STAFFORDSHIRE LOCAL GOVERNMENT PENSION FUND

FUNDING STRATEGY STATEMENT

March 2006

1. Introduction

This is the Funding Strategy Statement (FSS) of the Staffordshire Local Government Pension Fund ("the Fund"), which is administered by Staffordshire County Council, ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson, and after consultation with the Fund's employers and investment adviser and is effective from 31 March 2006.

1.1 Regulatory Framework

Members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions, provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2008. An interim review was carried out in March 2006 The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact John Wood, Assistant Director Technical and Pensions in the first instance at e-mail address john.wood@staffordshire.gov.uk or on telephone number (01785 276335).

2. Purpose

2.1 Purpose of FSS

The Office of the Deputy Prime Minister (ODPM) has stated that the purpose of the FSS is:

- *"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*
- *to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex A.

2.3 Aims of the Funding Policy

The objectives of the Fund's funding policy include the following:

- to ensure the long-term solvency of the Fund to ensure that sufficient funds are available to meet all pension liabilities as they fall due for payment;

- to minimise the degree of short-term change in the level of each employer's contributions;

- to minimise the long-term cost of the scheme by;

    - adopting a strategic asset allocation that matches assets to liabilities;

    - adopting an investment strategy that balances risk and return

- to reflect the different characteristics of employing bodies in determining contribution rates where the Administering Authority considers it reasonable to do so;

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations;

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "*future service rate*"; plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of up to 20 years that varies depending upon the advice of the actuary please refer to table in 3.7.1 below for more details.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.3.

[1] See Regulation 77(4)
[2] See Regulation 77(6)

Details of the outcome of the Actuarial Valuation as at 31 March 2004 can be found in Appendix B including an analysis at Fund Level of the *Common Contribution Rate*.

Any costs of non ill-health early retirements may be paid as by instalments shortly after the decision in accordance with the Administering body's requirements.Following the 2004 Actuarial Valuation the period over which the cost of 'stain' could be spread was reduced from 7 years to 5 years on advice from the actuary.

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate.   Employers should discuss with the Administering Authority before making one-off capital payments.

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

'Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*.   This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.

The fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis.   Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund. They vary by type of member reflecting the different profile of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2004 valuation, it is assumed that the Fund's equity investments will deliver an average additional return of 2.25% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation.

The same financial assumptions are adopted for all ongoing employers.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* of valuation with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 *Employers that do not admit new entrants*

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the *Attained Age* funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the Actuary's report on the valuation.

Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's asset share.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;

- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation where Hymans Robertson calculates asset shares – see section 3.6 below, including, but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

3.6 Asset Share Calculations for Individual Employers

The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.

The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below.

Type of Employer	***Maximum* Length of Deficit Recovery Period**
Statutory bodies with tax raising powers e.g. District Councils	20 years
Best Value Admission Bodies e.g. contractors	Remaining Working Lifetime (suitable to an acceptable covenant).
Bodies with either no or very few active members at this valuation	Deficit to be recovered by a fixed monetary amount over a period to be agreed with the body or its successor not to exceed 10 years.
All other types of employer	15 years

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2005 for 2004 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.2 Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their **minimum** contributions.

However, to help meet the stability requirement, employers may prefer not to take such reductions.

NOTE for the 2004 valuation where there is a small surplus then the contribution rate paid in 2004-05 has been maintained at that level for reasons of prudence given the overall assumptions underpinning the valuation.

3.7.3 Phasing in of Contribution Rises

Employers may opt to phase in contribution rises as follows:

- for major tax raising bodies 6 years where the annual increase in contribution is above 2% per annum and 3 years where the annual increase would be 2% per annum or less

- bodies who have no active members at this valuation will not be phased but are subject to the special arrangement referred to in table 3.7.1 above

- all other bodies 3 years except where a contract is over a shorter period than 3 years – in which case it is the remaining contract period.

3.7.4 Phasing in of Contribution Reductions

Any contribution reductions will be phased in over 6 years for all employers except Best Value Admission Bodies who can take the reduction with immediate effect.

3.7.5 The Effect of Opting for Longer Spreading or Phasing-In

Employers which are permitted and elect to use a longer deficit spreading period than was used at the 2001 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.7.6 Pooled Contributions

3.7.6.1 Smaller Employers

The Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service. The maximum number of active members to participate in a pool is set at 25 employees.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not permitted to participate in a pool. Best Value Admission Bodies are also ineligible for pooling.

Employers who are eligible for pooling at the 2004 valuation will be advised of their contribution rate and that it is subject to a pooling arrangement unless they seek in writing to be excluded from the pool.

3.7.6.2 Other Contribution Pools

Schools are also pooled with their funding Council.

Those employers that have been pooled are identified in the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report.

3.8 *Admission Bodies ceasing*

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

(a) For Best Value Admission Bodies, the assumptions applying at the contract end would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

(b) For non Best Value Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.

(c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

3.9 Early Retirement Costs

3.9.1 Non Ill Health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire.

The additional costs of premature retirement are calculated by reference to these ages.

3.9.2 Ill health monitoring

Optional paragraph for funds with small allowances for ill health retirements.

The Fund monitors each employer's, or pool of employers, ill health experience on an ongoing basis. If the cumulative number and/or cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed from time to time, normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2004, the proportion held in equities and property was 86% of the total Fund assets.

