HYMANS ROBERTSON

Ill Health Liability Insurance (IHLI) for LGPS Employers

July 2023

Pension Fund: West Sussex County Council Pension Fund

Employer: Hunston Parish Council

For and on behalf of Hymans Robertson LLP

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1 Background

This report has been prepared for **Hunston Parish Council** and summarises our recommendations.

Changes to LGPS regulations in April 2008 mean that the potential liability for Employers on ill health early retirements has increased as a result of more generous benefits being possible.

As you know when an ill health early retirement occurs the strain to the fund is calculated by the actuaries. As an Employer participating in the LGPS you must meet the full cost of any such ill health retirement cases within your business.

Many funds now require this extra liability in cash terms (known as the strain cost) to be repaid as a lump sum immediately or in instalments over a set period of years.

Each case will be assessed on the age, salary and length of service of the individual so the strain cost could range from just a few hundred pounds to many hundreds of thousands of pounds. This could be a hugely problematic situation for an employer.

The insurance detailed here is designed to insure the amount of the lump sum strain that could be required by the Administering Authority.

This type of insurance, as far as we know, is unique to the market and as such we have undergone a strict assessment process of the UK group risk market to ensure the policy is set up correctly.

Hymans Robertson is ideally placed to facilitate this cover with the chosen insurer as we currently advise nearly half of all LGPS employers on Actuarial and / or Investment matters.

Limitations

This report is provided solely to **Hunston Parish Council.** It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. We accept no liability to any third party unless we have expressly accepted such liability in writing.

The advice included in this report is based upon our knowledge of the LGPS market and of the relevant employee and ill health early retirement history of the Scheme in which you are a participating employer. We are not aware of any arrangements that you may have outside the Scheme to insure against strain costs arising from ill health early retirements; if you do have other arrangements in place please contact us.

2 The Insurer Selection Process

In order to find an insurer to partner with us for this unique product, Hymans Robertson undertook an extensive review of the insurance market.

The first stage of our review process was to obtain terms for the LGPS from a panel of insurers who we knew to be competitive in the group risk market, and who had the capacity to underwrite this type of contract.

The second stage has been to negotiate with the interested providers to improve their terms.

Thirdly, we assess the policy conditions offered by each provider and, based on the criteria set out below, make our final recommendation.

In determining our recommendation the following list of criteria was used to select an appropriate provider (although cost remains the primary factor): -

- Competitive and consistent pricing;
- A willingness to provide preferential terms to mirror the LGPS ill health early retirement cover;
- A track record for good service, particularly effective and speedy claims handling;
- A long-term commitment to the group risk market; and
- Financial stability.

Why Legal & General?

Legal & General, after a long interview process, were the only insurer who could write the policy exactly the way it needed to be written – i.e. to mirror the two tiers of the LGPS ill health early retirement regulations.

They will work in conjunction with your Occupational Health specialist to assess the claim and then, as soon as this has been agreed, the cheque made payable to you the Employer, should be issued within 5 days of agreeing the claim.

3 The Benefits

Legal & General will provide cover for the strain to you, the Employer, at the date an employee becomes an ill health early retiree.

There are two tiers of ill health benefit:

Tier 1 – is equal to the employee's full expected pension which is the value of their accrued benefits in the LGPS at the point of ill health early retirement PLUS 100% of the employee's potential future accrual to normal retirement date.

Tier 2 – is equal to the value of the employee's accrued benefits in the LGPS at the point of ill health early retirement PLUS 25% of the employee's potential future accrual to normal retirement age.

The insurance is designed to ensure that should you have an employee retire early on ill health grounds Legal & General will pay the strain amount to you as a lump sum once the claim has been assessed and agreed as valid by them.

4 Types of Cover Available

There are two types of policy you can elect to buy:

Full cover: This is the cover for the strain cost on the pension scheme at the date an employee becomes an ill health retiree. This will differ depending on whether a member qualifies for Tier 1 or Tier 2 benefits under the LGPS regulations at the plan start date. **This is the basis upon which the attached quotation has been prepared.**

Top up cover: The cover provided is for the strain cost **above** the payment you make into the pension scheme via your contributions to provide ill health early retirement pensions.

You should speak to the Administering Authority or the Scheme actuary to determine what contributions you pay towards ill health early retirement pensions and which cover would be most appropriate to you.

5 The Costs for the Cover

Legal & General has provided the attached quotation number **GRP/K/GPE0537879** based on the information we received from the **West Sussex County Council Pension Fund** as a whole.

Legal & General will require payment of an estimated deposit premium. Based on a salary roll of **£16,454.88** the premium is **£16,454.88*1.55/100 = £255.05 per annum.**

You elected for cover to commence on the 21st July 2023, the pro-rated premium for the period 21st July 2023 to 31st March 2024 will be:

£255.05/366*255 days = £177.70

You can choose to pay premiums annually or monthly.

Please note that the figure we have provided here is indicative. Legal & General will require a data listing confirming salaries for the members in the pension fund as at the date cover commences. This will enable the insurer to issue their invoice and statement of costs. **The actual costs of the premium will be confirmed by the insurer to you.** The actual premium due may therefore increase or decrease depending on the data provided.

