

# Gallagher Nonprofit Beat



## Gallagher

Insurance | Risk Management | Consulting

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**Peter A. Persuitti,**  
*Managing Director,*  
 Gallagher's Nonprofit  
 practice

## Time to Think Differently

We are here to share some of our experiences from the past quarter, serving the nonprofit sector around the world. We can clearly see a firming market emerge before our eyes on the property and casualty side, and our brokers are using every possible tactic to get in front of the challenges and provide more meaningful data and consultative advice through our **CORE360™** methodology. While it is not a typical hard market in terms of a considerable number of policies being canceled, rates skyrocketing and limits being reduced, we are seeing this in select nonprofits and are working smart to confront it with meaningful data analytics and even alternative risk possibilities. We do have some carriers moving away from select portions of the social services sector. This is a time to bring out the best in what our nonprofits do every day to make a difference. We see an opportunity to think differently.

We hosted a seminar for nonprofits in late September in Manhattan to review the Child Victims Act (or CVA, specific to New York state and effective August 15, 2019) and to ask a panel of experts questions around identifying old policies as well as looking at new ways to face this risk in the future—the past is not a prediction of the future here, and we all must think differently. We know much more now, and that requires leader shifts of all sorts (see the book *Leadershift* by John C. Maxwell). We have developed an informative set of materials as a result of that three-hour session, so email us at [nonprofitpractice@ajg.com](mailto:nonprofitpractice@ajg.com) to request a copy.

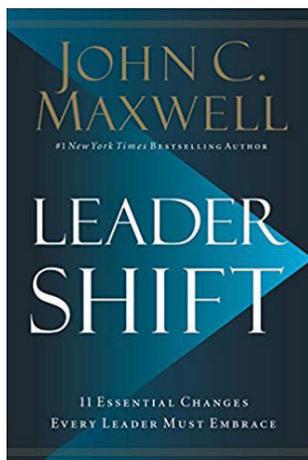
Melanie Herman's team at the Nonprofit Risk Management Center did an outstanding job hosting the Risk Summit in late October. It was well attended and topics abounded in all kinds of possibilities for nonprofits—from discussions about growing exposures, such as cyber (with a presentation from our Gallagher colleague Andrew Moss), to considerations on alternative risk and captives (presented by me). Just Google "Risk Summit 2019" and you will arrive at a panoply of resources. We can also send you select presentations if you like—just email us that request and we will respond. Melanie is considering Houston for the 2020 summit, and remember that Gallagher clients can enroll at a discount as we are a corporate sponsor and sustaining partner of the center. We will keep you posted.

We just completed several specific third-sector-focused whitepapers and a national webinar that may be of interest, so send us a note at [nonprofitpractice@ajg.com](mailto:nonprofitpractice@ajg.com) and we will send the materials to you:

- Our 2019 nonprofit sector report
- Our benchmark report for the nonprofit sector
- Our benefits survey for social service agencies (infographic and report)
- Our Enterprise Risk Management for Nonprofits webinar (recorded November 6, 2019)

Aligning with the nonprofit sector, Gallagher sees the potential of true capacity building in new ways—efficient, effective and powerful. Let's have that conversation—even considering combining your P&C and benefits large fixed cost spends in new and impactful ways.

For more than 15 years, Peter has led Gallagher's Nonprofit practice, working internally among the many divisions and over 800 offices to corral resources and spark innovation, and engaging external experts to create networks of collaboration. After many years in leadership positions at nonprofits, he moved to the corporate world—working at EDS and Munich Re before Gallagher.



Our nonprofit team is reading this outstanding 2019 publication by John Maxwell. Talk about 'thinking differently' and the mindshifting needed to 'leadershift'! John Maxwell provides us with an entirely new vocabulary for leading. At Gallagher, team is very important and so we embrace John's TEAM "Together Everyone Accomplishes More."

## Retirement Plan Cybersecurity



**Michael Levin,**  
*Investment Advisor Representative,*  
Gallagher Retirement Consulting Services

Cybersecurity is a major concern in the context of retirement plans as plan participants' financial and personally identifiable information (PII) is maintained by and shared among multiple parties.

The United States has no comprehensive national law governing cybersecurity and no uniform framework for measuring the effectiveness of protections. Subsequently, there are no comprehensive federal regulations governing cybersecurity for retirement plans and their service providers.

Whether cybersecurity is an ERISA fiduciary responsibility and whether ERISA preempts state cybersecurity laws remain important unanswered questions.

**Current Regulatory Structure**—The Safeguard Rule of the Gramm-Leach-Bliley Act of 1999 (GLBA) requires that covered U.S. financial institutions safeguard sensitive data (15 U.S.C. 6801). Businesses that are significantly engaged in providing financial products or services, such as banks and brokers, are financial institutions that must safeguard customers' personal information. This personal information includes nonpublic information that is personally identifiable financial information (known as a National Provider Identifier, or NPI) collected by a financial institution. Items such as names, Social Security numbers, debt and payment history, and account numbers can be NPIs when provided by the customer to the financial institution.