The investment strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be 100% investment in index-linked government bonds.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

4.2 Consistency with Funding Basis

The Fund's investment adviser's current *best estimate* of the long-term return from equities is around 3% a year in excess of the return available from investing in index-linked government bonds.

In order to reduce the volatility of employers' contributions, the funding policy currently anticipates returns of 2.25% a year, that is 0.75% a year less than the *best estimate* return and is considered by the actuary to be the maximum return consistent with a prudent approach to the valuation.

The anticipated future returns from equities used to place a value on employers' liabilities only relate to the part of the Fund's assets invested in equities (or equity type investments), currently around 75% of all the Fund's assets.

Non equity assets invested in bonds, property and cash are assumed to deliver long-term returns of 0.2%pa more than the prevailing redemption yield on Government bonds.

In this way, the employer contributions anticipate returns from Fund assets which in the Fund actuary's opinion there is a better than 50:50 chance of delivering over the long-term (measured over periods in excess of 20 years).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 5 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

The Administering Authority will review its approach to asset allocation between individual employing bodies in the Fund and assess the costs and benefits of an alternative approach.

4.4 Intervaluation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities. It reports back to employers through the Consultative Forum.

5. Key Risks & Controls

5.1 Types of Risk

The Administering Authority's has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

5.2 Financial Risks

Risk	**Summary of Control Mechanisms**
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress at three yearly valuations for all employers.* *Inter-valuation roll-forward of liabilities between formal valuations at whole fund level, provided on a six monthly basis.*
Inappropriate long-term investment strategy.	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.* *Regular review of the position and use of independent advisors to the Pensions Panel.* *Increased transparency and accountability through the Pensions Committee and Consultative Forum introduced in 2004.*

5.2 Financial Risks Continued

Risk	Summary of Control Mechanisms
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	*Inter-valuation monitoring, as above.* *Some investment in bonds helps to mitigate this risk.*
Active investment manager under-performance relative to benchmark.	*Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.* *Formal three yearly review of each investment manager.*
Pay and price inflation significantly more than anticipated.	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.* *Inter-valuation monitoring, as above, gives early warning.* *Some investment in bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.*
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	*Seek feedback from employers on scope to absorb short-term contribution rises.* *Mitigate impact through deficit spreading and phasing in of contribution rises.* *Government is reviewing the affordability and sustainability of the scheme.*

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *The Fund Actuary has direct access to the experience of over 50 funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the Valuation.*
Deteriorating patterns of early retirements	*Employers are charged the extra cost of non ill-health retirements following each individual decision.* *Employer ill health retirement experience is monitored.* *Government changes to regulations to increase the minimum pension age from 50 to 55 and to have a normal retirement age of 65 by abolishing the 'rule of 85'.*

5.4 Regulatory Risks

<table>
<tr><th>Risk</th><th>Summary of Control Mechanisms</th></tr>
<tr><td>Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees</td><td rowspan="2">The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.

It considers all consultation papers issued by the ODPM and comments where appropriate.

The Administering Authority will consult employers and employees where it considers that it is appropriate.</td></tr>
<tr><td>Changes to national pension requirements and/or Inland Revenue rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006</td></tr>
</table>

5.5 Governance Risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer’s membership (e.g. large fall in employee members, large number of retirements).	*The Administering Authority has a close relationship with employing bodies and is proposing to develop a Service Level Agreement with all employing bodies.* *The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer’s contributions (under Regulation 78) between triennial valuations* *Deficit contributions may be expressed as monetary amounts.*
Administering Authority not advised of an employer closing to new entrants.	
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	*The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.* *Regular meetings with District Council colleagues through the Staffordshire Treasurer’s Association.*
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: • *Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.* • *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* • *Vetting prospective employers before admission.* • *Setting a minimum limit of 20 employees for prospective employers.* • *Where permitted under the regulations requiring a bond to protect the scheme from various risks including, but not necessarily limited to, the extra cost of early retirements on redundancy if the employer failed.*

Annex A – Responsibilities of Key Parties

The Administering Authority should:-

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain and FSS and a SIP, both after proper consultation with interested parties; and
- monitor all aspects of the fund's performance and funding and amend FSS/SIP

The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:-

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

Appendix B

Outcome of the Triennial Valuation as at 31 March 2004

Financial Assumptions

Financial Assumptions	Mar 2004 Unsmoothed		Mar 2001 Smoothed	
	% p.a. Nominal	% p.a. Real	% p.a. Nominal	% p.a. Real
Discount Rate	**6.5%**	**3.6%**	**6.0%**	**3.2%**
Pay Increases	**4.4%**	**1.5%**	**4.3%**	**1.5%**
Price Inflation/Pension Increases	**2.9%**	**-**	**2.8%**	**-**

Funding Level

	£m
Net Value after Credit for Future Excess Returns: **Employee Members** **Deferred Pensions** **Pensions**	 **915.4** **178.7** **687.8**
(a)-(b) Total Net Liabilities	**1,781.9**
Assets	
Market Value of Assets	**1,506.0**
Contributions due for augmentations/redundancies	**6.9**
Total Value of Assets	**1,512.9**
Surplus (Deficit)	**(269.0)**
Funding Level	**85%**

Contribution Rates at Fund Level

Employer Contribution Rates	% of Payroll
Future Service Funding Rate	11.5%
Past Service Adjustment – 15 years spread	4.7%
Total Common Contribution Rate	16.2%