

# Pensions and Ill Health Insurance

James Monteith

22<sup>nd</sup> March 2013 – CRC

27<sup>th</sup> March 2013 – Knuston Hall



# **Pensions and Ill Health Insurance**

What happened previously

What happens now

Why the change was made

What is not covered

The Process

Conclusions

Questions

## **What happened before Ill Health Insurance?**

How were the strain costs of ill health pensions paid previously?

- Ill health “budget” set at each triennial valuation
- Liability was in theory pre-funded
- Adverse ill health experience could cause increases in contributions

### **Really bad experience?**

- The Pension Service could ask for the money upfront as with other strain costs

# What is Ill Health Insurance?

- Insurance taken out at Fund level, provided by Legal & General
- Maximum £4.5 million per claim
- The policy holder the Pension Fund
- Strain cost is paid to Fund to benefit the individual employer

HYMANS   
ROBERTSON



# Why have Ill Health Insurance?

Protection against large strain costs to each employer

## Example of strain costs

<b>Age</b>	<b>Salary</b>	<b>Service</b>	<b>Strain</b>
33	£58,000	10 Years	£741,000
44	£60,000	5 years	£498,000
51	£64,000	14 years	£321,000

# What is covered by Ill Health Insurance?

Tier 1 and Tier 2 Ill Health pension awards are covered by Ill Health Insurance

<b>Tier</b>	<b>When it applies</b>	<b>The effect on benefits</b>
1	No reasonable prospect of gainful Employment before age 65	Enhancement of 100% membership that would have counted to age 65
2	Applies where gainful employment would not be possible within three years of leaving, but it is likely that member would be capable of undertaking gainful employment before age 65	Benefits will be increased to take account of 25% to age 65

# What is paid?

Legal & General Assess

Legal & General Approve

Legal & General Pay the strain cost





# What is not covered by Ill Health Insurance?

- Tier 3 Ill Health pension awards
- Death In Service
- Early payment of deferred award due to ill health
- Death on deferred
- Death on pension

.....therefore still a need for ill health budget



# **The Process –** **When should someone be referred to the** **Independent Registered Medical Practitioner?**

Each employer will have their own process for referral, with reference to HR manuals and online guidance

When would referrals be made?

- Long term sickness
- Becoming sick
- Injury

## **The Process –** **What happens next?**

- Read Pension Advice Notes, use online Ill Health Toolkit, contact the Pension Service for advice and estimate
- Complete referral forms Ill Health Referral Form, Ill Health Insurance Form and Decision Form
- Give employee the Consent Form, “Understanding Your Ill-Health Referral” leaflet and partially completed Ill Health Insurance Form

## The Process – What happens next?

- Arrange for the Independent Registered Medical Practitioner to see the employee or their medical records
- Doctor makes their decision based medical case
- Form Decision Form returned to employer
- Ill Health Insurance form sent to L&G by Independent Registered Medical Practitioner

## The Process – after the Independent Doctor's Decision

Ill health decision is made by following the form through

- Send Leavers Form and Decision Form to Pensions Service and CRET1, 2 and 3 to former employee
- Pension is paid and Ill Health Insurance money claimed



## **In conclusion**

What?

Insurance against pension strain of Tier 1/Tier 2 ill health

Why?

To save employers the strain cost and increasing employer contributions

When?

Taken out for all new claims from 1<sup>st</sup> April 2012, reviewed annually

# Any Questions