There is an understanding under Department of Labor (DOL) Regulation Section 2520.104b-1(c) and other pronouncements related to the electronic delivery of plan information that a plan sponsor must ensure the electronic system it uses keeps participants' personal information relating to their accounts and benefits confidential.

Both the Securities and Exchange Commission (SEC) and the Federal Trade Commission (FTC) have adopted a series of requirements for financial institutions servicing defined contribution plans. Financial service providers are required to develop and implement various security and confidentiality procedures and tools designed to detect fraud and theft. These requirements generally apply to a plan's consultants, investment advisors and service providers.

However, unlike the HIPAA rules (45 C.F.R. 160, 162, and 164) that apply to healthcare data for ERISA-covered healthcare plans, there is no clear ERISA regulatory structure governing the protection of financial information in retirement plans.

Some states have started to create their own laws, which typically address breach notifications and private rights of action for any unauthorized disclosures of protected personal information. While several state attorneys general have been active in enforcing these laws in cyber breach cases, a state-by-state framework remains a patchwork solution.

**Fiduciary Protection**—ERISA imposes a standard of care on plan fiduciaries. ERISA fiduciaries are subject to the prudent, expert standard of care and owe a duty of loyalty to the plan participants.

Much consideration is given as to whether the responsibility to address cybersecurity is a fiduciary function. Assuming it is a fiduciary function, while the occurrence of a cybersecurity breach does not necessarily give rise to a fiduciary breach under ERISA, the failure to avoid, mitigate or respond to such a breach may create such exposure. This is because the rules of ERISA fiduciary liability are rooted in a duty to act with prudence. Due to the prolific nature of cyber attacks, it may be difficult to argue that a prudent expert would not consider and react to cyber risks. For this reason, retirement plan administrators and other fiduciaries should be cautioned against viewing the protection of plan assets and participant information solely as part of the responsibility of external plan recordkeepers and third-party administrators (TPAs). Fiduciaries would be well-served to demonstrate and document the development and implementation of their cyber risk management strategies and due diligence.

Although ERISA's preemption of state laws is well-established, the extent to which ERISA preempts state privacy and data laws is currently being litigated. As such, retirement plan sponsors and administrators should not disregard state laws in developing and implementing their cyber risk management strategies.

**Plan Sponsors Should Take a Prudent Approach**—For Nonprofit Finance and HR leaders, making prevention the first imperative requires working with corporate IT to put safeguards in place. They should have clear sight into how data is collected, held and classified; who has access; and which laws apply. Investing in enterprisewide technology is critical to recognizing cyber attacks and stopping them when they occur. Implementing and periodically testing a disaster recovery plan that includes employee benefits leaves the response team well prepared.

In many cases, the greatest vulnerability to cyber theft is the internal team itself. Phishing and other social engineering techniques have become very sophisticated and can easily fool unwary team members into divulging information that gives thieves access to sensitive data. One of the best protections is thorough training for both HR staff and employees.

**Cyber and Fiduciary Insurance**—Fiduciary insurance is typically triggered when a lawsuit is filed or regulatory investigation is commenced (or sometimes when a regulator asserts a deficiency), while cyber insurance is often triggered by a data breach. Existing

fiduciary insurance may help after a lawsuit is filed, but prior to that point, the plan and/or plan sponsor may be responsible for the costs and mechanics associated with a breach (depending on the terms of the insurance policy). These include finding, hiring and paying for experts to assess the scope of the breach and develop a mitigation plan, as well as finding the capacity to notify and respond to participant inquiries regarding an incident.

Plan sponsors may wish to seek specific cyber insurance policies or riders to existing policies (some of which are available in the market today) to cover their employee benefit plan(s). Policies that provide benefits upon a breach can offer assistance in locating the appropriate personnel to address each step of the process, from determining the scope of the breach to notifying the appropriate individuals or entities, to providing resources to mitigate, or to making whole any damages suffered as a result of the breach, such as identity monitoring or replacing stolen assets.

**Conclusion**—The cybersecurity environment for retirement plans is undergoing significant evolution, and this evolution will accelerate. While the precise fiduciary obligations of plan sponsors with respect to plan and participant information are not yet clearly defined, it is clear that multiple efforts are underway to define those obligations and to respond to the increasing need to strengthen protections. Presently, the SEC, the DOL, multiple states and key industry organizations like SPARK and the ERISA Advisory Council are working to regulate cybersecurity and develop increased protections.

Sources:

1. Industry Best Practice Data Security Reporting. The SPARK Institute, Inc.
2. Benefit Plan Cybersecurity Considerations: A Recordkeeper and Plan Perspective.
3. Pension Research Council.
4. Securing a successful HR and benefits technology strategy. Arthur J. Gallagher & Co. Human Capital Insights Report.
5. Vanderbilt 403(b) excessive fee case settlement goes beyond monetary relief. Arthur J. Gallagher & Co. Retirement Plan Consulting Practice whitepaper.
6. Cyber Security and Retirement Plans. Retirement Learning Center.

