

Reboot, Revitalize and Rebuild

Five ways Aon's Public Sector Partnership can help you increase preparedness and resiliency

2021

The Aon logo is located in the bottom right corner of the page. It consists of the word "Aon" in a bold, black, sans-serif font. The letter "A" is stylized with a horizontal bar that is slightly offset to the right, creating a unique, modern look. The background of the entire page is a light gray gradient with a 3D effect of white, curved, overlapping bands that create a sense of depth and movement.

2020 was one of the most challenging years in modern history. The global humanitarian and economic crisis caused by COVID-19 challenged all levels of government.

However, as Federal funds via the American Rescue Plan Act of 2021 are disbursed and a large potential infrastructure bill is being discussed, for state, local and quasi-governmental entities an opportunity of significant magnitude has emerged. Governments can now reboot, revitalize and rebuild...to what we at Aon are calling the “New Better” to dramatically increase their resiliency and preparedness.

As state and local governments, indigenous entities and territories seek out the best programs and projects for their federal funds, we also believe this is an opportunity to identify and quantify the amount of unique risks to the missions and mandates that impact preparedness and resiliency.

For the past 40 years, Aon has partnered with state and local governments, quasi-governmental and indigenous entities and other territories to help prepare for and protect the delivery of critical programs, services and functions from systemic, man-made and natural risks.

Building on our long public sector history, Aon created the Public Sector Partnership (PSP) to bring all of Aon together to focus on the public sector. The PSP team is a dedicated group of colleagues with broad experience in both government and the private sector. Together we serve public entities globally, including more than half of the US states, over a hundred large municipal governments, and dozens of the largest transportation and public utility authorities across the United States.

The PSP team has identified the top five pre-disaster actions that will help public sector entities manage the unique risks they face to achieve a “New Better.”¹ They are:

1. Invest in Cyber Security and Unemployment Insurance Fraud Protections – Assessments, Incident Response and Insurance

As attacks on vulnerable government technology systems become increasingly common, cyber security has emerged as one of the fastest growing risks for state and local governments. The move to more web-based platforms and functions (e.g., electronic

applications, credit card transactions and smart-city initiatives) and the increase in data that accompanies these changes will make government information technology systems even more tempting targets. Securing that data will be one of the most critical priorities for every government CIO, as well as executive and legislative branches.

The increasing prevalence of fraud in the unemployment insurance system is one example of these significant risks. The billions earmarked for unemployment insurance have been irresistible to modern-day would-be robbers. The unprecedented spikes in unemployment applications overloaded State unemployment agencies, which were pressured to quickly process claims. Unsurprisingly, fraud skyrocketed. Identity thieves often file false claims for unemployment benefits using the stolen personal identifying information of victims, who must then deal with the fallout from the theft and misuse of their identities.

As of October 2020, up to \$650 million (est.) was stolen from Washington State, and only \$330 million recovered by the end of March 2021.² In July, Massachusetts had to recover over \$158 million in fraudulent claims.³ From March to August 2020, the New York State Department of Labor referred more unemployment fraud cases to federal prosecutors than in the previous decade.⁴

The United States Secret Service issued an alert regarding “massive fraud against state unemployment insurance programs” two months after COVID-19 was declared a pandemic. At that point, Washington State was the primary target. However, the Federal Trade Commission estimates that the total theft could top \$26 billion.⁵ Given the subsequent increase in unemployment fraud, the U.S. Department of Labor allocated \$100 million to support states in their attempts to combat and recover improper payments.⁶

As sophisticated cyber threats against public sector organizations become more frequent and severe, states are becoming more vigilant. Cyber criminals are no longer stealing information or holding it hostage just for financial gain. They are now trying to cause personal and physical damage as they manipulate data or attack vulnerable networks.

Aon’s Cyber Solutions can help governments and entities counter these threats. It offers holistic cyber-risk management, unsurpassed investigative skills and proprietary technologies to help clients uncover and quantify cyber risks, protect critical assets and recover from cyber incidents.

¹ Aon, *Helping Organizations Chart a Course to the New Better*, December 2020, <https://www.aon.com/helping-organizations-chart-course-to-the-new-better/index.html>.

² Mark Harmsworth, “The Employment Security Department fraud tops \$650 million and will grow higher,” *Washington Policy Center*, June 4, 2020, <https://www.washingtonpolicy.org/publications/detail/the-employment-security-department-fraud-tops-650-million-and-will-grow-higher>.

³ Sean Murphy, “Mass. finds more than 58,000 bogus unemployment claims, recovers \$158 million,” *Boston Globe*, July 7, 2020, <https://www.bostonglobe.com/2020/07/07/business/mass-recovers-158-million-bogus-jobless-claims/>.

⁴ New York State, “NYS Department of Labor Thwarts More Than \$1 Billion in Unemployment Insurance Fraud During Pandemic, Stops More Than 40,000 Fraudulent Claims,” August 13, 2020, https://www.dfs.ny.gov/reports_and_publications/press_releases/pr202008131.

