Ill Health Self-Insurance Service

This document provides details of the Surrey Pension Fund ("the Fund") ill health self-insurance service which is in place for all Fund employers.

The policy is effective from 1 April 2017 and will be reviewed and revised as necessary at each formal valuation of the Fund.

Background

The Fund has considered the options available to help employers mitigate the risk of having to pay a large cash sum due to an ill health early retirement and the resulting augmentation strain cost that arises as a result of enhanced and early payment of the member's pension. To mitigate this risk to employers and to evidence good governance and risk management, the decision has been taken to operate an in house self-insurance policy within the Fund. This policy sets out the approach that will be taken as well as the benefits of this service to the employers in the Fund.

Description

The purpose of this self-insurance service is to create a pool of assets that will recompense participating employer for the strain costs associated with ill-health early retirements. This will be achieved through:

- Collecting a small proportion of employers' contributions as premiums;
- Allocating these contributions to a segregated sub-fund;
- When ill health retirements occur for a participating employer, the strain cost (as calculated by the Administering Authority) will be met from the assets held in the segregated sub-fund.

Both Tier 1 and Tier 2 ill health early retirement strains will be covered by this service.

Participating employers

The service will mitigate the ill-health early retirement risk for all employers with active members in the Fund.

Premiums

The premium will be set as an appropriate percentage of payroll and will be deducted from each employer's regular monthly contributions. The premium rate will be reviewed at each formal valuation of the Fund which occurs every 3 years, with the next formal valuation to be carried out on 31 March 2019.

Please note no additional contributions are being requested from employers to meet this potential cost. Instead the ill health premium will be taken from the contributions currently being paid and certified for each employer in the Rates and Adjustments certificate.

Benefits/drawbacks of Ill Health Self-insurance

Employers should be aware that this policy does not necessarily fully protect their valuation funding position / accounting balance sheet as the assumptions underlying the calculation of the strain amount (and therefore benefit) are not the same as those used for funding / accounting. Necessarily the calculation of the strain cost is based on a number of assumptions. In practice the additional cost of the ill-health early retirement will only be known when the benefits have been paid in full to the member and any dependants. There is a risk that the fund over/underpays the actual cost of strains to employers using current, accepted practice.

This self-insurance policy is a form of pooling ill health early retirement strain costs amongst the participants. As with other forms of pooling there are associated benefits and risks.

- Employers are protected from the risk of having to pay large cash sum strain payments into the Fund. In particular this is a major risk for smaller employers who do not have the cashflow available to fund these payments which can be very expensive; but
- There is a risk of cross subsidy if the claim experience of one particular employer is very high compared to that of another.
- There is a risk of an invalid employer claim for the award of Tier 1 and 2 ill health retirement benefits. This is mitigated by the requirement for all employer decisions which contradict a recommendation of the designated Independent Registered Medical Practitioner to be reviewed by the Administering Authority.