

1 Introduction

The Problem

Following the legislative changes in April 2008 to the rules governing Ill-health Early Retirements (IHERs) for the Local Government Pension Schemes (LGPS), an existing client raised serious concerns over the enhanced benefits for IHERs that was now available to members. In particular, the potential costs for its smaller employers and the effect this could have on the fund if the employer is unable to meet their liabilities. Hymans Robertson met with the client to find a workable solution to the potentially catastrophic effects that IHERs could have on both the employer and the fund.

The first step was to understand the IHER process, achieved by speaking to the client's Humans Resources team at length and, from there, reaching the conclusion that an insurance product could be built around the existing rules and regulations to reduce the impact of that IHER could have. However, at the time there were no suitable insurance products in the market to match the unique benefits in the public sector.

The Solution

Hymans Robertson undertook a review of the insurance market with the aim of co-developing an insurance proposition to meet the significantly enhanced strain costs for an IHER in the LGPS.

This report summarises the process Hymans Robertson underwent when developing the Ill-health Liability Insurance policy.

Why Hymans Robertson?

Hymans Robertson currently provides Actuarial and/or Investment advice to around 47 Local Authorities already and is therefore well experienced in delivering an authoritative and respected opinion that will stand public scrutiny.

With a team of dedicated professionals with a wide range of experience between them, Hymans Robertson is ideally placed to undertake a broad analysis of the relevant market to identify the most suitable insurer for this product.

We believe that we offer a unique and innovative approach to our client's problems with a skillset to match.

2 The Insurer Selection Process

In order to find an insurer to partner with us for this unique product, Hymans Robertson undertook a review of the insurance market.

In conducting our review to determine the most appropriate insurance partner to co-develop a suitable product, the following list of criteria was used to select an appropriate provider:

- Competitive and consistent pricing;
- The ability to provide terms to mirror the LGPS IHER regulations;
- A track record for good service, particularly effective and speedy claims handling and a commitment to treating customers fairly;
- A long-term commitment to the group risk market; and

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- Financial strength and stability.

After identifying that the only existing products in the market were catered to meet the very different needs of the private sector, the first stage of our review process was to obtain terms for the LGPS from a panel of insurers who we felt to be competitive in the market, who had the capacity to underwrite this type of contract and had a long-term commitment to the market coupled with financial strength and security.

The second stage was to negotiate with the interested providers to improve their terms, ensuring that these would match the terms and conditions of the IHER regulations.

Thirdly, we assessed the policy conditions offered by each provider and, based on the criteria set out below, made our final recommendation.

3 Why Legal & General?

The Decision

After discussions with multiple insurers, Legal & General was and remains the only provider that was able to meet the rules and requirements of IHERs for the LGPS, designing an insurance policy that made a lump-sum, non-rehabilitation payment in the event of a valid tier 1 or tier 2 IHER to mitigate the strain cost (up to the maximum of £4.5 million per person) from an IHER.

Financial Statistics as at 2008

Legal & General Group PLC

- IGD Capital Surplus - £1.8bn.
- Solvency Cover - +169%.

Group Protection

- Legal & General was the third largest provider of Group Protection in 2008 with over 80 years experience and a £300 million annual premium turnover.
- Managing over 7,400 policies with a dedicated business unit.
- Legal & General's market share for Group Life grew from 17% in 2004 to 25% in 2008, placing them as the second largest provider in the market with an annual premium turnover of c£200 million.
- Legal & General was the third largest provider of Group Income Protection in 2008.

Financial Strength Ratings in 2009

Standard & Poor's – AA¹.

Moody's – Aa1².

AM Best – A+.

¹ As at 2012, Standard & Poor's rating: Long term – A // Short term – A-1

² As at 2012, Moody's rating: Long term – A3 // Short term – P2

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Awards

Cover Excellence Award – 2007 Group Critical Illness.

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Cover Excellence Award – 2008 Best Service.

Winner of the 2009 Group Life Award.

Winner of the Rehabilitation First 2009 Award.

Authorised and Regulated by:

Financial Conduct Authority.

Claims Management

- A good reputation within the market for good claims handling and high service standards.
- A dedicated claims management team with a proven track record of speedy claims handling.
- Commitment to treating customers fairly.³
- In 2008, Legal & General had the following number of claims submitted:
 - Group Life Assurance – 1,796 claims - £141.42 million paid out.
 - Group Income Protection – 529 claims – with a capitalised figure of £31.02 million.

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The Two Tiers of Ill-health Benefit:

Tier 1 – is equal to the employee's full expected pension which is the value of their accrued benefits in the LGPS at the point of ill health early retirement PLUS 100% of the employee's potential future accrual to normal retirement date.

Tier 2 – is equal to the value of the employee's accrued benefits in the LGPS at the point of ill health early retirement PLUS 25% of the employee's potential future accrual to normal retirement age.

Last reviewed by Ben McArthur 9 May 2013

³ <http://www.legalandgeneralgroup.com/about-us/our-policies/customer-experience-tcf/>

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