



PUBLIC SERVICE PENSIONS BOARD

ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE, 2012

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**BOARD OF DIRECTORS
AS AT 30 JUNE 2012**

BOARD OF DIRECTORS

Hon. Kenneth Jefferson JP
*Financial Secretary
Chairman*

Mrs. Sonia McLaughlin JP
*Deputy Financial Secretary
Deputy Chairman*

Mrs. Jewel Evans Lindsey
Managing Director & Administrator

Mr. Eric Bush JP
Chief Officer, Portfolio of Internal & External Affairs

Mr. James Watler
President, Civil Service Association

Mr. Wayde Bardswell
Crown Counsel, Legal Department

Mr. Nick Freeland
Private Sector Representative

Mr. Leonard N. Ebanks JP
Private Sector Representative

Mr. Kirkland Nixon MBE, QFSM, JP
Pensioner's Representative

Ms. Bethany Powery
Executive Secretary to the Board

BOARD ADVISORS AS AT 30 JUNE 2012

Professional Services

Actuary

Subramanian Sundaresan
Glactuary Inc.

Auditor

Office of the Auditor General
Grand Cayman
Cayman Islands

Investment Managers

Independent Franchise Partners
London, England
U.K.

PIMCO
Newport Beach, California
U.S.A

ING Clarion Real Estate Securities
London, England
U.K.

GMO
Boston, Massachusetts
U.S.A

Attorneys

Pillsbury Winthrop Shaw Pittman, LLP
New York, NY
U.S.A.

Custodian

CIBC Mellon
Toronto, Ontario
Canada

Attorney General's Chambers
C I Government
Grand Cayman
Cayman Islands

Investment Advisors

Advisory Capital Group
Toronto, Ontario
Canada

Managing Director & Chairman's Message

During the course of the fiscal year ended 30 June 2012 the Fund experienced a relatively strong performance which was tapered by the final quarter performance mostly due to fears over the stability of the European market. Particularly challenging for pension plans was the dual effect of fear and uncertainty that pervaded the financial markets. Despite these challenges the Fund produced a return of 7.3% for the fiscal year ended 30 June 2012, beating the benchmark by 2.2%.

A potential Greek exit from the euro and anxieties over Europe's inability to craft a coordinated banking or political plan of integration once again took center stage, weighing negatively on global equities across geographies and sectors. Additionally, a growing sense developed over the final quarter that China was slowing and consequently would be unable to prop up global growth as it did in 2009.

Finally, recovery in the U.S. remained uneven and noticeably downshifted during the final quarter from the 3rd quarter with regards to manufacturing output, new job creation and consumer confidence. By the end of the fiscal year it was difficult to find a major global economy (developed or developing) where economic fundamentals were improving.

Nevertheless, the Fund was able to generate relatively positive returns.. All four investment managers produced positive year-to-date returns with ING Clarion leading the pack with a return of 13.5% despite falling behind its benchmark by 1.5%. PIMCO was the strongest performer when compared to its respective benchmark and produced a 5.9% return over the course of the fiscal year and beat its benchmark by 3.5%.

Finally, for the first time in the history of the PSPB a qualified opinion was given by the Auditor General on the financial statements for the fiscal year ended 30 June 2012. The qualification on the financial statements for the fiscal year was given due to the Auditor General's inability to verify the accuracy and existence of overpaid contributions amounting to \$1.7M. Steps have already begun toward rectifying this situation and it is the intention of the PSPB to have this matter addressed by the end of the fiscal year ending 30 June 2013.



Managing Director



Chairman

OVERVIEW OF THE PUBLIC SERVICE PENSIONS BOARD

Background Information

The head office of the Board is located at 133 Elgin Avenue in George Town and responsibilities of the Board include but are not limited to, administering the Plans, investing the Public Service Pensions Fund (the Fund), communicating with the Plan employers and participants, recommending contribution rates in accordance with the latest actuarial valuation, and recommending amendments to the public sector pension plans and quantifying their financial impact as needed. The main functions of the Fund are to receive prescribed contributions, invest and pay out pension benefits as they become due under the Law. The Fund is vested in the Board.

The Public Service Pensions Board (the Board) was re-established as a Statutory Authority on 14 April 1999, by virtue of the Public Service Pensions Law, 1999, which repealed the Pensions Law (1999 Revision) and was since revised in 2000, 2004 and 2011 culminating in the Public Service Pensions Law (2011 Revision) (the Law). The Law with its amendments governs the Public Service Pensions Plan (the Plan).

