ACCOUNT	PREMIUM OR DISCOUNT*					
BONDS	6-3-69, 6-	2 1/2%	\$ 500,000.00	\$ 794.83	\$ --	\$ --	\$ 500,000.00	\$ 794.83*	\$ --	\$ --	\$ --
BONDS	12-15-69/64	2 1/2%	2,000,000.00	6,057.19	--	--	--	4,153.50*	2,000,000.00	1,750.63	2,000.33
NOTES	11-15-68	5.25%	100,000.00	18.00	--	--	100,000.00	18.00*	--	--	--
NOTES	5-15-69	5.625%	400,000.00	47.76	--	--	400,000.00	47.76*	--	--	--
BILLS	11-21-68	5.956%	750,000.00	18,402.60	--	--	750,000.00	18,402.60*	--	--	--
BONDS	10-1-69	4.00%	--	--	250,000.00	3,202.12*	--	2,365.60*	250,000.00	997.50	1,666.67
NOTES	5-15-70	5.625%	--	--	100,000.00	150.00*	--	62.50*	100,000.00	87.50	703.13
NOTES	5-15-76	6.50%	--	--	900,000.00	--	--	--	900,000.00	--	7,312.50
BILLS	5-22-69	5.67%	--	--	750,000.00	21,498.75*	750,000.00	21,498.75*	--	--	--
BILLS	11-20-69	6.22%	--	--	750,000.00	29,504.17*	--	5,240.20*	750,000.00	18,343.97	--
TOTAL			\$ 750,000.00	\$ 25,744.49	\$ 2,750,000.00	\$ 38,495.04	\$ 2,500,000.00	\$ 52,908.41*	\$ 4,000,000.00	\$ 21,099.00	\$ 11,765.63

STATE BOARD OF EDUCATION

PUBLIC SCHOOL INSURANCE FUND

STATEMENT OF INSURANCE IN FORCE, EARNED PREMIUMS,

ACCOUNTS RECEIVABLE, AND FIRE AND OTHER LOSSES

SCHEDULE A-5

Local Education Agency	Insurance In Force 6-30-69	Earned Premiums 1968-69	Unearned Premiums 6-30-69	Accounts Receivable 6-30-69	Fire and Other Losses 1968-69
Alamance County	\$ 13,494,600.00	\$ 17,538.57	\$ 47.37	\$ -	\$ -
Burlington City	10,972,500.00	7,002.45	1,901.14	-	-
Alexander County	2,722,500.00	5,291.87	15.45	-	-
Alleghany County	1,997,300.00	2,214.78	1,453.86	-	28,540.25
Anson County	5,902,100.00	7,220.03	3,859.66	27.34	4,527.00
Avery County	3,062,200.00	4,695.37	2,115.61	-	-
Bertie County	4,204,500.00	7,140.77	933.02	-	81.25
Bladen County	5,302,300.00	10,491.57	6,481.96	-	-
Brunswick County	2,630,800.00	7,347.66	717.92	-	166,122.14
Buncombe County	14,774,100.00	18,830.88	1,659.06	68.04	8,392.12
Asheville City	11,451,800.00	6,009.58	4,094.15	-	-
Burke County	5,811,900.00	10,127.80	1,849.39	-	416.06
Cabarrus County	14,376,200.00	17,665.79	13,755.41	-	-
Camden County	1,030,600.00	1,387.78	814.34	-	-
Newton City	3,463,000.00	2,808.29	1,353.67	-	-
Chatham County	6,282,500.00	10,228.78	6,655.74	-	-
Cherokee County	1,011,900.00	1,390.29	227.30	-	-
Andrews City	1,017,500.00	855.03	644.62	834.35	-
Murphy City	916,200.00	841.08	203.13	-	-
Edenton-Chowan County	3,181,000.00	3,487.62	1,551.92	-	-
Clay County	1,068,100.00	1,494.21	1,534.54	1,623.51	-
Currituck County	1,691,900.00	3,569.42	9.64	-	-
Dare County	2,101,600.00	2,446.01	432.64	-	691.56
Davie County	3,900,900.00	6,046.06	281.76	-	-
Duplin County	9,158,900.00	15,041.04	6,619.92	-	15,265.02
Edgecombe County	5,745,500.00	8,361.70	2,166.65	-	-
Tarboro City	3,227,900.00	2,912.96	2,091.97	3.95	-
Franklin County	4,284,700.00	7,330.07	1,293.06	-	340.65
Franklinton City	1,259,800.00	1,377.16	612.28	-	-
Gaston County	7,726,100.00	6,101.06	1,281.25	-	160,000.00
Gates County	2,064,000.00	2,460.91	1,502.41	2,538.72	-
Graham County	1,373,800.00	2,052.27	903.41	-	-
Granville County	3,987,800.00	8,055.58	5,570.14	-	66.72
Greene County	3,525,300.00	5,014.57	1,749.75	-	-
Halifax County	7,277,000.00	11,995.57	32.98	-	1,466.33
Roanoke Rapids City	4,276,300.00	4,425.59	2,657.25	-	366.09
Harnett County	9,784,400.00	18,440.75	7,140.00	-	-
Haywood County	10,749,600.00	13,513.79	1,496.25	14.37	12,574.21
Hendersonville City	2,044,800.00	1,329.64	602.72	-	-
Hertford County	4,517,200.00	7,029.95	2,105.87	-	536.04
Hoke County	3,806,200.00	4,875.38	13.07	-	-
Hyde County	1,156,400.00	1,444.91	497.36	-	8,600.00
Mooresville City	2,905,900.00	2,320.47	238.67	-	-
Jackson County	2,564,200.00	3,730.71	1,465.60	-	-
Johnston County	16,896,000.00	19,511.99	7,642.04	219.27	200.00