This material was created to provide accurate and reliable information on the subjects covered, but should not be regarded as a complete analysis of these subjects. It is not intended to provide specific legal, tax or other professional advice. The services of an appropriate professional should be sought regarding your individual situation.

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# A Look Inside Gallagher Portal for Teamwork and Communication

When the Gallagher team is in the office making calls, calling meetings and generally going about day-to-day servicing, we sometimes forget all of the things we're making possible out there in the world. To remember and celebrate everything Gallagher protects, we started profiling some of the wild, weird and absolutely wonderful accounts that Gallagher has collected over the years.

Our adventures this year kicked off with King Tut—the traveling exhibit on his life and burial, [which Gallagher is protecting](#) as it tours museums and educates new audiences. Generations of people have fallen in love with history thanks to the wonders of King Tutankhamen, and Gallagher is able to ensure that tradition continues. History doesn't have to be true to need insuring, though. Fortunately for everyone, though, it wasn't anywhere near as violent or tragic.

*Game of Thrones* wrapped up one of the all-time most talked-about runs of television this year, and Gallagher was there throughout. With dragons and fire and fight scenes and ships, [protecting the production of \*Game of Thrones\*](#) was as complex as filming it.

In the realm of real animals, Gallagher also has a role to play—though not the one you may think. When people find out that Alana Kielnar is the retail account executive responsible for the Royal Zoological Society of Scotland, “the first comment from most people is, ‘How do you insure the animals?’ But we don't, because no money passes for the animals,” she says. Instead, Alana and her team [protect everything else in the Edinburgh Zoo](#), from special events like the lantern festival to global conservation efforts, to medical care, plus the 700,000 guests that come through each year. “When you think of the whole zoo, it's definitely more than animals,” Alana says.

Gallagher was also there as we prepared for travels this July. The [acquisition of JLT's aerospace division](#) brought in a skilled team already insuring 40% of commercial airline operators around the world. Combine that with Gallagher's resources and expertise, and

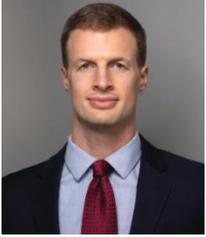
the team could only aim higher. It's not just a larger slice of the airline market the division has its eye on—it's also outer space. “Risk sits at the center of the business planning process for space missions,” says Peter Elson, CEO of the division. “Insurance is often the third-largest cost after the spacecraft and rocket.” All of which makes for a large and largely untapped market.

While spaceships certainly need insurance, it may not logically follow that an ark needs protection from floods. But at the Creation Museum in Northern Kentucky, the life-size replica of Noah's Ark was never meant to take to the seas. Not only is it landlocked, but it also has \$500,000 worth of IT equipment that needs insuring against any rising waters. [The RPS team was able to write the policy](#) and earned a pretty good icebreaker in the process.

“We write more coverage for office buildings than arks, but it's a story that comes up,” says Steve Moughamian, an underwriter and broker manager for the RPS Lexington office. “For people who think I just write car insurance all day, we actually do pretty cool stuff. Not everyone can say they participate in flood coverage for Noah's Ark.”



# It's Not Just About Secure Servers: Advancing Your Nonprofit Organization's Cyber Defense



**Andrew Moss,**  
*Regional Director of Strategic Initiatives,*  
Columbia, MD

In a time when vacuums speed through rooms with the tap of an app button; questions can be instantly answered by prefacing them with “Alexa”; and groceries, birthday presents and vacations can all be purchased during a commercial, nearly all of our life is integrated online. Yes, the digital age has made every facet of life more streamlined and interconnected with each passing year. Yet boons come with banes, and the internet is no different. Phishing, ransomware and social engineering scams attack individuals and organizations on a daily if not hourly basis. According to one cybersecurity source, a new organization falls victim to a ransomware attack every 14 seconds. Equally devastating, most of these attacks are not discovered until well after they have taken their toll on the organization. As the Ponemon Institute's 2019 data breach report warned, the life cycle of a data breach now averages 279 days.



**John Farley,**  
*Managing Director,*  
Gallagher Cyber Risk Practice

And while the breaches at Yahoo, Equifax and Uber grab the headlines, the number of small and medium-size organizations,

including nonprofits, struck by hackers continues to rise. Countless nonprofits, from schools to religious institutions to social service programs, have confronted the reality of suffering a cyber attack. Whether facing the prospect of paying a ransom to retrieve their stolen data, recovering from a network shutdown, or potentially having their donors' personal information stolen and leaked, the unfortunate truth is that nonprofits are too often a digital target. Yet, even as attacks continue to increase annually and grow in complexity, so, too, do cyber best practices. By now most organizations have adopted some best practices such as requiring staff members to have strong passwords and basic cybersecurity training. The following three strategies are the next scaffold and can do much to prevent cyber losses and mitigate their impact if they occur.

**Cultivate a Strong Cybersecurity Culture**—One of the greatest deterrents to cyber losses has nothing to do with wires or servers, and everything to do with organizational culture. Culture is in fact one of the most paramount aspects of safeguarding an organization's data. With much emphasis on training and internal IT protections, it may sound peculiar to emphasize culture and attitude, yet having a proactive and positive message about cybersecurity, such as those below, makes a dramatic difference in cyber defense.