⁵ “Subcommittee Briefing with DOL IG Highlights Key Oversight Priorities in Response to Coronavirus Crisis,” *House Committee on Oversight and Reform*, June 2, 2020, <https://oversight.house.gov/news/press-releases/subcommittee-briefing-with-dol-ig-highlights-key-oversight-priorities-in>.

⁶ U.S. Department of Labor, “U.S. Department of Labor Provides \$100 Million To States to Combat Unemployment Insurance Fraud,” *Department of Labor*, September 1, 2020, <https://www.dol.gov/newsroom/releases/eta/eta20200901>.

It frequently partners with state and local governments and helps them adopt a tailored, iterative and dynamic strategy to build their cyber resiliency. Our public sector cyber specialists conduct hundreds of threat landscape assessments and crisis management simulation trainings each year. In addition, we help our public sector clients secure competitive insurance coverage and policy wording that addresses their specific cyber risks.

2. Purchase Budget Insurance for Natural Disasters and Climate Change

“As climate change further influences the behavior of weather events, and more people find themselves living in known hazard risk areas, the humanitarian and financial impact from natural disasters is expected to grow.” This will require new climate resilience and mitigation strategies to [navigate new forms of volatility](#), rethink access to capital and reduce the protection gap as risks are amplified in an increasingly interconnected world.⁷

Budget insurance for natural disasters and climate change is a proactive public sector fiscal risk management tool that is designed to provide immediate funds after a disaster strikes to support the associated response and the recovery efforts, which complements property insurance. When combined with FEMA disaster recovery funds, budget insurance can reduce the overall net impact on revenues and fees and provide coverage for non-reimbursable expenses following a natural disaster.

Most importantly, budget insurance creates greater flexibility to redirect funds to programs and projects that proactively reduce risks, such as investments in climate adaptation and mitigation projects. This effectively helps state, local and quasi-governmental entities pre-position financial resources to reduce the impact of natural disasters and climate change on infrastructure, power grids, agriculture, natural resources and rising public healthcare costs.

Using budget insurance to transfer the immediate fiscal impact, as well as the long-term recovery and resiliency needs, creates immediate opportunities for states, cities and quasi-governmental entities to reboot, rebuild and recover faster after the disaster strikes.

3. Utilize Private Reinsurance in conjunction with 1332 Waivers to Further Reduce Healthcare Cost

As state policymakers try to control rising health insurance premiums and enhance affordable coverage options, many states have applied for and implemented [Section 1332 waivers](#)—also known as State Innovation Waivers or State Relief and Empowerment Waivers.⁸ These waivers [first became available in 2017](#) pursuant to Section 1332 of the Affordable Care Act (ACA), which allows states to secure waivers of certain ACA requirements and customize their health insurance systems to better meet their needs, while retaining the ACA’s basic protections.⁹ States must seek federal approval for a Section 1332 waiver from the Centers for Medicare and Medicaid Services (CMS).¹⁰ [State Roles Using 1332 Health Waivers \(ncsl.org\)](#)

Thanks to the pandemic, many more constituents will be eligible for the ACA. According to a recent Kaiser Family Foundation report, “...the number of people eligible for subsidized Marketplace coverage has increased 20% with the passage of the ARPA (American Rescue Plan Act), from 18.1 million to 21.8 million people, including both insured and uninsured people.”¹¹ In addition, the CBO (Congressional Budget Office) and JCT (Joint Committee on Taxation) estimate that “In 2022, 1.7 million people would gain coverage through the Marketplace, 1.3 million of whom were previously uninsured.”¹² This growth will increase healthcare volatility in states.

Private capital reinsurance is another way states can address this increased volatility and offer consumers stability. Aon’s public sector health team is helping states evaluate the use of private reinsurance to further reduce costs for individual taxpayers that participate in the state’s healthcare marketplace. Such reinsurance can help drive down or stabilize rates and prevent spikes. It also makes costs and services more consistent for taxpayers/users.

4. Utilize Innovative Talent Solutions to Think About the Workforce of the Future

Local governments are seeking creative ways to prevent and reduce the financial impact of police misconduct lawsuits. Recruitment and selection of a diverse workforce will be critical if they want to attract and retain first responders who have the hard and soft skills and experience to protect and partner with local communities. To accomplish this, many of them are evaluating potential reforms and trying to develop ways to work with their communities to transform police and public safety organizations.

⁷ Aon, *Weather, Climate & Catastrophe Insight: 2020 Annual Report*, <https://www.aon.com/global-weather-catastrophe-natural-disasters-costs-climate-change-2020-annual-report/index.html>.