STATE BOARD OF EDUCATION

PUBLIC SCHOOL INSURANCE FUND

STATEMENT OF INSURANCE IN FORCE, EARNED PREMIUMS,

ACCOUNTS RECEIVABLE, AND FIRE AND OTHER LOSSES

SCHEDULE A-5

Local Education Agency	Insurance In Force 6-30-69	Earned Premiums 1968-69	Unearned Premiums 6-30-69	Accounts Receivable 6-30-69	Fire and Other Losses 1968-69
Jones County	\$ 1,798,200.00	\$ 3,468.20	\$ 21.15	\$ -	\$ -
Lenoir County	8,008,300.00	11,028.30	4,058.05	-	-
Lincolnton City	2,834,500.00	1,888.58	405.84	-	-
Macon County	2,898,000.00	4,392.73	1,778.68	-	-
Madison County	2,407,400.00	5,181.61	801.78	-	-
Martin County	5,001,800.00	8,201.01	4,539.28	-	22.55
McDowell County	2,836,600.00	4,694.89	2,758.55	-	-
Marion City	2,834,700.00	2,510.92	1,064.55	-	-
Mitchell County	2,481,700.00	2,983.49	3,209.64	-	-
Montgomery County	4,719,600.00	6,560.16	278.25	-	611.70
Moore County	13,060,300.00	15,811.73	956.02	-	-
Nash County	11,631,400.00	17,706.72	13,663.26	-	654.95
New Hanover County	15,816,600.00	13,420.93	5,617.01	-	9,286.96
Northampton County	5,698,500.00	9,971.43	3,509.37	-	-
Onslow County	10,767,600.00	12,665.53	12,199.02	-	1,721.15
Orange County	4,837,800.00	5,404.22	1,529.13	-	-
Pamlico County	2,119,000.00	3,550.31	2,138.70	3,453.97	-
Pender County	2,849,300.00	6,295.31	258.80	-	-
Perquimans County	1,560,200.00	2,197.32	379.70	-	-
Pitt County	7,871,600.00	15,222.66	8,969.48	-	55,854.79
Polk County	1,711,100.00	3,478.52	560.10	-	-
Tryon City	1,335,300.00	1,183.23	883.72	-	-
Randolph County	9,483,300.00	12,402.30	7,800.98	-	2,550.00
Asheboro City	5,262,200.00	3,743.04	255.93	-	-
Richmond County	7,705,600.00	10,331.29	3,455.22	-	-
Robeson County	10,291,700.00	16,882.46	46.66	-	-
Lumberton City	5,013,000.00	2,173.72	1,936.94	-	-
Saint Pauls City	1,554,800.00	2,285.07	6.17	-	-
Rockingham County	4,935,800.00	8,347.88	2,137.99	-	130,000.00
Leaksville City	5,951,100.00	5,235.67	502.23	-	-
Madison-Mayodan City	2,784,000.00	3,256.68	998.53	-	-
Rowan County	15,367,500.00	19,769.27	20,574.62	-	1,509.72
Salisbury City	4,830,100.00	3,445.45	92.64	-	383.69
Rutherford County	11,252,100.00	13,421.32	6,307.97	-	-
Sampson County	7,109,100.00	11,744.16	7,984.09	11,943.29	165.00
Laurinburg-Scot. County	6,937,600.00	7,722.29	4,762.58	-	1,285.03
Stanly County	7,119,300.00	10,039.67	27.10	-	1,665.00
Albemarle City	3,534,000.00	3,173.19	2,173.48	-	-
Stokes County	5,936,400.00	8,339.57	3,372.35	-	169.50
Surry County	6,882,800.00	9,632.84	3,692.16	-	-
Elkin City	1,440,300.00	1,592.52	140.21	-	-
Mount Airy City	2,687,500.00	3,291.89	516.34	-	-
Swain County	1,508,600.00	3,002.76	634.46	-	-
Transylvania County	3,865,500.00	4,220.97	1,457.55	-	3,872.10
Tyrrell County	851,800.00	1,289.06	481.55	-	-
Union County	8,475,600.00	12,385.67	1,569.85	-	202.73