The Fund has a defined benefit and a defined contribution component. All employees who joined the Plan prior to 14 April 1999 were enrolled in the Defined Benefit Part of the Plan. Those employees joining after 14 April 1999 were enrolled in either one of the two components depending on their circumstances. The Public Service Pensions (Amendment and Validation) Law, 2000 which was passed on 20 June 2000 amended the date after which all new employees were to be enrolled in the Defined Contribution Part of the Plan to 1 January 2000.

Contribution Rates

Employees who participate in the Plan contribute at the rate of 6% of pensionable earnings and employers contribute a matching 6%. Contribution rates to cover additional defined benefit costs are recommended by the Board based on the latest Actuarial Valuation. This additional defined benefit cost largely reflects the eventual liability of benefits related to the past service at the valuation date. The full liability for additional defined benefit costs is borne by each respective employer.

Payment of Benefits

The Law provides for payment of retirement benefits to eligible participants. The normal retirement age is 60. However, participants with more than 10 years of qualifying service may retire at age 55 with unreduced benefits. The maximum amount of pension payable shall not exceed two-thirds of highest pensionable earnings drawn by a participant at any time during the course of his/her service. The formula used to calculate retirement benefits varies

OTHER PLANS UNDER ADMINISTRATION

***Ex-Gratia* Pensions**

The Board administers the payment of *Ex-Gratia* Pensions on behalf of the Cayman Islands Government under Section 6(1)(i) of the Public Service Pensions Law (2011 Revision), the Public Service Pensions Law (2011 Revision) Public Service Pensions (*Ex-Gratia* Pensions) Regulations (2011 Revision) and the Public Service Pensions (*Ex-Gratia* Pensions) (Amendment) Regulations 2011, which cover these transitional provisions. The *ex-gratia* recipients are former Caymanian civil servants over the age of 60, who were not in receipt of any pension, allowance, gratuity or other retirement or termination benefit. Those with an aggregate of four or more years but less than 10 years of service receive an *ex-gratia* pension of \$200 per month. Those with 10 or more years of service received an *ex-gratia* pension of \$300 per month. It should be noted that these payments have been changed to \$300 and a minimum of \$450 respectively for *ex-gratia* pensioners approved after the change in legislation in 2011, however *ex-gratia* payments are not subject to increase for cost of living nor augmented annually across the board.

The Government makes a quarterly pre-payment into the Fund to cover the expected payments for *Ex-Gratia* Pensions for each quarter.

The Board does not charge a fee for the administration of the *Ex-Gratia* Pensions.

Parliamentary Pensions Plan

The Board began to administer the Parliamentary Pensions Plan (the PPP) with effect from 1 September 1999.

Benefits under the PPP were paid directly from the Government's General Revenue on a monthly basis for the first eight months of 1999. For the remainder of 1999, the Government made quarterly pre-payments to the Fund to cover the payment of PPP pensions. This "pay as you go" arrangement continued until the passage of the amendment to the Parliamentary Pensions Law in August 2004, which mandated that the payment of parliamentary pensions be made from the Fund. Under this new arrangement monthly pension contributions are made to the Fund in accordance with the latest Actuarial Valuation.

The Elected Members of the Legislative Assembly participate in the PPP as governed by the Parliamentary Pensions Law, 2004. These members contribute at a rate of 6% of pensionable earnings and the Government contributes 95% as prescribed by the Board based on the 1 January 2005 actuarial results. These contributions have been pooled for investment purposes with those of the Fund.

Judicial Pension Plan

Judges of the Grand Court of the Cayman Islands participate in the Judicial Pensions Plan (JPP). Judges' pensions fall under the remit of His Excellency the Governor as set out in The Judges' Emoluments and Allowances Law (2006 Revision). Members of the JPP contribute at a rate of 10% of pensionable earnings; the Government contributes a matching 10% and an additional 21% of pensionable earnings in accordance with the 1 January 2005 actuarial valuation for the Judges in the defined benefit part of the JPP. The assets duly belonging to the Judges of the Grand Court are under the administration of the Board and pooled with the assets of the other Plans for investment purposes.

The JPP started in 1997, notwithstanding the absence of the requisite order setting out Plan details and specifics relating to administration of the Plan. The Judges Emoluments and Allowances Order was effected by His Excellency the Governor in 2005

FINANCIAL OVERVIEW

Growth of the Fund

The Public Service Pensions Fund (the "Fund") continues to be in relatively good financial health. The Fund holds a diversified portfolio of bonds and equity securities that, over the long term, provides above average returns with minimized variability.

