Clerk Report

HCC Local Government Pension Scheme Ill Health Retirement Cover

Overview

The potential costs to the Parish Council if an employee has to retire early on health grounds is significant.
It is now possible to mitigate these costs via insurance cover.
I have attached the brochure from Legal and General and the quotation for your consideration.

Considerations

Discussions about Insurance cover boil down to risk and the potential downsides they eliminate.
The potential costs of a staff member retiring early due to ill health, particularly if this was a younger member of staff could be catastrophic. The capital (strain) costs could wipe out reserves and some. (See the examples in the enclosed email.)
I have obtained a quote and the annual premium would be £247.50 @ 1.65% risk based on total payroll, this would increase annually as salaries are adjusted.
Our contributions to the LGPS would reduce by the same percentage, so the cost effect would be nil.

Risks

The policy would eliminate the risk of the council having to foot a significant "one off" cost for employee ill health retirement.
The reduction of 1.65% into the fund may in future years mean there is a deficit to make up, but fund growth and the generally good funding level of the scheme mean this risk is probably not significant.

Budget Impact 2020-2021

None due to the offset arrangement with LGPS. The only difference would be a one off annual fee taken from the insurance line and an virement would be made from the pension contribution line.

Clerk Recommendation for Councillors.

NMPC should take the insurance cover at the next earliest opportunity (1st April 2020). I have spoken to LGPS and Hymans to confirm that this date is achievable.

Nikki Bugden
Clerk to the Council
3rd March 2020

Email from LGPS
Subject: FW: LGPS Ill Health Liability Insurance

Dear employer

As an employer in Hertfordshire Pension Fund (the "Fund") you should be aware that membership of the Local Government Pension Scheme (the "LGPS") provides many valuable benefits for your employees including retirement benefits that apply in the event of ill health. You may not, however, fully appreciate the potentially large and volatile additional costs that you are exposed to in paying for any ill-health early retirement benefits.

The purpose of this correspondence is to highlight the current risks to you and to alert you to the availability of an insurance policy which may help to mitigate these additional ill health costs. If such a situation arose, with one or more of your employees being granted early retirement due to ill health, you would need to meet these costs via an additional payment alongside your employer contribution rate at the next valuation of the Fund.

The Fund would like all employers to make a decision as to how they wish to meet these costs in the future.

Do you wish to mitigate these costs via an insurance policy, provided by Legal and General, or would you prefer to continue with the status quo and meet these costs yourselves?

Any insurance premium payable (as a percentage) will be deducted from your pension related contribution rate to the Fund meaning that your overall aggregate payments (pensions plus insurance) will be unchanged.

This deduction is logical as your current LGPS contribution rate already includes an element to cover ill health benefits and strains. Employers who choose to take out the insurance are considered to be covering most of the risks associated with ill health strains via the insurance policy and so it is appropriate that they are allowed to reduce their contributions to the Fund to avoid reserving for ill health strains twice. The reduction in contributions should be broadly comparable with the portion of your employer contribution rate that was for reserving for ill health strain costs and so, on average, your reduced contributions should remain appropriate to fund your remaining LGPS benefits i.e. the non ill health ones.

If an employer was to take out the insurance, adopt the reduction in rate but never had any ill health retirements, then, all else being equal, they would have slightly less assets in the Fund at the next valuation than otherwise would have been the case had they not reduced their contribution rate. Conversely, if an insured employer was to have an ill health retirement, then there would be an increase in the employer's liabilities but this increase would be broadly matched off by a corresponding increase in assets (assuming a valid claim was made against the insurance). This is the nature of protection from insurance.

What is the impact of an employee retiring early due to ill health?
When one of your employees can no longer work and retires due to ill health, there is an increase in the pension liability for you as the employer. This results from:

- Early payment of the pension; and
- An increase in the benefits payable to the member based on either full prospective service to normal retirement age for a Tier 1 early retirement or 25% of prospective service for a Tier 2 early retirement.

This has been illustrated below. The figures shown represent an immediate increase to the liabilities (and hence deficit) of you as an employer.

Age	Salary	Accrued Service	Tier 1 Strain Cost
45	£11,000	5 years	£185,000
44	£25,000	2 years	£322,000
31	£32,000	11 years	£503,000
53	£88,000	23 years	£714,000

LGPS Ill Health Liability Insurance
Employers in the Fund are now able to take out an insurance policy to help mitigate against these potential strain costs. In the event of the Tier 1 or Tier 2 ill health early retirement of one of your employees, the insurance policy will pay the amount of the Fund calculated strain cost. This money should subsequently be paid to the Fund where it will be added to your assets to cover the cost.

Summary of benefits
There are a number of advantages of having Ill Health Liability Insurance in place:

1. The insurance premium will be offset from your contribution rate, meaning that **your total pension costs will not be affected**.
2. **Removes potentially catastrophic ill health early retirements costs**.
3. **More stable contribution rates and balance sheet**. Because the costs will be covered by the insurance, the impact of significant ill health costs are removed - helping to maintain a stable contribution rate and balance sheet.
4. **Multiple claims cover**. The insurance covers the cost of multiple claims.
5. **Employee Assistance Program**. You'll be given access to L&G's 24-hour employee assistance service for all of your employees (i.e. including employees who are not in the LGPS).

What will it cost?
The insurance premium rate is 1.65% of LGPS pensionable pay. The premium payable (in pounds and pence) would be derived by multiplying the premium rate by your LGPS pensionable pay. Employers using the insurance will have their current contribution rate reduced by the insurance premium rate (1.65% of pay) meaning that your total pension costs will not be affected.

Hymans Robertson LLP are remunerated by Legal & General for their services on an introductory/administration fee – currently 10% of the annual premiums paid for IHLI.

What should employers do now?
The Fund requires each employer to make a formal decision with regards to their approach to managing the ill health strain costs. Please respond directly to the Fund actuary, Hymans Robertson,