STATE BOARD OF EDUCATION

PUBLIC SCHOOL INSURANCE FUND

STATEMENT OF INSURANCE IN FORCE, EARNED PREMIUMS,

ACCOUNTS RECEIVABLE, AND FIRE AND OTHER LOSSES

SCHEDULE A-5

Local Education Agency	Insurance In Force 6-30-69	Earned Premiums 1968-69	Unearned Premiums 6-30-69	Accounts Receivable 6-30-69	Fire and Other Losses 1968-69
Monroe City	\$ 2,885,000.00	\$ 2,382.36	\$ 524.89	\$ -	\$ 475.00
Wake County	27,813,100.00	34,564.49	16,419.09	-	699.26
Washington County	3,021,700.00	4,912.91	1,464.53	-	-
Watauga County	3,354,900.00	4,122.40	4,214.29	-	-
Wayne County	12,089,100.00	19,018.86	8,325.53	-	2,190.43
Goldsboro City	7,524,700.00	5,808.49	2,752.30	-	450.00
Wilkes County	7,291,300.00	10,031.84	5,210.27	10,280.73	6,375.75
Elm City	1,303,000.00	2,018.38	1,785.61	2,136.92	-
Yadkin County	6,105,700.00	9,358.83	1,075.23	-	92.00
Yancey County	1,750,700.00	2,602.90	128.60	-	194.86
Total -	\$559,698,200.00	\$733,825.76	\$282,683.97	\$33,144.46	\$628,617.61
Department of Community Colleges					
T. I. of Alamance	\$ 1,300,000.00	\$ 840.86	\$ 215.31	\$ -	\$ -
College of the Albemarle	1,182,500.00	1,180.01	425.25	-	-
Asheville Buncombe T. I.	1,981,500.00	836.86	537.41	-	-
Bladen T. I.	100,000.00	183.56	294.92	-	-
Caldwell T. I.	1,855,000.00	1,632.45	1,375.78	871.85	-
Cape Fear T. I.	-	254.22	-	-	-
Catawba Valley T. I.	1,451,000.00	1,764.25	87.27	-	-
Edgecombe County T. I.	102,500.00	68.49	52.54	-	-
Halifax County T. I.	120,000.00	171.03	389.00	416.40	-
W. W. Holding T. I.	1,278,400.00	1,278.81	787.00	-	-
Lenoir County Comm. Coll.	1,741,800.00	1,741.84	652.20	-	-
McDowell T. I.	90,400.00	183.93	118.13	-	-
Nash T. I.	305,000.00	126.36	386.04	-	-
Onslow T. I.	653,000.00	895.17	2.42	-	97.20
Pamlico T. I.	130,800.00	205.71	334.49	540.20	-
Pitt T. I.	698,500.00	929.18	240.27	-	-
Randolph T. I.	-	37.61	-	-	-
Roanoke-Chowan T. I.	47,700.00	108.23	44.89	-	-
Rockingham Comm. Coll.	2,892,000.00	2,749.68	173.09	-	-
Rowan T. I.	926,000.00	631.81	632.19	-	-
Sampson T. I.	337,300.00	190.09	383.32	573.41	-
Sandhills Comm. Coll.	2,046,000.00	2,282.34	6.21	-	-
Southwestern T. I.	280,000.00	166.82	231.07	-	-
Surry Comm. Coll.	1,531,000.00	1,291.13	909.02	-	-
Tri County T. I.	151,000.00	360.88	146.92	-	-
Total -	\$ 21,201,400.00	\$ 20,111.32	\$ 8,424.74	\$ 2,401.86	\$ 97.20
Grand Total -	\$580,899,600.00	\$753,937.08	\$291,108.71	\$35,546.32	\$628,714.81