The Fund is subject to an actuarial valuation every three years which assesses the financial viability of the Fund, and the adequacy of the contribution rates for funding of the Plan. The Board also uses the results of funding valuations as the basis for recommendations regarding contribution rates. An actuarial valuation was carried out 2011 based on assets and liabilities as at 1 January 2011.

The results of the actuarial valuation as at 1 January 2011 determined the past service liability to be approximately \$495 million. The calculation is made based on pensionable earnings as of the valuation date and reflect the liability in respect of benefits actually earned up to 31 December 2010. Although the Fund remains underfunded, the actuaries determined that the liability for inactive members (existing pensioners and beneficiaries, and those with deferred pensions) is sufficiently covered by available assets. It should be noted that the full liability for additional defined benefit costs is borne by each respective employer.

As at 30 June 2012 the net assets available for benefit stood at just over \$356 million, which represents a \$15.3 million or a 4.5 % increase in net assets from 30 June 2011. The market value of the Fund (inclusive of local & foreign investment as well as cash) at the same date was approximately \$357 million, representing an increase of approximately \$29 million.

Investment Policy

The stated investment objective of the Board is “To preserve capital while adding value above its policy benchmark.” The Board is committed to the investment objective, and has actively managed investment portfolios which are diversified, within the constraints of the Law as well as the Board’s investment policy, to ensure that risk is not unduly concentrated in any one type of investment or area of currency. The Board adheres to internationally recognized benchmarks, and has established an asset mix policy, in collaboration with its investment advisors, for the purpose of achieving long-term returns of 3–4% above inflation. The asset mix policy establishes the percentage holdings by asset class and permissible ranges within the broad classes of investments. Within this framework, each investment manager is not limited by sector or country restrictions and is able to make discretionary decisions to capitalize on market opportunities. The Fund is biased to equities over the long term in order to achieve optimum returns. Equities, when compared to other classes of investments over the long term, have historically proven to generally outperform other forms of investments.

Market Summary

Global Equities

IFP delivered a return of negative 1.8% over the quarter to deliver a return of positive 8.0% over the year-to-date period and positive 7.9% over the 1-year period. Value added was positive over the quarter, year-to-date and 1-year periods, reflecting strong value added to the broader market. Longer term value added is impressively positive by all standards of comparison.

In comparison, GMO delivered a negative return of 3.7% over the quarter, resulting in a positive 5.6% return for the year-to-date period. Over the 1-year period, however, positive performance has been erased with the 1-year return recording a negative 2.5% return. Value added over the quarter, year-to-date and 1-year periods, is negligible to 4.0%. Longer term, being the 2 and 3-year periods, value added is positive.

Fixed Income

Over the year-to-date period, bonds within the Fund earned 5.9% while the broader benchmark index earned only 2.4%, producing a strong value added of 3.5%. While the year-to-date performance was impressive, the 1-year performance of 6.0% was short of the broader benchmark performance by 1.5%. Longer term, being the trailing 2 and 3 year periods, the performance was marginally positive.

Regarding relative ranking, bond performance placed at the 8th percentile rank for the quarter ending 30 June and the 1st percentile over the year-to-date period. Over the 1-year period, the relative ranking was low and below average at the 93rd percentile rank. Longer term, being the 2 and 3-year periods, relative ranking was below to above average.

Real Estate Equities

Global listed property operating companies generated positive total returns for the quarter despite economic and political uncertainty which weighed on the broader equity markets. Listed property companies delivered a 1.6% return, led by REITs in North America. Year-to-date, the real estate strategy generated an impressive 13.5% return while performance over the 1-year period was marginally positive at 1.1%.

Longer term, being the 4-year period, performance is positive at 2.0% but slightly below its broader benchmark of 2.7%. Over the reporting period ended 30 June, relative ranking was above average at the 68th percentile for the quarter. However, for the 1-year period and longer term trailing periods, relative ranking remains below average.

Fund Performance

During the 4th quarter, 2012, overall performance of the Fund was marginally negative at 40 basis points but meaningfully ahead of the policy benchmark of negative 2.6% by 2.2%. The year-over-year return was 6.2% ahead of the benchmark of negative 80 basis points by an astonishing 7.0%. Longer term, value added remained strongly positive with the 4 and 5-year periods delivering 7.8% and 6.1%, respectively.