- **Cybersecurity Is Every Employee's Responsibility**—From executives to volunteers, cybersecurity must be a priority for everyone in an organization. Shifting responsibility to another colleague, particularly when it comes from leadership, gives the impression to other staff that cybersecurity carries less importance than other initiatives. Given a large cyber breach can inflict dire financial and reputational harm, nothing is further from the truth. Passing the buck will literally pass the buck to a hacker.
- **Verify, Verify, Verify**—In an age where social engineering and business email compromise are a multibillion-dollar industry, nonprofits cannot be careful enough to confirm monetary instructions. Encourage staff to question unusual requests and seek out their managers for confirmation. Especially when it relates to wiring money, leaders should praise staff who verify new directions with the requesting individual through a different mode of communication (e.g., if the request came by email, call the person and vice versa).
- **Focus on Proactivity, Not Punishment**—Even the best employees make mistakes. Fostering an environment where employees feel comfortable sharing about a potential cyber event immediately, rather than staying silent for fear of reprisals, can significantly lessen the consequences of a data breach. While a follow-up conversation with the staff member is often warranted, it should always be combined with a note of appreciation for reporting the event in a timely manner.

**Identify and Prepare Your Digital Breach Response Team**—As you begin to educate your staff about the realities of cyber risk at every level of the organization, it is important to understand that no matter how much educating you do, there is no 100% guarantee that you will prevent a network intrusion. Therefore, it is critical to identify key staff members from a cross-section of organizational disciplines to become formal members of a data breach incident response team. With an incident response plan in place, your staff can more readily identify, respond to and recover from a cybersecurity attack. The team should be made up of the following roles and responsibilities:

- **Chief Information Security Officer:** To identify and escalate response to attacks. This may include preserving evidence, containing the spread of malware and accessing backup data.
- **General Counsel:** To evaluate legal liability and statutory compliance obligations.
- **Risk Manager:** To coordinate insurance and any vendors that are provided via insurance policies.
- **Public Relations/Communications:** To handle media requests and issue press releases.
- **Operations:** To manage disruption of service and implement business continuity.
- **CFO:** To manage budgetary issues and costs related to the attack.
- **CEO:** To drive the narrative and ultimately lead the organization through the crisis.

Critical to successfully navigating a cyber event is ensuring that you have the right people in place. Moreover, there is a direct correlation to creating an incident response plan and bottom-line cost savings in the aftermath of an attack. According to the 2019 Ponemon study, cost analysis shows that a well-executed plan can reduce the average total cost between \$320,000 and \$360,000 per incident. Regularly testing the plan through tabletop simulations yields even greater benefits. According to the report, “Organizations that both formed an IR team and extensively tested the IR plan saw the greatest savings—\$1.23 million less than organizations that neither formed the IR team nor tested the IR plan.”

**Consider Transferring Your Cyber Risk:** In addition to creating a response plan to mitigate the financial reputational harm that will result from a cyber attack, organizations should consider cyber insurance to help transfer the risk. While there is no standard cyber insurance policy, there are some coverages that are commonly offered and are excellent mechanisms to save the bottom line in the aftermath of a cyber attack. These include:

- **Crisis Management:** Policies can cover costs to retain external vendors to investigate and respond to the attack, including IT forensics firms, privacy attorneys, credit monitoring fees, notification and call centers, and public relations costs.

- **Cyber Extortion:** If you decide to pay a ransom to hackers to get your data back in a ransomware attack, a cyber policy can cover the cost of the payment. Many carriers provide experts to negotiate the ransom amount and provide immediate-access bitcoin to make the payment.
- **Business Interruption:** The resulting downtime and restoration process from a cyber attack may cause financial loss, which may be recovered under a cyber insurance policy.
- **Data Asset Restoration:** The cost of hiring a vendor to repair or recreate data that is lost or damaged in a cyberattack may also be covered by a cyber insurance policy.
- **Electronic media content liability:** A value-added coverage that can cover costs for claims made for copyright and infringement claims due to content posted on your website or social media platforms.
- **Network Security and Privacy Liability:** Companies may unknowingly transmit malware to other organizations, creating legal liability. In addition, liability may arise for failure to properly protect an individual's personally identifiable information. Litigation costs and settlements related to these risks may be covered under these policies.
- **Regulatory Fines and Penalties:** Failure to comply with state, federal and international data protection regulations may result in regulatory investigations, lawsuits, settlements and fines. These can be covered where permitted by law.

As the risks evolve, so do the cyber insurance products. Be on the lookout for policy enhancements, including endorsements to cover voluntary system shutdown, contingent business interruption, wrongful data collection and coverage for new attack methods, such as cryptojacking.