STATE BOARD OF EDUCATION

PUBLIC SCHOOL INSURANCE FUND

STATEMENT OF COMPARATIVE DATA 1950 to 1970

SCHEDULE A-6

Fiscal Year Ended June 30	Insurance In Force at June 30th	Earned Premiums	Fire and Other Losses	Loss Ratio to Earned Premiums	Net Profit
1950	\$ 41,934,735.26	\$ 78,862.14	\$ 16,078.98	20.39%	\$ 85,479.21
1951	76,353,188.70	189,614.76	91,296.73	48.15	117,773.38
1952	115,490,287.74	274,365.96	40,666.81	14.82	249,050.10
1953	147,318,075.04	352,237.68	356,610.50	101.24	29,336.26
1954	171,254,967.17	414,163.73	238,082.00	57.48	222,236.16
1955	196,247,820.51	457,520.85	332,108.17	72.59	152,556.43
1956	221,509,929.32	490,636.88	186,289.62	37.97	339,897.36
1957	238,253,104.65	516,474.49	355,515.93	68.84	200,975.68
1958	258,606,937.00	538,765.44	208,269.47	38.66	360,299.46
1959	274,562,650.00	546,058.48	565,833.99	103.62	131,813.89
1960	286,203,100.00	550,245.26	115,680.96	21.02	463,364.06
1961	307,337,205.00	529,598.29	327,212.10	61.78	217,110.56
1962	354,903,845.00	521,740.84	127,940.35	24.52	389,426.27
1963	377,940,450.00	543,684.95	368,459.04	67.77	175,346.24
1964	376,863,400.00	543,724.18	492,775.05	90.63	63,167.39
1965	393,392,990.66	557,438.26	531,009.75	95.25	77,775.71
1966	412,489,195.00	568,458.10	806,130.27	141.81	(237,305.34)
1967	467,832,900.00	624,053.43	123,190.45	19.74	509,093.53
1968	521,894,900.00	695,306.96	207,487.79	29.84	496,266.47
1969	580,899,600.00	753,937.08	628,714.81	83.39	167,896.80
1970	624,027,000.00	815,222.92	793,320.16	97.31	139,775.74
Total -		\$10,562,110.68	\$6,912,672.93	65.45%	\$4,351,335.36

Note: The above figures include adjustments made to surplus each year for actual settlement of claims in process of adjustment at the end of each fiscal year.

A CRITIQUE AND ANALYSIS

of

STATE INSURANCE FUNDS

Submitted By

The American Mutual Insurance Alliance

to

New Jersey Assembly Committee On Education

June 1971

(With specific reference to A. 2045 which
would establish a mandatory state insurance
fund for New Jersey School Districts)

C O N T E N T S

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The North Carolina Experience 8

Examination of Existing Mechanisms For Handling School
Insurance in New Jersey 9

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A CRITIQUE AND ANALYSIS OF STATE INSURANCE FUNDS

Submitted By

The American Mutual Insurance Alliance
to

Assembly Committee on Education - State of New Jersey - June 1971

The American Mutual Insurance Alliance is a voluntary association of more than one hundred property and casualty insurance companies.