On a relative basis, the Fund's performance ranked at the 16th percentile rank for the quarter ended 30 June and at the 19th percentile rank over the 1-year period. Longer term, being the 5-year period, the Fund's relative ranking is high and above average at the 5th percentile; and the Fund's long term risk return trade-off is low and above the norm when measured against a peer universe sample of about 119 pension funds.

Credited Rate of Return

The Credited Rate of Return (CRR) on contributions, calculated annually, is based on a three-year geometric average of actual returns, net of expenses, which amounted to a positive 9.79% for calendar year 2011. As a result all participant contribution accounts would have been credited at the beginning of calendar year 2012 with an interest base of 9.79%. Table 1 indicates the CRR earned for the period 2004 to 2011 expressed in percentages.

Table 1

Year	2004	2005	2006	2007	2008	2009	2010	2011
Return	4.40%	7.85%	12.78%	4.40%	-15.56%	11.77%	9.85%	7.30%
CRR	2.32%	6.77%	8.29%	8.29%	-0.41%	-0.49%	1.21%	9.79%

APPENDIX 1

Copy of Public Service Pensions Board Certified Financial Statements and Notes for the year ended 30 June 2012

PUBLIC SERVICE PENSIONS BOARD

FINANCIAL STATEMENTS

June 30, 2012



**Public Service Pensions Board
Financial Statements
30 June 2012**

STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements have been prepared by the Public Service Pensions Board in accordance with the provisions of the *Public Management and Finance Law (2012 Revision)*.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law (2012 Revision)*.

As Chairman and Managing Director, we are responsible for establishing; and have established and maintain a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of the Public Service Pensions Board.

As Chairman and Managing Director we are responsible for the preparation of the Public Service Pensions Board financial statements and for the judgements made in them.

The financial statements fairly present the statement of net assets available for benefits, statement of changes in net assets available for benefits and statement of cash flows for the financial year ended 30 June 2012.

To the best of our knowledge, we represent that these financial statements:

- (a) are completely and reliably reflect the financial transactions of Public Service Pensions Board for the year ended 30 June 2012;
- (b) fairly reflect the financial position as at 30 June 2012 and performance for the year ended 30 June 2012;
- (c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General has been provided access to all the information necessary to conduct an audit in accordance with International Standards of Auditing.

Mr. Kenneth Jefferson, JP
Chairman
Public Service Pensions Board

Date- 9 July 2013

Jewel Evans Lindsey
Managing Director
Public Service Pensions Board

Date- 9 July 2013

Basis for Qualified Opinion

Contributions

I was unable to verify the accuracy and existence of Overpaid Contributions amounting to \$1.7M due to lack of evidence to verify that the amounts were recorded on the books of the creditors and absence of adequate subsidiary schedule showing individual participants per entity. I am unable to perform alternative audit procedure to verify the existence of the account.

Qualified Opinion

In my opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Public Service Pensions Board as at 30 June 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

I draw attention to notes 13 and 14 to the financial statements which describe that the 2011 and 2008 Actuarial Valuation Reports which were completed on April 2012 and March 2009 and submitted to the Financial Secretary on April 2012 and April 2009 respectively, have not been accepted and approved as at the date of this report. As Cabinet has not yet accepted and approved the 2011 or the 2008 reports and the recommended rate of contributions contained therein, both contributions received and contributions receivable in these financial statements are reflective of the 2005 actuarial valuation report, which is the last approved rates.

As discussed in Note 14 to the financial statements, the actuary has determined that the continuation of the current scenario of the total plan contributions (Including both Defined Benefit and Defined Contribution contributions) for the public service pensions plan will be insufficient to meet benefit payments and expenses. The actuary further states that the parliamentary pensions plan continues to be severely underfunded. Assets allocated to this plan covers only 22% of the the past service obligations and insufficient to cover the benefits currently in payment.

My opinion is not qualified with respect to these matters.

Other Matters

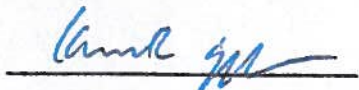
1. The *Public Service Pensions Law (2011 Revision)*, *Parliamentary Pensions Law, (2010 Revision)* and *The Judges' Emoluments and Allowances Order, 2005* separately state that

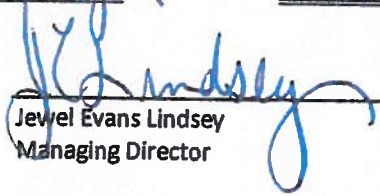
"...the Board shall prepare and submit to the Auditor General in respect of that year a balance sheet and a statement of revenue and expenditure by the Board during the year; and such other financial statements as may be required..."

