

### Ill health insurance

The West Midlands Pension Fund is looking to procure an insurance policy to cover the strain cost passed onto participating employers as a result of member ill health early retirement.

#### **Background**

In the event of an ill-health early retirement in the LGPS, additional liabilities arise in the Fund due to:

- a) early payment of accrued pension; and
- b) enhancement of the pension in accordance with LGPS Regulations.

There are three tiers of ill health outlined in the Regulations, however only two of these involve enhancement (as below) and it is for these tiers that the Fund is wishing to obtain insurance.

**Tier 1** – The active member of the scheme is expected to never return to work. The member will receive their accrued pension plus 100% of their expected future service as an ‘enhancement’

**Tier 2** – The active member of the scheme is expected to be unable to work for at least three years. The member will receive their accrued pension plus 25% of their expected future service as an ‘enhancement’

#### **Insurance requirement**

The additional liabilities resulting from ill health early retirements can run into six figures for a single ill-health member event. The additional liabilities have to be met by the employer of the ill-health retiree raising affordability and balance sheet concerns, especially for smaller/medium sized employers in the Fund.

Ill-health strains are added to each employer’s deficit at each valuation. This additional deficit is paid as part of the ongoing contribution rate.

The Fund wishes to procure insurance which removes the risk of the often unaffordable cost of unexpected ill health early retirements.

At this stage we would like the option of either individual employer contracts (direct between the insurer and the employer) or a Fund-wide policy to cover as many employers within the Fund as required.