The purpose of our paper is to examine the general feasibility of New Jersey Assembly Bill No. 2045 which proposes that a mandatory State Insurance Fund be established for school districts for the purpose of meeting any loss from fire or other damage to school district property, including all real and personal property except automobiles.

The approach of this paper will be to examine the general failings of state funds for insuring schools or other state owned property, and then relate those objections to A. 2045. Moreover, the assumptions underlying A. 2045 are that the existing insurance mechanisms are not providing insurance coverage for school districts in the state. These assumptions, as we shall show later, have no foundation in reality.

General Critique and History of State Insurance Plans

- (1) To whatever extent a government entity assumes a function otherwise handled by private industry, it must lose a pro rata portion of tax receipts it would otherwise have.
- (2) An essential of sound insurance underwriting is prudent selection of the risk. To the extent that governmental insurance funds cannot

freely select what risks will be assumed, the good risks must be taken with the bad.

It is important to recognize that governmental entities going into any business may not avoid sound business practices, merely by reason of their entity, and yet expect to operate on an equal basis with private industry, or be solvent.

- (3) By their nature, State self-insurance funds are confined to insuring only State property, and so cannot spread the risk or diversify, as can competitive commercial insurers. The tendency toward centralization and grouping of government property, necessary for certain purposes, increases the risk to those properties in insurance terms, if underwritten by one insurer.
- (4) A basic principal of insurance underwriting is that of the "law of large numbers", by which a specific property risk may be evaluated with a high degree of certainty. Where State funds do not insure large numbers of property, it cannot be known with any degree of certainty when a fund will be large enough to avoid the necessity of further payments to it.

It is not advisable for one entity to attempt to extrapolate the experience of other entities, operating on different principles, which are able to freely diversify and reinsure; particularly where underwriting standards and conditions for those standards are subject to constant change.

(5) A government entity can better save on its premium costs with competitive insurers by maintaining good accident prevention and safety standards. The inspection and engineering services of well-run insurance companies, aid the policyholder in that regard. Experience shows that when government goes into the insurance business, it tends to economize in the area of inspection and safety standards or accident prevention. One of the oldest state fire insurance funds, is that of Wisconsin. The Wisconsin fund does not make regular inspections or provide any engineering service. Moreover, it is presently close to a million dollars in the red (1)

(6) The objective of any reserve or self-insurance fund, is that it will be available for its purposes. However, the existence of any large fund makes it subject to being "raided", or used for other purposes.

For instance, in 1955 the legislature transferred \$5,000,000 from the Wisconsin insurance fund to the general fund as a means of achieving a balanced budget.

This is not to suggest that the Wisconsin fund's money was not properly transferred. Such a determination involves an analysis of many factors. However, the lesson to be drawn, is that any large fund in existence, no matter how long in tradition, or whatever its purpose or form, is subject to use for purposes considered more pressing.

1. See attachment "Ravaged Insurance Fund Shows \$807,325 Deficit", March 3, 1971, Madison, Wisconsin The Capital Times

Moreover the Wisconsin state insurance fund has been a source of borrowing to build state buildings including Wisconsin's state office building and an orthopedic hospital.

This fact suggests that either the fund was misconceived as to amount or its integrity impaired for the purposes set forth.

- (7) It is difficult for one administration to predict that its successors will be as competent as it may have been. If a later administration were near its debt limitation, and major losses or raiding, or a combination thereof, wiped out the fund, there might not be a way to replace property so "covered".

It is entirely possible that government insurance administrators might be as expert as private competitive insurers. However, experience shows that the investments of an insurance fund, are usually handled by an official whose other duties prevent full time application to that essential job. Moreover, a governmental entity may not be able to make the same investments as a private insurer.

- (8) Failures of self-insurance funds have been the rule rather than the exception. One exception, North Carolina, will be commented on later in this paper. They result in a great deal of public clamor from the press and the citizenry, aimed at those

who instituted the fund. The originators of such funds, are usually still on the political scene, when trouble is most apt to occur, i.e., in the early years.