⁸ Centers for Medicaid and Medicare Services,

“Section 1332: State Innovation Waivers,” https://www.cms.gov/CCIIO/Programs-and-Initiatives/State-Innovation-Waivers/Section_1332_State_Innovation_Waivers-

⁹ Jennifer Tolbert and Karen Pollitz, “Section 1332 State Innovation Waivers: Current Status and Potential Changes,”

KFF, July 6, 2017, <https://www.kff.org/health-reform/issue-brief/section-1332-state-innovation-waivers-current-status-and-potential-changes>.

¹⁰ National Conference of State Legislatures, “State Roles Using 1332 Health Waivers,” <https://www.ncsl.org/research/health/state-roles-using-1332-health-waivers.aspx>.

¹¹ Matthew Rae, Cynthia Cox, et al., “How the American Rescue Plan Act Affects Subsidies for Marketplace Shoppers and People Who Are Uninsured,” Kaiser Family Foundation, March 25, 2021, <https://www.kff.org/health-reform/issue-brief/how-the-american-rescue-plan-act-affects-subsidies-for-marketplace-shoppers-and-people-who-are-uninsured/>

¹² Matthew Rae, Cynthia Cox, et al., “How the American Rescue Plan Act Affects Subsidies.”

Aon's public sector Human Capital Solutions Team, using extensive experience and multiple tools, can help local governments navigate a potentially tricky transition. Aon's Human Capital Solutions' Recruiting and Assessments team has a suite of assessments that can help local governments optimize their recruitment and selection of officer candidates, assess outcomes and create successful strategies. This combination can be used to help identify those candidates who have the skills to avoid situations that can lead to police misconduct investigations and the associated financial impact of potential lawsuits.

We are a pioneer and world leader in designing and implementing innovative tests, assessments, questionnaires, simulations, interviews and other solutions that help recruit, select, identify potential, promote, develop, onboard and restructure organizations or jobs. Our team has 2,000+ global talent colleagues and hundreds of assessment experts, including scores of award-winning industrial-organizational (I-O) psychologists who serve Government Agencies and Fortune 100, 500 and 1,000 clients.

5. Invest in Resilient Infrastructure – Drinking-water Systems, Roads, Bridges, Buildings, Dams and Power Grids

Investing in resilience will be critical not only for the public sector, but for the global economy. As climate-related risks increase, governmental and non-governmental entities must establish enduring, sustainable protections. Only then can they ensure that their assets will withstand more frequent and severe climate-related events.

Aon has already invested in resources to help mitigate the risks related to natural catastrophes and climate change. Some of these include alternative risk financing products such as Resilience and Catastrophe Bonds; climate risk assessments and modeling and analytics platforms such as Impact Forecasting and ImpactOnDemand; and risk management solutions like Budget Insurance for Natural Disasters and insurance program optimization. We also participate in multiple resilience-gear initiatives (e.g., the Insurance Development Forum).

In addition, we offer holistic, robust solutions because we collaborate closely with the public and private sectors and industry specialists. This contrasts with the usual approach, where many different entities separately address infrastructure challenges. These entities usually work in silos and rarely possess a holistic view of the effort.

We have strong links to clients, insurance capital and the capital markets, bolstered by strong data analytics capabilities and extensive situational awareness. Our strategic partnerships with global

engineering firms help governments and large institutions better understand and manage catastrophic risks, especially those related to climate change and geohazard catastrophes.

This collaboration not only helps us increase our clients' access to risk finance, but also helps governments insulate their infrastructure assets (and potentially those of the private sector) from the impacts of catastrophic events. Our experts assess the government's assets, forecast the outcome of resiliency investments and design optimal resiliency solutions.

As the United States moves forward, state, local and indigenous and non-governmental entities can design new ways to collaborate with the public and private sectors. These approaches could reduce, and potentially remove, the financial burden governments carry when they fund infrastructure assessments, forecast hazard impacts (pre- and post-resiliency investment) and handle the capital costs for the investments alone. Addressing problems collaboratively will be essential as they build resilience and revitalize themselves.

Aon's Public Sector Partnership

Aon's Public Sector Partnership (PSP) partners with state, local, quasi-governmental, tribal entities and territories to prepare for and protect the delivery of critical programs, services and functions. For over 40 years, Aon has supported public entities globally, including more than half of the US states, over a hundred large municipal governments, and dozens of the largest transportation and public utility authorities across the US. We are a dedicated team of colleagues with broad experience in both government and the private sector.

More specifically, PSP focuses on:

- Natural Disasters and Climate Change
- Rainy-Day/ Reserve Expansion
- Construction, Infrastructure and Asset Management
- Cyber Risk Management/ Cyber Incident Response
- Retirement and Other Post-Employment Benefits
- Health and Benefit Solutions
- Human Capital, Talent and Recruiting
- Traditional P&C Insurance

We can assist by:

- Strategic Risk Advisory/Consulting
- Risk-Based Budgeting Guidance
- Feasibility Studies/Assessments/Surveys
- Risk Modeling and Stress Testing
- Insurance, Reinsurance and Capital Market Transactions

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About Aon

Aon plc (NYSE:AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

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