The Public Service Pensions Board pooled the Funds of each of the Plan into one set of financial statements, and did not identify or disclose the investments and administrative expenses for each Fund.

Public Service Pensions Board
Statement of Net Assets Available for Benefits
As at 30 June 2012
(Expressed in Cayman Islands Dollars)

	2012	2011
	\$000	As restated \$000
Assets		
Current assets		
Cash and cash equivalents (Note 3)		
Cash	1,880	5,617
Term deposits	55	8,472
Investments, at fair market value (Note 4)	357,497	328,848
Receivables		
Contributions receivable		
Employee's contributions	1,495	1,120
Employer's contributions	1,429	1,120
Employer's - Additional defined benefit costs	543	509
Pension Grants receivable		
Judiciary grant receivable	62	62
Other receivables	217	392
Prepayments		
PSP Fund surplus	-	28
Prepaid expenses	3	9
Total current assets	363,182	346,176
Non-current assets		
Fixed assets (Note 5)	22	25
Intangibles		
Pension administration system – Work in process (Note 20)	556	215
Total non-current assets	578	240
Total assets	363,760	346,416
Liabilities		
Current liabilities		
Benefits due (Note 12)	2,118	483
Overpaid contributions (Note 6)	1,745	1,745
Accounts payable (Note 20)	269	322
Overpaid grants (Note 6)	244	244
PSP deferred benefit liability	51	-
Investment management fees	13	8
Total current liabilities	4,440	2,802
Non-current liabilities		
Due in respect of Judiciary contributions (Note 9)	3,021	2,579
Total liabilities	7,461	5,381
Net assets	356,298	341,035
Represented by:		
Net assets available for benefits:		
Accumulated fund	356,298	341,035


Kenneth Jefferson, JP
Chairman


Jewel Evans Lindsey
Managing Director

The accounting policies and notes on pages 9 to 25 form part of these financial statements.

Public Service Pensions Board
Statement of Cash Flows
For the year ended 30 June 2012
(Expressed in Cayman Islands Dollars)

	2012	2011
	\$000	\$000
Cash flows from operating activities		
<i>Receipts</i>		
Contributions received from employees	12,850	13,048
Contributions received from employers	12,368	13,072
Other income received	227	2,131
Net investment income received	60	86
Total	25,505	28,337
<i>Payments</i>		
Benefits paid to participants - Public Service	(26,089)	(25,250)
Administrative expenses paid	(3,296)	(3,488)
Investment management fees and other expenses paid	(1,660)	(1,726)
Benefits paid to participants - Parliamentary	(1,203)	(1,218)
Benefits paid to participants - Ex-Gratia	(1,043)	(553)
Total	(33,291)	(32,235)
Net cash provided by operating activities	(7,786)	(3,898)
Cash flows from investing activities		
Purchase of investments	(8,333)	-
Purchase of fixed assets	(10)	(10)
Proceeds on the disposition of fixed assets	9	-
Net cash applied to investing activities	(8,334)	(10)
Cash flows from financing activities		
Contributions received from employers - Additional defined benefit	2,695	2,912
Ex-gratia grant and prepaid Ex-gratia grant	1,111	407
Net cash received from financing activities	3,806	3,319
Cash flows from judiciary contributions		
Contributions received from employer	111	59
Contributions received from employees	92	59
Benefits paid to participants	(43)	(186)
Net cash received (provided) from judiciary contributions	160	(68)
Net (decrease) in cash and cash equivalents	(12,154)	(657)
Cash and cash equivalents at beginning of year	14,089	14,746
Cash and cash equivalents at end of year (Note 3)	1,935	14,089

The accounting policies and notes on pages 9 to 25 form part of these financial statements.