The experience of the Wisconsin fund is in point. The year after that state established its state fire insurance fund, the state capitol burned, and the excess over the funds available, came from the general coffers. It was only in later years that the Wisconsin fund paid the overdrawn amount. In such circumstances, other states having similar experience, have discontinued their fund entirely. In fact, during the last 70 years, 20 states gave self-insurance a try. Of these 20, eight have abandoned the idea, three others have reduced funds to the status of small loss reserves and several of the remaining nine rely on private insurance for at least partial protection. New Jersey maintained a self-insurance plan from 1913 to 1935 when it was abandoned. The state's existing insurance fund, the Unsatisfied Claim and Judgment Fund, has been in almost continuous bankruptcy.

- (9) Significantly, most of our larger industries which are in a better position to be self-insurers, by reason of their diversification of property, carry coverage in commercial companies.
- (10) The construction of new, fire-resistant buildings does not guarantee against losses, as history has shown. However, to the extent that such construction reduces the risk of loss, such a fact can be readily reflected in lesser premium costs through regular private insurers. The issue then becomes one of whether

or not any "saving" of such minor cost, may economically justify the expense of bearing a complete insurance operation, with all the headaches and potential for miscalculation involved.

Application of General Critiques To The Specific New Jersey Proposal

- Establishment of the insurance fund proposed by A. 2045 would mean fewer revenues for New Jersey. Private insurance companies pay state taxes on premium dollars and A. 2045 would eliminate a portion of these premiums. The New Jersey taxpayer would be left to pick up the slack.

- Under A. 2045 all public school districts in New Jersey are required to subscribe to the state fund. This would discriminate against the approximately 570 out of some 600 school boards in New Jersey who have no problem purchasing adequate insurance on satisfactory terms through the open market. The fund would therefore subsidize the few districts with problems at the expense of all the others.²

- A. 2045 provides that the fund may employ experts and clerical assistants to administer it, the costs to be paid out of the fund. How much of the fund

or how little may be used for administration?

Will the fund provide for inspection and engineering services? How many staff employees, at what rate of salary, will be required? The likelihood is that engineering and inspection services would not be provided in the name of economizing. It is submitted that such services as provided by private insurers are a necessary function, apart from building code inspectors and fire inspectors employed by the state or municipalities.

- The provisions for claim settlement under A. 2045 are nebulous and vague. It seems likely that the state fund could not quickly and economically duplicate the expertise of the private sector in the area of claim settlement. Lacking specific claim procedures and ready expertise, the question then arises as to how long the public would be without the school facility and services involved, while the "commission of adjustment" or arbitration panel deliberated over the claim.
- Provisions for ratemaking under A. 2045 are not clear. Starting rates would probably be those already in use by the Fire Insurance Rating Bureau, which immediately questions the likelihood of any cost savings.

- There is no guarantee against the possibility of "raiding" of the New Jersey fund, or subsequent legislative determination, that the money accumulated will not be otherwise employed.

The North Carolina Experience

Mention was made at the recent hearing on A. 2045 conducted by the Assembly Committee on Education of the North Carolina Public School Insurance Fund. There are many reasons why North Carolina is the exception and not the rule in state fund experience:

It was started in 1949 primarily to avoid the "high cost of private insurance". Times were different then and the fund became fully financed before the era of student unrest, vandalism and fires which have caused current problems.

The North Carolina Fund is voluntary and insures 100 of the 152 districts. Often overlooked is the fact that the North Carolina program is not a complete self-insurance program. The fund provides insurance coverage only up to \$200,000 per loss per location and in excess of \$2,000,000 per loss per location. In other words, the fund purchases a layer of reinsurance to reimburse the fund for location losses in excess of \$200,000 to a maximum of \$2,000,000. In the 20 year history of the fund it has made five claims against the reinsurer including a very recent claim for \$178,000 in excess of \$200,000.

Several other aspects of the fund's operation are important. The fund is sacred, it cannot be used for another purpose. The fund's engineers value, for insurance purpose, all buildings insured by the fund thus assuring the values and premiums

are proper. Although the law requires districts to insure to only 75% of actual cash value, the districts all insure to 100% of actual cash value.