One cannot understate the importance that the digital age has had on nonprofit institutions. From providing online training and services to highlighting the impact their programs have made on the individuals they serve, to facilitating the way in which donors may sponsor their programs, the digital age has been critical toward driving nonprofits' missions and messages. And though there are risks associated with an interconnected world, keeping current with and enforcing digital best practices, including those above, will do much to ensure that the scales are always tipped toward the internet being an indispensable tool rather than a potential liability.

Andrew is also a member of our Gallagher Nonprofit practice and presented a paper at the Nonprofit Risk Management Center's Risk Summit in October 2019.

# Bringing the Nonprofit Community Together



**Michaela O'Brien,**  
*Producer Associate*  
 Minneapolis

Our Nonprofit practice is officially announcing BenefitsMN! We are extremely excited to be launching BenefitsMN, an association health plan, with the Minnesota Council of Nonprofits.

BenefitsMN provides MCN members with a new health plan alternative effective January 1, 2020. BenefitsMN will provide a cost-effective, high-quality, turnkey solution that goes beyond health insurance. We believe BenefitsMN is an exciting and viable solution that will help nonprofit employers better support their missions.

On a personal note, this has been a passion project that our team at Gallagher—Jack Duffy, Mike O'Brien, Bob Lacher and I—has been creating for the last two years with our valued partners at the Minnesota Council of Nonprofits. I would like to also thank all of our incredible carrier and vendor partners that have helped make this happen. It is an initiative that I am proud of and believe will positively impact the Minnesota nonprofit community. If you have any questions or would like to learn more, please reach out to me directly at [michaela\\_obrien@ajg.com](mailto:michaela_obrien@ajg.com).



# Associations by the Numbers



**Lacey Blank,**  
*VP, Marketing & Communication,*  
 Gallagher Affinity

Associations make broad contributions to American life. They are an essential piece of our national, state and local economies. They create jobs in every state. Their measurable economic benefits include more than 1.3 million jobs for Americans and a total payroll of more than \$55 billion. Beyond their direct economic impact, associations play a vital role in enriching communities and creating positive change around the world.

- The IRS recognized 63,866 trade and professional associations in FY2016.
- The IRS recognized 1,237,094 charitable and philanthropic organizations in FY2016.
- Membership organizations employ more than 1.3 million people.
- Membership organizations generate a payroll of more than \$55 billion.
- Nonprofit organizations' share of GDP is over 5%.
- Trade and professional membership associations generate \$116 billion in revenue.
- Nearly 63 million Americans volunteer through a membership organization.



# Welcome Lou Novick



**Lou Novick,**  
*National Director,*  
*Associations,*  
 Gallagher's Nonprofit practice

Gallagher is pleased to have Lou Novick (GGB Washington, D.C.) leading our national outreach to associations. Prior to Gallagher's acquisition of his firm, he led The Novick Group. Serving more than 5,000 associations, Gallagher is able to bring valued services to associations and their members:

- Company discounts for the association and its members
- Member insurance (personal, organization, P&C, benefits)

# Bringing the Gift of Housing to Those Who Need It Most—How the World of Affordable Housing Impacts All Communities



**Robyn Roesner,**  
*JD, CPCU, AAI, CRIS,*  
*Area Executive*  
*President, National*  
*Director, Affordable*  
*Housing, Gallagher's*  
*Nonprofit practice*

**Community Corporation of Santa Monica housing plus supportive services and intentional risk management equal a recipe for success.**

Nonprofit organizations face extreme challenges on a daily basis to deliver mission-driven programming and services on a tight budget. Some may call this a thankless job, and others have a burning passion to solve the problems at hand. Any business operation comes with risk, and nonprofits in the business of delivering affordable housing to individuals and families facing homelessness and unaffordable market rents must follow intentional risk management practices so the organization will live on and serve into the

future. In short, it is not an easy task! By nature, affordable housing is a complex operation in which organizations work to meet the needs of individuals with limited means and resources, of all ages and abilities. Residential acquisition, development and operation of apartment assets is expensive and an extremely competitive sector when squaring a nonprofit organization up against larger and well-capitalized real estate firms. So how do the heroes of nonprofit affordable housing bring the gift of housing to their communities while still operating a sustainable business model? Our conversation with Tara Barauskas, executive director of Community Corporation of Santa Monica (CCSM), reveals some of the successes and challenges for affordable housing organizations in today's economic and political climate.

For nearly 20 years, Barauskas has met the challenge of affordable housing head-on with her innovative and inclusive approach to provide housing and services. As a leading nonprofit in California,

CCSM has evolved to meet its neighborhood's needs as a community-based organization since 1982. Originally formed by community leaders in someone's living room, the organization now serves thousands of residents each year through housing and supportive services. In 2016, Barauskas followed her calling and joined the organization as the third executive director since CCSM's founding. When asked to describe something she wished the general public better understood about affordable housing, she replied, "Every community is better when it is diverse, and the people who need affordable rents are just people who make less money while they work critical jobs that all communities need to be successful: schools, hospitals, law enforcement, retail, restaurants. Your income does not dictate the character of who you are."

A quick read of the daily headlines always includes a reference to affordable housing, often referred to as "low-income" housing, and more often in a negative light. The lack of affordable housing stock is impacting all communities, and CCSM continues to be a model for other cities to bring successful housing strategies into their own neighborhoods.

