

### **Ill Health Liability Insurance for LGPS employers**

As an employer in East Riding Pension Fund you will be aware that membership of 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 bulletin is to highlight the current risks to you and alert you to the availability of an insurance policy to allow you 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, do you wish to pay the potentially significant additional costs via an increased deficit and subsequent increase in employer contribution rate or would you prefer to mitigate these costs via the insurance policy, provided by Legal and General?

The insurance premium payable may be offset from your contribution rate meaning this will not impact the overall contribution rate you are currently paying. Please note however, if you request the insurance premium rate to be offset from your employer contribution rate, the actual employer contribution being paid to the Fund will be less than the amount calculated by the Fund actuary at the 2016 valuation.

#### **How does it work?**

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.

<b>Age</b>	<b>Salary</b>	<b>Accrued Service</b>	<b>Tier 1 Strain Cost</b>
50	£12,000	24 years	£157,000
32	£27,000	2 years	£295,000
44	£41,000	2 years	£350,000
45	£60,000	23 years	£1,000,000

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 strain cost. This money should subsequently be added to your assets to cover the cost.

## Summary of benefits

There are a number of advantages of having ill health insurance in place:

- The insurance premium can be offset from your contribution rate, meaning that **your total current contribution rate is not affected.**
- **Removes potentially catastrophic ill health early retirements costs.**
- Because the costs will be covered by the insurance, the impact of any ill-health cost is removed - helping to maintain a **stable contribution rate and balance sheet.**
- The insurance covers the cost of **multiple claims.**
- You will be given access to Legal & General'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 payable can be offset from your contribution rate meaning this will not impact the overall contribution rate you are currently paying. Employers would be able to have their current contribution rate reduced by the insurance premium (1.75% of pay).

## How to request further information

You can respond directly to the Fund actuary, Hymans Robertson, by using one of the links below:

[Yes, I am interested in the insurance – please provide me with information to proceed](#)

[No, I do not want to use insurance and will meet all costs via an increased deficit and subsequent increase in my employer contribution rate](#)

Alternatively more information on ill health early retirements and insurance is available at <https://www.hymans.co.uk/services/ill-health-liability/> or you can contact Hymans Robertson's ill health team in the first instance via [IHLI@hymans.co.uk](mailto:IHLI@hymans.co.uk) or call 0141 566 7874.