The fund provides only fire and extended coverage and does not insure the school's auto or legal liability exposures.

From the financial data provided to the New Jersey School Board Association, the North Carolina fund was very profitable during the early and formative years. Only three times have the losses of the fund exceeded earned income. In the last seven years the fund's losses and expenses have exceeded 80% of its earned income in five of those seven years. In 1966 losses exceeded earned income by \$237,305. As successful as the plan has been, the margin of profit over these seven years has been fully adequate to maintain the fund and provide for growth, but the profit margin would hardly be adequate for starting and building a new fund rapidly, as New Jersey would have to do.

Examination of Existing Mechanisms For Handling School

Insurance In New Jersey

To a large degree, the so-called school insurance problem in New Jersey is not a market problem but a product problem. Historically, schools were looked upon as a prime risk and insurers developed broader and broader school insurance coverages at lower and lower rates. Then came pronounced changes.

One big new factor to be considered was the possibility of student revolts which the FBI says was responsible for more than \$3-million in damage to educational facilities during the 1968-69 academic year. Inflation and increasing cost of repairing and rebuilding buildings also began adding

to the problems of insurers.

And according to the Pacific Fire Rating Bureau in the period from 1963 to 1967, insurance companies paid out an average of \$124.50 in school fire losses and company operating expenses for every \$100.00 collected in premiums.

We would also note that all schools -- particularly high schools and colleges -- are to a large degree microcosms of modern urban life. The schools tend to reflect, and sometimes magnify the tensions, conflicts, and problems of modern society. Frequently social problems tend to concentrate in the school systems. In the past, schools have been called upon to solve certain social ills, and this role for schools will increase in the future. The responsibility of the schools in this area is not clear cut, but if the school systems are not responsive to demands, conditions of unrest in the schools may multiply.

It is not possible to predict how much integration will be accomplished peacefully. There is also evidence that some school boards have in the past bridged the rights of students and other dissenting groups. School tensions and conflicts will probably increase as long as some school systems tend to treat students, or any other group, as second-class citizens from legal or any other standpoints.

In general, schools must become more receptive to healthy, positive change. Like most other institutions, schools will have to be amenable to some change or they may be radically moved aside for a system that appears more adequately to fulfill current and future needs. If schools do not accept the necessity for continued change and adaptation, school disruptions may become worse than they are now.

Due to the trends outlined above, insurers reacted by tailoring their coverages accordingly and adjusting rates in keeping with the new hazards. What has been called "unavailability" of the insurance product is really a "dislocation" caused by insurers offering more realistic coverages at more realistic prices rather than the heavily discounted all risk policies of the past.

Yet despite this dislocation, of the 600 school boards in New Jersey, only about five per cent have insurance problems. And the insurance industry has responded to these problems.

For instance, the New Jersey Underwriting Association (FAIR PLAN), as of July 10, 1970 insured 14 school districts representing 338 different school buildings which had problems getting insurance in the voluntary market. The FAIR PLAN is an insurance industry pool designed to provide Fire, Extended Coverage and vandalism insurance for school properties up to \$1,500,000. Most schools have little problem obtaining excess coverages above the limit. The FAIR plan includes most city and metropolitan areas and is practically statewide to the extent that schools with insurance problems would be within the eligible FAIR plan areas.

Conclusion

Having undertaken the historical examination of state funds in general and the fund proposed by A. 2045 in particular, we can only conclude that:

- (1) A. 2045 cannot be justified on the grounds of expediency, or economy.
- (2) The North Carolina experience is the exception that does not prove the rule and would be difficult, if not impossible, to duplicate in today's climate.

- (3) Despite product dislocations with school insurance in New Jersey, existing mechanisms are doing an adequate job of providing necessary coverage at reasonable rates.