The complex financing landscape for affordable housing involves many partners, usually municipalities, public subsidy, private equity or other sources of funds. Gallagher's nonprofit affordable housing center of excellence, based in the Los Angeles branch, has decades of experience supporting all kinds of housing models and a seemingly endless variety of supportive services. Insurance coverage only addresses a portion of the total cost of risk affordable housing organizations face to be successful, and the rest comes from prudent contractual risk transfer, proactive portfolio quality control and regular education of staff and community partners. The open dialogue between colleagues at CCSM and Gallagher's expert affordable housing team has led to sound risk management solutions over many years to further the mission of the organization and keep people and assets safe.

Barauskas says that there are a lot of situationally homeless individuals who are one paycheck away from being down on their luck and out on the street. She recalled an individual working a normal job as an engineer who suddenly lost his job during an economic downturn and became homeless right away. Thankfully, he was able to get into affordable housing, his life stabilized and within a year he got a job making six figures. "This is an example how people should look at homelessness," said Barauskas. "It's not all drug addicts and criminals. Almost anyone can become homeless." The majority of clients residing in CCSM buildings are truly working hard to be successful and move up, and many are trying to put their children into excellent schools for an even greater chance at success. In fact, Barauskas described how "affordable rents really aren't affordable" when it comes to some residents who still work two or three jobs to cover their expenses each month. A longtime CCSM resident who now volunteers extensively in the community reminds people regularly that she has been "given the gift of affordable

housing,” recalled Barauskas, further reminding us that “stable and healthy residents contribute a great deal to our community, and housing is core to their success.”

As the insurance landscape continues to change—drastically in 2019, in fact—the risk solutions and coverage expertise delivered by Gallagher’s nonprofit affordable housing team will continue to evolve to meet client needs and innovation. From construction risk to delivery of social services and best practices surrounding residential assets, Gallagher brings a wealth of knowledge and consultative support to help keep the portfolios, residents and nonprofit organizations better protected from harm.

When asked about the future of affordable housing 50 or 100 years from now, Barauskas said, “All systems are strained, and we need to evolve the way we do business. The aspiration is that we will not need affordable housing in the future, but the reality is that may or may not come true. Expansion of naturally occurring affordable housing, greater philanthropic involvement and impact, and more innovative construction technologies like modular units create an efficiency that could go a long way to positively impacting lives.”

Gallagher is committed to supporting this vision through insurance, risk management and consultative support, and we look toward a brighter future for those in need of affordable housing.

## See Where You Stand



**Phil Bushnell,**  
*Managing Director,*  
Gallagher Benefit  
Services, Gallagher’s  
Nonprofit practice

Social service organizations provide a wide range of vital programs that drive their mission. From day to day, they’re tasked with maintaining impactful operations and generating revenue through public funding, fees for service and donations. In a time of increasing financial constraints, limited federal and state contributions have made efficient resource allocation a growing priority. While the relative financial health of these organizations may vary, the need to attract and retain a qualified staff is a shared reality. Social service employers strive to attract talent who have unwavering enthusiasm for their organization’s mission. And though recruitment and retention efforts are huge challenges themselves, it must be done while maintaining strict fiduciary standards.

As many social service employers have limited budgets for compensation, it’s critical for them to offer and ensure participation in strong benefit plans to attract and keep talent. In 2019 Gallagher published the results, specific to social service organizations, of our National Benefits Survey. This benchmarking report outlines strategies and tactics employers in this sector are taking to cost-effectively improve employee engagement, resulting in better work. Take a look at the infographic on the next page to see where your organization stands in relation to a sample of the responses from your peers.

Social service employers are trying to manage and optimize their workforce in an environment where attracting and retaining employees is challenging but critically important. They offer a compelling value proposition for young adults who are looking for a rewarding and worthwhile career. However, a strong labor market and limited compensation budgets elevate the need to be thoughtful and strategic when offering a competitive benefits package.

To learn more, contact our Nonprofit practice managing director, Phil Bushnell [phil\\_bushnell@aig.com](mailto:phil_bushnell@aig.com), email us at [nonprofitpractice@aig.com](mailto:nonprofitpractice@aig.com) or reach out to your local Gallagher consultant. No one has a more robust internal nonprofit service team network than Gallagher!

# Know Your Strengths and Opportunities

No matter how strong or weak the labor market is, employees are more motivated and productive when their employer invests competitively in their total wellbeing — including their health, financial security and career growth. Better organizational performance correlates with a better employee experience. And that takes informed, strategic and sustainable decisions. Let data and insights from 217 social services employers guide you to better outcomes.

## SOCIAL SERVICES INSIGHTS

### REIN IN HEALTHCARE COSTS AND INCREASE EMPLOYEE FINANCIAL RESPONSIBILITY



**47%**

OFFER TELEMEDICINE

**38%**

INCREASE EMPLOYEE CONTRIBUTION TO THE COST OF PREMIUMS

**29%**

PROVIDE WELLBEING INCENTIVES

### LEVERAGE DIGITAL PLATFORMS TO GET OVER COMMUNICATION HURDLES



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# M&A for Nonprofits—How Does This Consolidation Affect Your Risk Profile?



