

# POLICY, FINANCE AND ADMINISTRATION COMMITTEE

29 JUNE 2010

## REPORT OF THE HEAD OF FINANCIAL SERVICES

### ILL HEALTH EARLY RETIREMENT

#### 1.0 PURPOSE OF THE REPORT

- 1.1 This report provides Members with an opportunity to consider taking insurance cover to protect against the cost of ill health early retirement.

#### 2.0 RECOMMENDATION

- 2.1 **That members consider if they wish to take insurance cover for the remainder of the 2010/11 financial year; and**
- 2.2 **That should cover be required a supplementary estimate be approved from the working balances.**

#### 3.0 KEY ISSUES

- 3.1 From 1 April 2008 the Local Government Pension Scheme (LGPS) rules on early retirement changed. The levels of benefit that can be provided to scheme members and their families are now more generous. This means that the potential cost to employers for ill health retirement is now greater.
- 3.2 When these rules were first introduced concern was expressed at the Leicestershire County Council Pension meeting by a number of finance officers. The potential for a form of insurance were discussed. As a result Legal and General has joined with Hymans Robertson (pension actuary) to provide an ill health liability insurance to provide business cover against the potential liability caused by an employee being given ill health retirement.
- 3.3 The fund is currently going through its triennial valuation and later this year information will be provided on any revisions that need to be made to the current employer's rate of contributions into the scheme. The outcome of this will be reported as part of the Medium Term Financial Strategy/Budget setting process for 2011/12. The premium is linked to the annual pay bill and will be the same percentage rate for all employers in the fund. However the rate will depend on whether major employers contribute. It has been indicated that should insurance be required from 1.4.11, when the new contributions are introduced, the premium can be taken from the general employers contributions resulting in no additional cost.
- 3.4 As such this report is particularly concerned with insurance for the remainder of the 2010/11 financial year. For subsequent years the position can be determined as part of the employers contribution rates for the next 3 years from 2011/12.

#### 4.0 POLICY AND CORPORATE IMPLICATIONS

- 4.1 Should the Council have an ill health retirement with a significant cost attributed to it this would put a significant financial strain on the council's finances even if the cost was spread over 5 years. This would in turn have a resulting impact on the corporate financial position of the Council.

#### 5.0 FINANCIAL AND OTHER RESOURCE IMPLICATIONS

- 5.1 Typically ill health retirements cost more than normal retirements because they are paid early and the pension amount is increased. They are uncertain and unpredictable

and would need to be paid into the fund in either a lump sum or spread over a 3-5 year period. Further details with examples of the types of payment that may have to be made can be found in the Legal and General publication at Appendix A.

- 5.2 Following a discussion at the Budget and Strategic Planning Working Group a quotation was sought. This is £31,793 if the take up is more than 40% from the membership of the Leicestershire Fund or £40,695 if the take up is less than 40% and assumes a start date of 1 August 2010. The cost would need to be apportioned between the General Fund, Special Expenses and Housing Revenue Account in line with the pay bill. The additional costs would need to be met from a supplementary estimate from the working balances of each fund.

## 6.0 LEGAL IMPLICATIONS

- 6.1 There are no legal implications directly arising as a result of this report.

## 7.0 COMMUNITY SAFETY

- 7.1 There are no community safety implications directly arising as a result of this report

## 8.0 EQUALITIES

- 8.1 There are no equality implications directly arising as a result of this report

## 9.0 RISKS

- 9.1 The scheme actuary has put forward the following table representing the risk of frequency of an ill health retirement:

No. of employees	Expected Frequency of ill health retirements per 1,000 members	No of ill health early retirements
10,000	5	50
1,000	5	5
100	5	0.5 (or 1 every 2 years)
10	5	0.05 (or 1 every 20 years)

- 9.2 This report, as with any insurance policy, is the level of risk the Council is willing to take and the level it wishes to transfer by taking out insurance.

## 10.0 CONSULTATION

- 10.1 The budget and strategic planning working group has been consulted and as such have requested it be considered further by this committee due to the risk involved.

## 11.0 WARDS AFFECTED

- 11.1 As a corporate issue all wards are affected indirectly.

## 12.0 CLIMATE CHANGE

- 12.1 There are no climate change issues directly arising as a result of this report.

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Appendix - Legal and General brochure for ill health retirement insurance

Date:

29 June 2010