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Paper submitted to Full Council – 03.03.21 – Suffolk Pension Scheme Proposals

Agenda Item 8c) TO NOTE THE PROPOSALS BY THE SUFFOLK PENSION SCHEME TO OFFER ILL- HEALTH INSURANCE COVER TO EMPLOYERS

Recommendation: Council to note the proposals by the Suffolk Pension Scheme to offer ill-health insurance cover to all employers in the Fund which have a Local Government Pension Scheme payroll of less than £1m effective 1st April 2021.

Background

The Pension Fund Committee (tasked with overseeing the Suffolk Pension Scheme – Local Government Pension Scheme) has recently reviewed the incidences of ill health early retirement pensions awarded to employees who are members of the Suffolk Pension Fund and the costs of those awards. There is usually at least one payment a year that would be prohibitive for a majority of the employers in the Fund who do not currently hold Ill Health Liability Insurance.

After careful consideration and in order to protect all the employers in the Fund, the Pension Fund Committee has mandated that the smaller employers in the Pension Fund should all have Ill Health Liability Insurance in place from 1 April 2021, to alleviate the costs to an employer if one of their employees is awarded an early pension due to being unable to work.

A consultation was launched asking for employer's views on the size criteria of the Employers who should be included in that decision. The consultation was run between 11 December 2020 until 31 January 2021 and the responses were discussed at the next Pension Fund Committee held on 25 February 2021.

Consultation for mandatory ill health liability insurance

The Pension Fund Committee recently reviewed the incidences of ill health early retirements awarded to employees who are members of the Suffolk Pension Fund and the costs of those awards.

Currently Employers have the choice to take out Ill Health Liability Insurance to cover these costs or to be invoiced for the liability outstanding after the budgeted allowance for ill health included in the contribution rate has been taken into consideration.

Over the last five years there have been one or two liabilities a year that some smaller employers who have less financial resources at their disposal, could have difficulties paying. In order to protect some of the Fund's smaller employers from being unable to pay such a liability should one occur in their organisation, the Pension Fund Committee after careful consideration have mandated that smaller employers should all have Ill Health Liability Insurance in place as standard from 1 April 2021.

Ill Health Retirements

If an active or deferred member of the scheme becomes unable to work due to ill health, then they may be entitled to early payment of their LGPS pension. Ill Health benefits can be paid at any age and are not reduced on account of early payment.

Ill health retirements generate an additional cost that the employer needs to pay into the Fund due to the enhancement and early payment of benefits to the scheme member. Ill health retirements are relatively infrequent but variable and unpredictable, and there is a risk that your organisation may be unable to meet the strain cost.

In 2019/20 there were 36 ill health retirements which totalled £3.2 million. The average amount of the liability was £77,447, with the highest single amount being £1.3 million. This liability was incurred with an employer which only had 38 active members but had fortunately taken out Ill Health Liability Insurance.

What is Ill Health Liability Insurance?

Ill health insurance covers the full strain cost of liabilities incurred for an employer if a member of the Pension Fund is awarded early retirement due to ill health.

How much will it cost?

The insurance premium is calculated as a percentage of each employer's payroll and the premium is deducted from the employers' contributions, netting off against the contribution rate budget allowance meaning it will not be an additional cost to you as an employer in the Fund.

Which employer will this affect?

The Committee has considered Employers with a Suffolk Pension Fund pension payroll of less than £1 million to be smaller employers. Individual academies in multi academy trusts with a combined Suffolk LGPS pension payroll of more than £1 million will not be considered as a smaller employer. Employers who already have the insurance in place who would not be classified as a smaller employer can still maintain the insurance.

Consultation

The Committee is holding a consultation to establish views on the size criteria of the Employers who will be mandated to hold Ill Health Liability Insurance and would like to hear the views from all of the Employers in the Fund.

1. The Pension Fund Committee are suggesting that all Employers in the Suffolk Pension Fund, that has a LGPS pension payroll of less than £1m should have Ill Health Liability Insurance – what are your views on this?
2. Are there any other considerations the Committee should take into account when approving the criteria for which employers should be mandated to take out Ill Health Liability Insurance.

The Policy and Resources Committee responded that it had nothing further to add to the consultation and that as the overall impact on Council's finances was a nil effect in that the insurance pension is netted off the amount collected from the Council it would seem to be the likely way forward.

Consideration for the Pension Fund Committee

The Pension Fund Committee will consider the responses and agree the criteria to be met for those employers who will be mandated to hold ill health liability insurance. This will be communicated to all employers in the Fund and the Pension Fund will then be in contact with those that this will affect to implement the insurance.