**Matt Jakubowski,**  
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Like many industries, the third sector is experiencing quite a bit of consolidation. While these strategic mergers help further many agencies' missions, these decisions should not be taken lightly and must include thorough due diligence.

Ultimately, the goal of any merger or strategic transaction should be the furthering of the organizations' missions. Typically, organizations will review items like financials, the compatibility of program and service offerings, corporate structure, and corporate leadership. But how does risk management

come into play? What role does each organization's insurance program have in the scheme of this business transaction? Although our role as insurance brokers and consultants may be a little biased, we feel this is an essential piece of the due diligence process and could make or break the future success of your mission.

Risk management programs encompass so many different levels of an organization. It expands far beyond the confirmation that the potential partner agency purchases insurance coverages. By going through the six cost drivers that make up Gallagher's trademarked **CORE360™** approach, we can safely identify information that is important to review and how this information influences a merger decision.

For the purpose of this explanation, "**client**" refers to the surviving entity who will control and lead the organization after a merger, and "**partner agency**" refers to the entity that will go dormant following the merger and legally become a part of the surviving entity.

## Insurance Premiums

- Understanding the costs of the **partner agency's** insurance program can help the **client** budget the costs of adding its exposures to the portfolio. Depending on various factors, the rating structure of the **partner agency's** insurance program can vary from that of the **client**.

- Currently, the nonprofit sector is facing one of the most difficult markets in history. Regulatory changes paired with stricter approaches to underwriting are creating difficult renewals. Understanding specifics about this marketplace and what subsets of the third sector are facing increased scrutiny can help the **client** better budget and prepare for future increases and risk management investments.

## Program Structure

- Understanding how much risk the **partner agency** is willing to accept is important to understanding future out-of-pocket claim expenses. If the **partner agency** purchased large deductibles or retentions and there are ongoing matters that are beneath those levels or future issues that could arise that would be covered under prior policies, it is key to understand the cash flow that would be needed to defend and settle these matters.
- There are two common coverage forms purchased—occurrence and claims made. Occurrence policies respond based on when the incident occurred, no matter when a claim is received. For example, if a slip and fall occurred today and a lawsuit were to come in two years from now, the policy in force today would still respond. Conversely, a claims-made policy responds when the actual claim is made. In the same scenario, the policy in force two years from now would respond even though the slip and fall occurred today.

Within the typical nonprofit insurance program, there is a mixture of claims-made and occurrence-based policies. For the claims-made forms, tail policies may need to be purchased. This is extremely important since claims may come in after the **partner agency** merges into the **client**. If a tail is not purchased and a claim is made, the prior policy will not respond.



c. Determining adequate limits is one the most challenging risk management decisions. With that said, reviewing benchmarking data along with ongoing claims activity for the **partner agency** can give the **client** an idea of the sustainability of the purchased limits should claims come against those policies following a merger.

### Coverage Gaps

a. Not all insurance is the same. While most organizations purchase proper coverage, they may not have the broadest terms and conditions. Understanding where holes may exist in the program is important, as an incident could occur today and not be realized or reported until after the merger. For occurrence-based coverages, the policy in place at the time of the incident would need to respond. If there are gaps in these policies, the costs would more than likely fall on the newly merged entity.

### Uninsured/Uninsurable Losses

- a. As times change, new risks emerge. Examples include cyber liability and active shooter. It is important to know what types of insurance were not purchased by the **partner agency** as issues taking place before the merger that emerge after the agency dissolves could lead to uninsured claims down the road for the **client**.
- b. Not all legal matters or challenges are covered by insurance. Understanding what outside legal matters or issues are going on is important when evaluating these mergers.

### Loss Prevention and Claims

- a. Where have there been issues? Is there a particular program that is having issues/claims that may need more attention and resources?
- b. Are there ongoing legal matters that **client** will have to manage now that the **partner agency** is dissolving?
- c. Are there particular facilities that have had a property or liability claim frequency issue? If so, does the **client** need to budget for upgrades and improvements?

d. Has there been an uptick in employment-related claims speaking to a culture issue throughout the **partner agency**?

e. What does the safety program and quality control look like? Has risk management been a priority for the staff of the **partner agency** in the past? Would these past practices mesh well with the **client's** programs and practices?

### Contractual Liability

a. How did the **partner agency** manage subcontractors and vendors? These relationships are typically tight and not always well documented with contractual risk transfer. The vicarious liability associated with these types of contractor relationships can lead to issues if proper written agreements were not executed and maintained.

Risk is inherent in the nonprofit sector. Your organizations have a vital role in serving vulnerable populations and solving major challenges in our community. In the current market, where funds are tightening and costs are increasing, mergers will continue to be a vital part of the industry. Managing the risks associated with these transactions is mission-critical.

