

Administration and Communications Sub-Committee

Item 3: Ill Health Discussion Paper

In the meeting of the sub-committee on the 4th September 2014 the Secretariat was asked to liaise with DCLG to obtain details of the potential additional cost to the scheme for the adoption of one of two proposals for the simplification of the Ill Health system and removal of 'Tier 3' benefits.

The proposals for which details were requested were:

Proposal One

To retain the current approach for the establishment of entitlement to an ill health benefit, but move from a three tier system to a two tier system, with the criteria for a Tier 2 benefit being extended to cover those who would be entitled to a Tier 3 benefit under current provisions.

Therefore the existing criteria would be retained, that the member is, as a result of ill-health or infirmity of mind or body, permanently incapable of discharging efficiently the duties of the employment the member was engaged in, and that the member, as a result of ill-health or infirmity of mind or body, is not immediately capable of undertaking any gainful employment (i.e. paid employment for not less than 30 hours each week for a period of not less than 12 months).

If both requirements were met the member would be entitled to either a Tier 2 benefit (if likely to be able to undertake gainful employment before reaching normal pension) or a Tier 1 benefit (if unlikely to be capable of undertaking gainful employment before normal pension age).

Proposal Two

To widen the eligibility criteria by moving to a 'single gate' approach for the establishment of entitlement to an ill health benefit. The first requirement, that the member is, as a result of ill-health or infirmity of mind or body, permanently incapable of discharging efficiently the duties of the employment the member was engaged in, would remain.

The requirement that the member, as a result of ill-health or infirmity of mind or body, is not immediately capable of undertaking any gainful employment would be removed.

If the requirement were met the member would be entitled to either a Tier 2 benefit (if likely to be able to undertake gainful employment before reaching normal pension) or a Tier 1 benefit (if unlikely to be capable of undertaking gainful employment before normal pension age).

Savings Options

As both these proposals would increase the cost of the overall ill health package the sub-committee also asked for five savings options to be assessed to balance the cost by:

- a) reducing the ill health enhancement for Tier 1 benefits
- b) reducing the ill health enhancement for Tier 2 benefits
- c) reducing the enhancement for both the Tier 1 and Tier 2 benefits proportionally
- d) the abatement of ill health pensions upon re-employment in the public sector
- e) moving to a 5 year qualifying period for enhanced benefits

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Current Ill Health Benefit Enhancements

If a member meets the ill health criteria for a Tier 1 pension the benefit enhancement is based on the formula $1/49^{\text{th}} \times \text{Assumed Pensionable Pay} \times 100\%$ of the service, in years, from their last day of service until their Normal Pension Age (or 65 if later)

If a member meets the ill health criteria for a Tier 2 pension the benefit enhancement is based on the formula $1/49^{\text{th}} \times \text{Assumed Pensionable Pay} \times 25\%$ of the service, in years, from their last day of service until their Normal Pension Age (or 65 if later)

There is no service qualification criterion for enhanced benefits other than the two year vesting period.

Key points from the GAD costing paper

GAD provided costings of the above proposals and options to the Secretariat which have been included with the committee papers.

Costs – Proposal One and Two

The additional cost of Option One is known (based on robust assumptions) however the cost of Option Two is dependent on how many additional members would be eligible due to the widened eligibility criteria.

GAD has assumed the most likely scenario would be that 10% more members would be eligible for an ill health pension.

Savings costed for Proposal One

The full cost saving could be delivered through the introduction of a 5 year qualification period for enhancements – however this would make an overall saving to the ill health package.

The full cost saving could alternatively be delivered through reducing Tier 1 ill health enhancement to 91% (from 100%), or proportionally by reducing Tier 1 ill health enhancement to 92% (from 100%) and Tier Two ill health enhancement to 23% (from 25%)

Savings costed for Proposal Two

All savings based on the assumption that there will be a 10% increase in eligibility for ill health.

The full cost saving could be delivered through the introduction of a 5 year qualification period for enhancements

The full cost saving could alternatively be delivered through reducing Tier 1 ill health enhancement to 83% (from 100%), or proportionally by reducing Tier 1 ill health enhancement to 85% (from 100%) and Tier 2 ill health enhancement to 21% (from 25%).

Savings options not deemed material

Ceasing pensions to ill health retirees who later re-join the public sector is not material, based on 1% of ill-health retirees becoming re-joiners – which GAD feel is the most likely scenario.

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Changing the Deferred Member ill health criteria to align with the HMRC serious ill health definition would not be material.

Savings options not deemed possible

It is not possible to deliver the required savings for either proposal solely through the reduction of Tier 2 enhancement

Points for consideration

Should the improvement in the overall ill health package be funded by a reduction in enhancement or an increase in the qualifying period for enhanced benefits

If the qualifying period for enhanced benefits is increased to five years would this create another 3 tier system and which type of service should count towards the five years e.g. – Local Government / Public Sector

Are the reductions in ill health enhancement fair, what are the enhancements designed to deliver

Which, if any, groups might be adversely affected by either change.

Since the DCLG minister's policy intention is to abate if pensioner members become re-employed in the public sector should this be taken forward to the scheme board as a recommendation.

Should the proposal to make the criteria for deferred member ill health based on HMRCs serious ill health definition be considered.

Additional recommendations for confirmation

Recommendations from the minutes of the 4th September 2014 were that:

- *The decision to terminate employment should, as now, be taken by the employer. However, the decision over whether a member meets the criteria for an ill health pension and, if so, which Tier, should be taken by the administering authority. This will ensure there is impartiality in the determination over whether or not a member meets the criteria for entitlement to an ill health pension. Employers would be required to provide all relevant information to the administering authority to enable them to make the determination over entitlement BEFORE employment is terminated. LGA to consider the option of putting in place a national framework agreement for IRMPs which Funds could draw upon.*

and that the scheme should:

- *Move to a position where, if a member suffering from ill health agrees to try to carry on working at reduced hours or moves to a job on a lower grade or with less responsibility*

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for a trial period but the trial period does not work out, resulting in eventual ill health retirement, the ill health enhancement is calculated using an APP figure based on the pay the member would have received had their hours or grade not been reduced (even though their CARE benefit up to the point of leaving will not be based on the pay they would have received had their hours or grade not been reduced) provided the reduction in hours or grade occurred within the previous 12 months continuous membership (or such longer period as the employer may allow), rather than the current open ended time limit which applies following a reduction in hours. The same protection should be extended to members who die in service within a 12 month continuous period of membership following a reduction in their contractual hours or grade due to ill health (or such longer period as the employer may allow).

The proposals relating to the Ill Health appeal system will be covered in agenda item 4 in the draft IDRPs consultation paper prepared by DCLG.

Required Decisions

Which proposal does the sub-committee wish to recommend to the Scheme Board

Which savings option/s does the sub-committee wish to recommend to the Scheme Board

Does the sub-committee agree to confirm their recommendations to the Scheme Board ('Additional recommendations for confirmation' above) from the meeting of the 4th September 2014.