The annual renewal date for all policies is 1st April. As stated in the Technical Guide (under 'the policy' on page 6), all policies automatically renew on the annual renewal date (unless advised otherwise).

You can cancel the policy at any time by giving us written notification. If a claim has been paid during the policy year, Legal & General will require the full year's premium to be paid in the event of cancellation.

6 Our Role

Hymans Robertson LLP ("Firm", "we", "us" and "our") is an ancillary insurance intermediary in relation to the Services (see below for list of services) provided under the IHLI Agreement and we are authorised and regulated by the Financial Conduct Authority (Financial Services Register number 414430). You can check this at www.fca.org.uk. The Firm is remunerated for carrying out promotional and administration services on behalf of Legal & General Assurance Society Limited ("Legal & General").

Services

We provide the following services in relation to IHLI:

- Obtaining a quotation for IHLI;
- Where you choose to proceed and obtain an IHLI policy from Legal & General:
    - forwarding the necessary data (including personal data), documents and letters to/from Legal & General, as required for claims, policy inception, renewal and discontinuance (where applicable);
    - processing changes of your contact details;
    - providing further explanation (where required) regarding the terms of the Policy (based on information and explanations providing to us by Legal & General) and the processes for payment, claims etc;
    - keeping you informed of the progress of claims; and
    - responding to ad-hoc queries in relation to the Policy.

Further details regarding our services and fees (amongst other things) are contained in the engagement Agreement which is included with this pack.

Hymans Robertson will be remunerated by way of commission for the work we do for you on the scheme. This will equate to 10% of the annual premium paid to Legal & General and is the same level for all employers who buy this cover.

7 The Claims Process

As soon as an employee is identified as eligible for ill health early retirement you will need to complete your usual assessment process with your Occupational Health partner together with a Claim Notification Form from Legal & General and send it to Hymans Robertson. This is so that the claims process can run concurrently for both your Occupational Health assessment and the Legal & General Policy. **Therefore, as soon as you think there is a potential claim please contact us for a claim form.**

Both Legal & General and your Occupational Health advisor will liaise over the claims payment and come to a decision. There is a dedicated benefit Manager at Legal & General and they will be the ones to communicate a decision to us as to whether it is a valid claim within 5 working days of having received all of the medical information. The benefits will then be paid to you, the Employer, within a further 5 days.

Legal & General will only pay a claim if they agree the employee meets the definition of incapacity as per the Technical Guide which they have issued for the IHLI policy. This document must be read in full before buying this product.

Definitions of Incapacity:

Tier 1: Legal & General will pay benefit if an illness or injury means that the member is *permanently incapable* of obtaining gainful employment before reaching their normal retirement date.

Tier 2: Legal & General will pay benefit if an illness or injury means that the member is not capable of obtaining any gainful employment within three years of leaving employment with the employer, but is likely to be able to do so before reaching their normal retirement date.

For the purposes of tier one and tier two benefit:

- Gainful employment means paid employment for not less than 30 hours in each week for a period of not less than 12 months: and
- Obtaining means the capacity of the member to carry out gainful employment, taking into account the full medical effects of the condition which gave rise to the retirement on the grounds of permanent ill health.

8 How Do I Set Up Cover?

IHLI Team
Hymans Robertson LLP
45 Church Street
Birmingham
B3 2RT

In order to comply with data protection, please also return one signed copy of the engagement Agreement prior to providing the membership data requested below. Please retain one copy of the engagement Agreement for your records.

Once cover commences, Legal & General require a membership listing for the LGPS members for the inception date of the scheme. Data should be provided in excel format, **using encrypted channels***, to include the following information:

- Member name (or employee reference)
- Gender
- Date of Birth
- Salary (gross annual salary)

* We would draw your attention specifically to Condition 9 Terms and Conditions' of the engagement Agreement, which sets out each party's obligations in regards to Data Protection.

Please also confirm the name of any LGPS member who was not Actively at Work (as defined in section 1.1. of Legal & General's Technical Guide) on the date cover commences. Any member who does not meet this Actively at Work definition will not be covered by the insurer until the date the member returns to work.

The first premium, payable to **Legal & General**, will also be required **as soon as possible**.

- Legal & General's quotation is guaranteed until **31st August 2023** and is subject to the requirements set out in the aforementioned quotation. Paragraph omitted on copy sent to employer due to uncertainty over the rate
- Quotations received at any time are subject to receipt of up to date membership data at the Scheme renewal or switch date. Insurers reserve the right to retest their rates if membership data changes more than 15% to 25% (depending on the insurer).
- Both Legal & General and Hymans Robertson will rely on the membership data that you provide. You should ensure that all data provided is as accurate as possible to ensure that your policy is priced correctly and that any claims are not adversely affected.
- **Currently Legal & General are the only insurer to offer a policy like this specifically for LGPS Employers. Should another provider enter the market we will of course let you know and ensure we look at costs comparison to ensure the rates remain competitive.**
- The annual renewal date for all policies is 1st April. As stated in the Technical Guide (under 'the policy' on page 6), all policies automatically renew on the annual renewal date (unless advised otherwise).

- Policies can be cancelled at any time by giving us written notification. If a claim has been paid during the policy year, Legal & General would require the full year's premium to be paid in the event of cancellation.
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