# LCWR 2019 Assembly Insights

## What Did We Learn and How Can We Help?



**Lisa M. Marcotullio,**  
*Operations Manager,*  
Gallagher Fiduciary  
Advisors, LLC

In August 2019, the Leadership Conference of Women Religious (LCWR) assembled in Scottsdale, Arizona, representing various women religious orders in the Roman Catholic tradition, such as Sisters of Mercy, Ursulines, Dominicans and Sisters of Notre Dame de Namur. On the minds of leaders were how to better manage risk in faith-based communities, particularly in investment portfolios.

Below are three primary topics of conversations among attendees:



**Kevin Schmid,**  
*CFA, CAIA, Area Vice  
President,*  
Gallagher Fiduciary  
Advisors, LLC

- **Longevity Risk:** The demographic shift of the religious order population continues to be a challenge, as the increasing number of nuns requiring assisted living care creates concern about the ability to maintain and grow the assets necessary to fund these expenditures.

- **Market Risk:** A heightened sense of awareness of the volatility of the stock market and the interest rate environment is of major concern. As spending needs continue to evolve, investment portfolios might not be appropriately positioned to withstand a sustained market decline.

The combination of these two areas of risk can best be addressed with an asset allocation review and portfolio stress test.

Gallagher's Investment & Fiduciary Consulting practice utilizes asset allocation analysis reports that focus on projecting portfolio performance and potential investment losses in both normal and turbulent market environments.

- **Reputational Risk (ESG/SRI Investing):** Historically, the primary avenue available to religious orders to impact issues through their investment portfolios was by avoiding or excluding investments in companies that didn't adhere to their moral and ethical values. While avoidance screening will always be important and necessary in the religious marketplace, the introduction and evolution of options that actually make a positive impact on core issues has made religious investors feel much more empowered. This empowerment has influenced their questioning of certain investments and as well as their selection of specific investment managers.

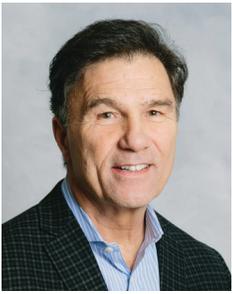
According to the US SIF Foundation's 2018 Report on US Sustainable, Responsible and Impact Investing Trends,<sup>1</sup> as of year-end 2017, more than \$1 out of every \$4 under professional management in the United States—\$12.0 trillion or more—was invested. The Investment & Fiduciary Consulting team is able to provide information and custom solutions to clients pertaining to their specific ESG/SRI concerns.

While socially responsible investing is always a hot topic, it doesn't completely obscure more fundamental investment issues. The demographic pressure on spending, coupled with heightened market awareness, creates recognition that impact investments must also simultaneously provide strong financial returns in addition to their moral and social contributions.

If you have any questions on the insights revealed in this article, or any other topics related to retirement plan investments and fiduciary decision-making, please feel free to reach out to Kevin Schmid, CFA, CAIA, Area Vice President, Gallagher Fiduciary Advisors, LLC, at [kevin\\_schmid@ajg.com](mailto:kevin_schmid@ajg.com).

<sup>1</sup> Source: US SIF Foundation

# Kudos to Gallagher's Nonprofit Leader on the West Coast | U.S.



**Peter A. Persuitti,**  
*Managing Director,*  
Gallagher's Nonprofit  
practice

Business Insurance (in its December 2, 2019 edition) featured Gallagher's Melissa Cerny of our Glendale, California, office in its "2019 Women to Watch"<sup>1</sup> issue. As someone who has witnessed Melissa's leadership with the addition of the Chapman Insurance team to Gallagher's Nonprofit practice, I marvel at her resilience, energy and perspective. While she has always focused on serving the nonprofit sector, coming to Gallagher meant taking on the ways of a much larger firm with lots of resources and talent. What

is remarkable is the way Melissa has embraced these assets and created new connections, both internally and externally, as ways to grow the office and especially to help women get more involved at the highest levels. Not only does she recognize talent and surround herself with competent teammates, but she has been very committed to creating an ethnically diverse team. "Melissa is clearly a visionary," says Scott Firestone, regional president of Los Angeles-based Gallagher West. The Gallagher nonprofit practice team is especially grateful for her comment in response: "I never want to leave my team, I want to retire here." Melissa, congratulations on the recognition by Business Insurance and to many more years serving the third sector with your unique characteristics that you so unabashedly describe: "I talk fast, I walk fast, I like multitasking." Ad multos annos!



**Melissa Cerny,**  
*Area President,*  
Gallagher  
Glendale, California

<sup>1</sup> Source: <https://www.businessinsurance.com/article/20191202/STORY/912331820/Business-Insurance-2019-Women-to-Watch-Melissa-Cerny-Arthur-J-Gallagher>



## Why Gallagher?

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**CORE360™ approach.**

**CORE360™** is our unique, comprehensive approach to evaluating your risk management program that leverages our analytical tools and diverse resources for custom, maximum impact on six cost drivers of your total cost of risk. [ajg.com/CORE360](http://ajg.com/CORE360)

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**Gallagher Better Works™.**

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