Annex 9

North Yorkshire Pension Fund – Triennial Valuation

1. The assets and liabilities of the North Yorkshire Pension Fund must be valued by the Fund's actuary every three years. This valuation sets the Employer's Contribution Rate for the following 3 years, i.e. the percentage of pensionable payroll which must be paid over to NYPF on an annual basis as the employer's contribution to employees' pension costs.

2. In calculating the Employer's Contribution Rate the actuary has regard to the following: -
   - investment returns (shares and bonds)
   - inflationary pressures
   - payroll increases
   - longevity / mortality rates
   - the profile of the workforce (age/sex)
   - changes to the Local Government Pension Scheme
   - the surplus or deficit of funds available

3. The Employer's Contribution Rate has two elements:-
   - **Future Service** – the amount payable in respect of the future service of current employees
   - **Past Service** – the amount required to repay the deficit (or shortfall) in the overall level of funding over a period of time.

   A deficit in the funding level is caused by a number of factors:-
   - unfunded early retirements and the award of additional years of service
   - lower than assumed investment returns
   - changes to the Scheme benefits
   - previous "pension holidays"

4. Prior to 2004 the Past Service contribution rate was set at a level that would theoretically remove the deficit over a period of 15 years. However, the 2004 valuation date of 31st March 2004 coincided with a considerable downturn in investment returns, leaving many pension funds with vastly inflated deficits and employers facing greatly increased contribution levels. In order to dampen the impact of this on council tax the government allowed individual funds the opportunity to increase the deficit recovery period from 15 years to a maximum of 30 years.

5. The total deficit of the North Yorkshire Pension Fund as at 31st March 2004 was £524.5 million, which represented a funding level of just 59% of future liabilities. CYC share of the deficit was £97.6 million. NYPF decided to make use of the maximum recovery period of 30 years in order to reduce the pressure on contribution rates but it allowed individual employers within the fund to determine their own recovery period. In 2004/05 CYC had been paying contributions of 17.6% of pensionable payroll and it was decided to

maintain this level of contribution for the 3 years from 2005/06. This extended CYC's recovery period from 15 to 24 years.

6. CYC's Employer's Contribution rate from 2005/06 to 2007/08 comprised of:

Future Service	10.2%
Past Service	7.4%
Total Contribution	**17.6%**
Recovery Period	**24 years**

7. The actuary has just completed the triennial valuation as at 31st March 2007, which shows that, whilst the overall deficit in the Fund has increased to £618.5 million, the funding level has improved to 67.2%. CYC's share of this is £95.3 million. As stated earlier, the actuary makes the valuation using assumptions on the factors listed in Para 2 above. One factor involves an estimate of ill-health retirements per year for each employer. The cost of these retirements is then build in to the Employer's Contribution Rate. Traditionally, the actuary has considerably over-estimated the number of ill-health retirements. For example, it was assumed in 2006/07 that CYC would have 32 ill-health retirements but there were only 9. The actuary has reworked his assumptions on ill-health retirements and reduced the anticipated annual figures by 50%, which in turn allows a small reduction in the Employer's Contribution Rate.

8. The actuary's initial Employer's Contribution Rate for CYC, for the period 2008/09 to 2010/11, is:

Future Service	12.4%
Past Service	6.9%
Total Contribution	**19.3%**
Recovery Period	**21 years**

The main reason for the increase in the Future Service cost is the changes to the Local Government Pension Scheme which come into force in April 2008. These give a number of improved benefits to Scheme members – an improved accrual rate from 1/80th to 1/60th, better death in service benefits, partners and co-habitee pensions, improved enhancement on ill-health retirement – which cost more. The Past Service cost has decreased in line with the improved funding position of the Fund.

9. The actuary has also calculated a Maximum Additional Return Adjustment, which assumes that actual investment returns will be greater than the more prudent assumptions used in the valuation of the Fund as a whole. If CYC wish to include this option the target contribution rate will reduce:

Future Service	12.4%
Past Service	6.9%

Maximum Additional Return Adj.	(1.3)%
Total Contribution	**18.0%**
Recovery Period	**21 years**

10. The inclusion of the Maximum Additional Return Adjustment means that CYC will need to increase its current level of contributions by 0.4% of pensionable payroll (an estimated £285k per year). This will need to be an approved budget growth in the 2008/09 budget.