Ravaged Insurance Fund Shows \$807,325 Deficit

By JEFF SMOLLER
 (Of The Capital Times Staff)
 Depleted by legislative raids and drained by fire and riot payments the State Insurance Fund is \$807,325 in the red. The Capital Times has learned. The bad news was filed Tuesday in the State Insurance Commissioner's office and cites the

deficit as of the end of the last calendar year, Dec. 31, 1970. The figure depicts the fund's balance at the end of 1970 and includes projected losses from a number of outstanding claims including one filed by the University of Wisconsin, as yet unpaid. Two of the major claims

which diminished the fund came from universities — one from the U W for the Sterling Hall bombing and one from Wisconsin State University-Whitewater for the arson fire at Old Main. The U W claim passes the \$24 million mark and Whitewater has since been paid \$11 million in damages from the fire in February 1970.

Officials in the Department of Administration hope to get all but \$300,000 of the WSU claim back since Old Main was scheduled for demolition. Eugene McPhee, WSU systems director ignored a State Building Commission directive and filed what state officials feel was an exaggerated claim for actual loss.

Another fire at Whitewater Tuesday will further drain the fund.

Direct losses incurred in 1970 were listed at more than \$423 million in the annual report. That compared unfavorably with \$908,089 generated in premiums paid by policy holders—municipalities and school districts throughout the state.

Only \$620,000 of those premiums was listed as actual income because of a number of policy cancellations.

Balance of the the fund at the

beginning of the year was \$25 million and officials struggled to keep it from dipping under the \$2 million mark.

Once the fund dips under \$2 million, the state is required to ask the various agencies for premiums that were suspended under special legislation in the fund's healthier days.

Also when the fund was healthier, various Legislatures staged periodic raids on the balance using the money for a number of projects. In 1967, for example \$1 million was taken from insurance and placed in the General Fund to balance the budget.

Premiums which would have been assessed the agencies as of Jan. 1 of this year have not been levied, according to B. E. Hogoboom, fund director. The state is awaiting disposition of a number of changes in the fund proposed by Gov. Lucey in his 1971-73 biennium budget.

Lucey recommended the use of \$1 million in general fund money and \$18 million in program revenue to replenish the insurance fund during the next biennium.

Several major changes were recommended in how the insurance fund was operated.

● State property would only be liable up to \$1 million for

building and contents

● Premium payments on property financed by general purpose revenue (tax funds) would be eliminated

● All losses which could not be paid by the insurance fund would be paid from the general fund.

Termination of the purchase of commercial reinsurance was also recommended. Instead, \$500,000 in general purpose revenue would be transferred annually to the balance of the insurance fund until the balance reached \$5 million.

The \$1 million asked by Lucey would be divided into the two fiscal years of the biennium.



NEW JERSEY EDUCATION ASSOCIATION

180 West State Street • Trenton, N. J. 08608 • Tel: (609) 599-4561

STATEMENT by S. Herbert Starkey, NJEA Director of Research, representing the New Jersey Education Association before the hearing of the Assembly Education Committee on Assembly 2045, at the State House, Trenton, New Jersey, Tuesday, April 27, 1971.

The New Jersey Education Association appreciates the opportunity afforded by this hearing to express support for the principles embodied in Assembly 2045.

The great need for a State insurance fund for school districts has become apparent in recent years as an increasing number of school districts find themselves unable to obtain protection except through an assigned risk plan. A State plan should save the taxpayers money as well as increase the availability of the protection desired.

While endorsing the bill in principle, NJEA suggests that further study take place before the legislation is enacted. Experts in the insurance field should be consulted with regard to whether the trustees of the fund should be required to operate a mutual insurance fund as the present A-2045 seems to dictate or be given the alternative of purchasing the insurance through private insurance carriers. This alternative might be easier to administer and the necessary experts would be provided by the insurance company. There is a precedent for this procedure now in use in operating the group life insurance program provided in the Teachers' Pension and Annuity Fund and the Public Employees Retirement System. The citation for the teachers fund is 18A:66-74 to 18A:66-82.

A second question which should be investigated is whether the State Department of Education is the department of state government that should operate such a fund. NJEA wonders why A-2045 proposes that the Commissioner of Education shall be chairman of the board of trustees when the Commissioner of Insurance would appear to have superior qualifications by the very nature of his position. The NJEA also suggests that the three citizen trustees should be required to have competence in the area of insurance or investments to qualify for appointment.

In summary, NJEA approves the concept of A-2045 but urges that further study and amendments be made before enactment of this measure.

