

MEETING	PENSIONS COMMITTEE
DATE	7 OCTOBER 2013
TITLE	ACTUARIAL VALUATION 2013 – TREATMENT OF SMALLER EMPLOYER POOLS
PURPOSE	To decide how to treat smaller employer pools in the 2013 actuarial valuation
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1. INTRODUCTION

The Pension Fund's actuary is currently working on the actuarial valuation as at 31 March 2013. Decisions need to be made regarding the pooling arrangements for smaller employers used in previous valuations.

2. CURRENT POSITION

Smaller employers have been grouped into two pools for the purpose of the triennial actuarial valuation. The main reason for the pooling arrangements is to protect individual employers from the full effect of ill-health retirements which could be unaffordable for those with few employees. The risk of ill health retirements is therefore shared across the pool and every employer in the pool pays the same rate of employer contribution.

It is recognised that some employers will therefore be paying an employer contribution rate which could be higher or lower than the rate they would pay if they were not in the pool. Therefore there is some cross subsidy between the employers in the pool. Whilst this is not ideal, all the employers benefitted from the protection against the costs of any ill-health retirements and this was the only available way of mitigating against such an event.

3. ILL-HEALTH INSURANCE

Insurance against ill-health retirements has now become available and is an alternative way of covering the risk to smaller employers. The insurance premium is a percentage of the employers payroll in the same way as employers contributions are calculated. An indicative figure for the cost of this insurance is 1.1% for small employers and the employers contribution rate as calculated by the actuary would be reduced by the percentage paid for insurance. Therefore this is not an extra cost to the employer. The availability of the insurance enables disbanding of the pools and allows each employer to pay their own individual contributions based on their employees.

It is recognised that some employers will face higher increases in their contributions than others as a result of this change and this needs to be carefully managed.

Ill-health insurance will be compulsory for all the smaller employers once the pools are disbanded to ensure that they are not facing the risk of high costs of an ill-health retirement.

3. RECOMMENDATION

Now that ill-health insurance is available it is recommended that the two pools for smaller employers be disbanded and that ill-health insurance be compulsory for the employers concerned.