

## WILTSHIRE COUNCIL

WILTSHIRE LOCAL PENSION BOARD  
18 February 2021

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### **EMPLOYER ILL HEALTH INSURANCE PROPOSAL**

#### **Purpose of the Report**

1. The purpose of this report is to outline the details of a new approach to providing/facilitating employers with insurance against ill-health retirement strain costs which is planned to apply from 1 April 2021.

#### **Background**

*Note: The contents of this paper largely replicate that of the paper which was taken to Committee in December 2020. Since then, officers have held a consultation with employers and no objections were received.*

2. The LGPS Regulations provide three tiers of ill health retirement cover to Scheme members who are unable to continue working due to long-term issues with their health and where their prospects of being healthy enough to work in 'gainful employment' before their normal pension age are significantly reduced. All potential ill health retirements are subject to an independent assessment by an appropriately qualified and register ill health practitioner (a doctor).
3. The most generous tier allows members to receive a pension early which is then enhanced as they had worked to their retirement date but payable immediately and continues to be paid up until the date of their death. In such circumstances, an ill health retirement can put a significant strain on an employer's funding position (officers have seen costs up to £500,000). The greatest financial impact on an employer is most likely to be the case where the person is younger, they were receiving a relatively high salary and their employer was relatively small.
4. Most ill health retirees on the highest tier will have a reduced life expectancy, but the strain cost can still be significant nonetheless.
5. Whilst the actuary makes an assumption for a certain number of ill-health cases when setting each employer's contribution rate, the issue arises where the total cost to the employer is significantly higher than the amount assumed for an individual. The smaller the employer, the greater the risk that the actual number will differ materially from the expected amount (for example 0.3 cases are assumed and 2 occurs).
6. In order to help reduce the strain cost risk, in 2017 the Fund offered all employers the opportunity to take out ill-health insurance with an external insurer (facilitated by the Fund's actuary). Prior to 2017, no insurance arrangement was in place and all employers took the risk of incurring material ill-health strain costs.
7. At the time, the Fund took the default position of insuring an employer unless it chose otherwise. The Fund's largest employers (Wiltshire Council, Swindon Borough Council, Wiltshire Fire and Wiltshire Police, and related employers), which make up around 77% of the Fund's assets (82% of liabilities), decided they could manage the risk effectively themselves and therefore they decided not to take out the insurance. This continuing rationale is backed up by the information in appendix 1.

8. All remaining employers currently take out the insurance, which make up the remainder the Fund's liabilities.
9. This current insurance approach operates on the basis that the Fund is set a premium each year, which the actuary then proportionalises across all participating employers according to size and deducts from their pots, and in return for each ill-health case an employer experiences, an insurance claim is made for the strain cost which the insurer then pays out and the relevant employer receives the credit.

### **Considerations for the Board**

10. Whilst both premiums and claims will vary from year to year, as the insurer will seek always make a similar profit, so the net cost over time should remain at a similar level, as future premiums set by the insurer will take into account the claims history.  
(Note: Exact figures are not provided in this paper due to commercial sensitivities).
11. Whilst at present, each employer which makes a claim receives money which is equal to the estimated strain cost, the employer still bears the true cost of paying out the member's benefits, which is unknown until the date of death (which could be decades into the future), so whilst their risk is reduced, it is not eliminated.
12. Officers are required to undertake various amounts of administration to enable this insurance model to work effectively, including ensuring employers put in their claims (which has proved difficult despite the obvious benefit to the employer).

### **Conclusions**

13. Through discussions with other Funds and the Fund's actuary, officers have reviewed the current approach and instead agreed to put in place a revised ill-health insurance model which does not use an external insurer.
14. As the fundamental problem for some employers with this risk is their size, it was proposed that solely for ill-health strain cost purposes, all small employers are pooled together so that all strain costs incurred are funded across the pool according to their size and credited to the employer which will own the long-term liability for the member.
15. Collectively the current group of insured employers had around 23% in assets or £600m (as at the 2019 valuation) so slightly less than Swindon Borough Council but significantly more than other self-insurers Wiltshire Police and Dorset and Wiltshire Fire, which based on analysis to date suggests this pool would be sufficiently large to manage this risk through the balance of probabilities.
16. Whilst the risk-profile between the different approaches is different, bearing in mind that current costs are targeted to be around 10% (c£100,000), by collectively pooling to self-insurance, employers can save around £75,000 to £80,000 per year.
17. As the current costs are currently paid for by the insured employers, officers intend to charge the revised administrative costs just to the insured employers too so that the larger employers which are self-insured are unaffected by this change. Therefore, before and after this change there is technically a net zero impact on the Fund's administration budget.

18. Further the administrative burden would be reduced as it would be mostly administered by the actuary, with no need to involve employers or members as there would be no need to put in insurance claims.
19. This approach proposed is already used by a number of LGPS Funds, including other Hymans Robertson clients.
20. Following the Committee's approval, officers have consulted with the affected employers and proposed that all of current insured employers switch to the new approach. It will be assumed that the employers that currently self-insure will continue to do so unless they express a preference to be insured.
21. There were no responses to the proposal and therefore the new approach will apply from 1 April 2021. All new employers joining the Fund will be automatically covered in a similar approach to the current position.

### **Environmental Impact**

22. There is no environmental impact from this report.

### **Financial Considerations**

23. The proposal will save approximately the amount of money outlined above for each year the revised approach is in place.

### **Risk Assessment**

24. Whilst the risk profile for affected employers is different, the level of risk is broadly similar.

### **Legal Implications**

25. There are no immediate legal implications arising from this report.

### **Safeguarding Considerations/Public Health Implications/Equalities Impact**

26. There are no implications at this time.

### **Proposals**

27. The Board is asked to note the new arrangements that will shortly be in place to manage employer risk.

### **Andy Cunningham**

Head of Pensions Administration and Relations

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## Appendix 1

Below is a table showing analysis from the last triennial valuation for those employers which did not take part in the ill-health insurance.

Employer/ Pool	Asset Value	% of total fund assets	Liability Value	% of total fund liabilities	Number of expected ill-health retirements (2016-2019)	Number of actual ill-health retirements (2016-2019)	Ill health strain cost*	% of total employer assets
Wiltshire Council Pool	£1,112,734,124	43.0%	£1,220,801,819	47.2%	66	66	-£2,400,141	-0.2%
Swindon Borough Council Pool	£679,497,451	26.3%	£696,634,254	26.9%	34	36	£779,189	0.1%
Wiltshire Police	£159,674,353	6.2%	£147,612,474	5.7%	9	7	£7,000	0.0%
Wiltshire Fire	£52,037,314	2.0%	£56,132,815	2.2%	9	7	-£339,240	-0.7%

\*The cost shown here compares the actual funding strains due to ill-health retirements with the expected cost contained within our liability calculations e.g. for Wiltshire Police, the ill-health retirements observed over the 3 year inter-valuation period (from 2016 to 2019) resulted in a cost of £7,000 over and above what we expected.

As can be seen in the table above, the ill health funding strains associated with the actual ill-health retirements observed for each of the employers/pools shown above reflects a small proportion of the overall assets held (less than 1% in each case) and so, should the actual and observed retirements continue to move in a similar way, the employers/pools shown above should be able to deal with the strain cost risks such that the risk of insolvency, for example, should be minimal.