

Wiltshire Council

Cabinet

23 May 2017

Subject: Wiltshire Pension Fund - Ill-Health Insurance for Scheme Employers

Cabinet Member: To be appointed by the Leader of Council following his or her election by Annual Council on 16 May

Key Decision: Yes

Executive Summary

This report requests Cabinet approve the direct award of a contract to Legal & General for the purchase of an ill-health retirement insurance policy on behalf of the Wiltshire Pension Fund scheme employers to mitigate the risks in respect of ill-health early retirement claims.

Proposal

Cabinet is asked to agree the direct award for the attached insurance policy quotation and delegate authority to approve the entering into contract until April 2019 to the Associate Director Finance in consultation with the Cabinet Member for Finance.

Reason for Proposal

There is currently no other providers of this type of insurance policy which has been market tested by other Local Authorities, and the Wiltshire Pension Fund scheme employers would benefit from lower premiums from a Fund policy.

**Carolyn Godfrey
Corporate Director**

Wiltshire Council

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Purpose of Report

1. This report requests Cabinet approve the direct award of a contract to Legal & General for the purchase of an ill-health retirement insurance policy on behalf of the Wiltshire Pension Fund scheme employers to mitigate the risks in respect of ill-health early retirement claims.

Relevance to the Council's Business Plan

2. Not applicable

Background

3. The Wiltshire Pension Fund scheme employers can be faced with substantially increased liabilities from ill-health early retirement cases. This results from the early payment of the member's pension and the increased benefits payable through augmentation awarded on ill-health retirement for Tier 1 and 2 retirements. Examples of sample potential increases in a scheme employers' liabilities are shown below which would be reflected through larger employer pension contributions set at the next valuation:

Member age	Salary	Tier 1 Ill Health – increase in liabilities
46	£32,000	£375,000
31	£26,000	£350,000
48	£67,000	£575,000
43	£110,000	£1,600,000

4. Therefore, over the longer term, scheme employers with more ill health cases will pay more into the pension fund to meet its additional liabilities. Ill health

retirements are agreed by a scheme employer but require an assessment by an independent registered medical practitioner to ensure consistency. This insurance will provide a cash payment into the Wiltshire Pension Fund to meet the additional costs to the scheme employer.

5. For larger employers, this risk can be self-insured through the size of their payroll, where an ill health case wont materially change the pension contribution rate paid by the employer, but for medium and especially small employers the increased costs resulting from an ill-health case could create substantial financial difficulties for that entity in respect of large increases in contribution rates.
6. Hymans Robertson, the Fund’s actuary has worked with Legal & General to set up a unique policy that insures against this risk of ill-health and subsequent costs. To date, and based on market research this currently remains the only supplier of this insurance.
7. Sussex Council tested the market in February 2016 and only had Legal & General express interest and directly awarded a contract to them. The West Midlands Pension Fund also tendered for this insurance on 19 December 2016 and appointed Legal & General as they submitted the only expression of interest/tender. Details can be viewed on the link below:

<https://procontract.due-north.com/Advert?advertId=272a10e2-f6c5-e611-8118-000c29c9ba21&p=cdcff6b-8cbd-e611-8118-000c29c9ba21>

8. The cost of implementing this insurance for a scheme employer is broadly neutral as the premium is offset by a reduction in their employer contribution rate, as this includes an allowance for ill-health when set by the Fund’s actuary, as shown in the example below.

Employer Contribution £10,750	Employer Contribution £10,000
Ill Health Assumption by Actuary £750	Replaced by Insurance Premium £750
Contribution towards other pension liabilities £10,000	Contribution towards other pension liabilities £10,000

9. The Wiltshire Pension Fund effectively acts as a “post box” for the charge and recharge of the policy.
10. The Wiltshire Pension Fund Committee considered this insurance at its meeting on 30 June 2016 and recommended this be moved forward with a Fund policy taken out for all medium and smaller scheme employers with the option for them to opt out. The policy will not apply to local authorities with tax raising powers, e.g. Wiltshire Council and Swindon Borough Councils who can afford to “self-insure” this type of risk.

11. Therefore, although the cost of the policy won't be known until all scheme employers have decided whether to opt out of the policy. The contract value could be up to £600k per annum.

Main Considerations for the Council

12. Employers in the scheme who this is applicable to (especially school academies) are keen to implement this insurance as soon as possible. If the Fund sets up the policy a reduction in the policy rate can be achieved from £1.39 to £0.85 per £100 of payroll. Each employer will be asked if they wish to participate and if there was full take up this would save the employers more than £370k per annum in premiums. The value of the policy premium would depend on take-up from £0 up to £600k per annum.

13. This request is to put in place a policy until April 2019 at which time the market can be retested to see if any other insurance providers exist for this type of policy, or if they would be willing to quote on a similar basis. If this direct award was not approved then individual employers would need to take out individual policies themselves with the additional cost and administration associated with this.

14. A quotation with details of the proposed policy is attached.

Overview and Scrutiny Engagement

15. Not applicable

Safeguarding Implications

16. There are no known implications at this time.

Public Health Implications

17. There are no known implications at this time.

Procurement Implications

18. This proposal is in line with Wiltshire Council's procurement rules.

Equalities Impact of the Proposal (detailing conclusions identified from Equality Analysis, sections 4 and 5)

19. There are no known implications at this time.

Environmental and Climate Change Considerations

20. There are no known implications at this time.

Risks that may arise if the proposed decision and related work is not taken

21. The Wiltshire Pension Fund Scheme Employers aren't able to utilise this Fund policy and benefit from lower premiums. Scheme Employers are at risk from significant pension costs if ill health cases occur.

Risks that may arise if the proposed decision is taken and actions that will be taken to manage these risks

22. There are no additional significant risks from the proposed decision.

Financial Implications

23. The cost to the scheme employer is broadly neutral as the insurance policy premium is offset by a reduction in their total pension contribution rate. The price of a Fund policy would be £0.85 per £100 of payroll per annum. This policy would be renewed on an annual basis.

Legal Implications

24. None have been identified as arising directly from this report. The contract has been reviewed by Legal and they are satisfied it is acceptable.

Options Considered

25. The alternative option is not to provide a Fund level policy in respect of ill health insurance and the Wiltshire Pension Fund Scheme employers to be exposed to the financial risks from any ill health cases that arise.

Conclusions

26. The conclusions reached having taken all of the above into account.

Michael Hudson (Associate Director, Finance)

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24 March 2017

Appendices

Legal & General Quotation

Background Papers

The following documents have been relied on in the preparation of this report:

None