Learn more at www.NYSIR.org

How NYSIR's 'Reciprocal' Model Saved Members Millions of Dollars

When New York State school districts created NYSIR, they faced a crucial decision on how to protect participating school districts from the effects of potential insolvency. They chose wisely—and saved participating school districts many millions of dollars in the process.

The New York Schools Insurance Reciprocal (NYSIR) is a fully licensed not-for-profit insurance company that operates as a "reciprocal." In a reciprocal insurer, "subscribing members" agree to assume one another's risks and insurance costs. However, over 25 years, NYSIR has never come close to needing such an extra payment from members.

All insurers must make *some* provision for covering claims in the event of insolvency. If NYSIR had chosen to be licensed to issue non-assessable policies, its subscribers would have been required to pay higher premiums, with part of each premium payment sent to the state Guaranty Fund. This fund protects policyholders of insolvent insurers, usually up to a $1 million limit.

Assessable and non-assessable policies are just different approaches to protection against insurer insolvency. ***In NYSIR's case, offering assessable policies has enabled it to offer its member school districts insurance at lower rates and with less financial risk.***

School districts mulling insurance options should contrast the limited protection of the Guaranty Fund with the protection promised when all subscribers pledge to protect one another. Each approach comes with tradeoffs. These tradeoffs tend to offset each other when a reciprocal is in its formative stages, when new subscribers might prefer Guaranty Fund payments to the specter of sharing assessments among a relatively small group of subscribers. If it had chosen to issue non-assessable policies, NYSIR would still have faced risk. So in its formative years, NYSIR chose to build a cushion against insolvency through capital contributions.

With more than 340 subscribers, reserves of $89 million and an addition financial cushion of over $140 million, NYSIR has no economic rationale for paying into the Guaranty Fund. The risk of insolvency has shrunk, and the large number of subscribers reduces every subscriber's assessment exposure.

NYSIR has never been insolvent—and, in fact, has never come close. As a result, its members have never paid a single assessment—meaning they have saved millions of dollars they would have had to pay into the state Guaranty Fund if they had chosen the alternative course. ***No wonder NYSIR has earned an A.M. Best rating of "A"—which remains the first and best line of defense against the financial burden that could be created by insolvency.***

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