

Ill Health Liability Insurance for LGPS employers

Last year, over 4,000 members within the Local Government Pension Scheme took early retirement due to ill health. Who had to pay for this extra cost? Their employer.

What are the employer costs of ill health early retirements (IHERs)?

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 (“the strain cost”). This results from:

- Early payment of the pension; and
- An increase in the benefits payable to the member either based on full prospective service to normal retirement age for a Tier 1 early retirement or 25% 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.

Age	Salary	Tier 1 Strain Cost
46	£32,000	£375,000
31	£26,000	£350,000
48	£67,000	£575,000
43	£110,000	£1,600,000

What is ill health liability insurance (IHLI)?

Over 1,200 LGPS employers (covering over 55,000 members) throughout the UK have now taken out ill health insurance from Legal & General to remove the huge potential costs demonstrated above.

The insurance was developed at the request of LGPS funds to help employers remove the risk of the often unaffordable cost of unexpected ill health early retirements.

What will IHLI cost me?

Depending on the Fund you participate in, there may be no additional cost for employers who decide to purchase the insurance. In this case, the premium paid to Legal and General will be taken off the contributions you are currently paying to the Fund.

How does it work?

You, as an employer, would pay a premium to Legal & General, which is often offset by a reduction in your contribution rate.

In the event of an IHER claim, the insurance policy will pay you the cost which in turn you would pay to the LGPS Pension Fund in which you participate. The process is illustrated below:



Recent claims

Shown below are details of a few recent claims paid by Legal & General to employers with the insurance.

Member Age	Salary	Service	Strain/ Claim
53	£31,000	17 years	£42,000
50	£12,000	9 years	£129,000
44	£33,000	3 years	£350,000

The benefit of having the insurance in place for those employers who were affected by the above claims was that it ultimately reduced the impact on their funding position, balance sheet and potential future increases in their contribution rate. Here is what one of the employers said:

“Reassuring that, despite the sad situation, the insurance was there to cover the cost”

LGPS Employer

Summary of benefits

There are a number of advantages to taking IHLI:

- 1 Cost neutral decision to take out insurance**
You could receive a reduction in your employer contribution rate by the amount of the premium.
- 2 Removes potentially catastrophic ill health early retirements costs.**
- 3 Stabilised Contribution Rates and Balance Sheet**
Because the costs will be covered by the insurance, the impact of ill health costs are removed - helping to maintain a stable contribution rate and balance sheet.
- 4 Multiple Claims Cover**
The insurance covers the cost of multiple claims.
- 5 Employee Assistance Program**
You'll be given access to L&G's 24 hour employee assistance service for all of your employees.

Request a free quote

Contact us now at IHLI@hymans.co.uk to request a free, no obligation quote!

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London | Birmingham | Glasgow | Edinburgh

T 020 7082 6000 | www.hymans.co.uk | www.clubvita.co.uk

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