1. Introduction and background information

a. Introduction

The Public Service Pensions Board (the "Board") was re-established as a Statutory Authority on 14 April 1999. Principal place of business is the Government Administration Building, 133 Elgin Avenue, Grand Cayman, Cayman Islands. The Board's responsibilities include, but are not limited to, administering the government sponsored pension plans which consist of the Public service pensions, Parliamentary pensions, Judicial pensions and Ex-gratia pension plans (the "Plans"), administering the Pensions fund (the "Fund"), investing all contributions received from participants of the aforementioned Plans into the Fund, providing pension benefits as required under the Law, communicating with the Plans' stakeholders, recommending contribution rates to the government in accordance with the latest actuarial valuation and determining the financial implications of any amendments to the Plans. The Fund is governed by the *Public Service Pensions Law (2011 Revision)* (the "Law").

b. General background information

The Public service pensions, the Parliamentary pensions and the Judicial pensions plans consist of two parts: a Defined benefit part and a Defined contribution part. All employees who joined the Plan prior to 14 April 1999 were enrolled in the Defined benefit part of the Plan. Those employees joining after 14 April 1999 were enrolled in either one of the two parts depending on their circumstances. The Public Service Pensions (Amendment and Validation) Law, 2000 which was passed on 20 June 2000 amended the date after which all new employees were to be enrolled in the Defined contribution part of the Plan to 1 January 2000. Employees who received Contracted Officers Supplement (COS) were exempted from participation in the Plan through the Public Service Pensions (Amendment and Validation) Law, 2000. However, when existing contracts were renewed, employees no longer provided with COS became eligible to join the Defined contribution part of the Plan.

c. Contributions

Employees who participate in the Plan contribute at the rate of 6% of pensionable earnings and employers contribute a matching 6%. Contribution rates to cover additional defined benefit costs are recommended by the Board based on the latest actuarial results and were as follows:

	2005		2002	
	<u>Defined</u> <u>Benefit*</u>	<u>Defined</u> <u>Contribution</u>	<u>Defined</u> <u>Benefit*</u>	<u>Defined</u> <u>Contribution</u>
Cayman Islands Government (See note 19)	28.53%	1.00%	10.00%	1.00%
Cayman Islands Monetary Authority	1.00%	1.00%	1.00%	1.00%
Cayman Turtle Farm (1983) Ltd.	9.44%	1.00%	10.00%	1.00%
Civil Aviation Authority	26.10%	1.00%	10.00%	1.00%
University College of the Cayman Islands	3.99%	1.00%	3.99%	1.00%
Public Service Pensions Board	1.00%	1.00%	10.00%	1.00%
The Water Authority	9.57%	1.00%	0.26%	1.00%
Cayman Islands Airport Authority	13.14%	1.00%	N/A	1.00%
Health Services Authority	1.00%	1.00%	N/A	1.00%

2. Significant accounting policies (continued)

They are prepared to assist participants and others in reviewing the activities of the Fund for the fiscal period, but they do not portray the funding requirements of the Plan or the benefits security of individual plan participants.

Basis of preparation

The financial statements are presented in Cayman Islands dollars.

Changes in accounting policies

When presentation or classification of items in the financial statements is amended or accounting policies are changed, comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so.

Reporting period

The reporting period is the year ended 30 June 2012.

Judgments and estimates

The preparation of financial statements is in conformity with International Financial Reporting Standards that requires judgments, estimates, and assumptions affecting the application of policies and reported amounts of assets and liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Comparative figures

The presentation of the prior year financial statements has been changed to include a comparison of actual amounts with amounts in the original and final budget. Comparative figures are restated to ensure consistency with the current period unless it is impracticable to do so.

The significant policies adopted by the Board are as follows:

Contributions

Contributions are accounted for on the accrual basis. Actuarial valuations with an effective date of 1 January 2011 and 2008 were conducted for three separate Plans; the Public service pensions plan, the Parliamentary pensions plan and the Judiciary pensions plan. These Actuarial valuation reports were completed on 12 April 2012 and 17 March 2009 and submitted to the Financial Secretary on 19 April 2012 and 28 April 2009, respectively. As the Cabinet has not yet accepted and approved the 2011 and 2008 reports and the recommended rate of contributions contained therein, contributions received and contributions receivable are based on the 2005 Actuarial valuation which was accepted by the Board, approved by Cabinet, and tabled in the Legislative Assembly on 9 November 2006.

3. Cash and cash equivalents (continued)

The detail of the term deposits at Cayman National Bank is shown below:

Account number	Principal \$000	Value date	Maturity date	Interest rate
TD-013-06149	55	05 June 2009	07 December 2012	0.1250%

4. Investments

The appointed Investment managers manage the Fund's investments under discretionary investment agreements which conform to the list of Approved Investments detailed in the Second Schedule of the *Public Service Pensions Law (2011 Revision)*.

Investment and Market conditions, per Advisory Capital:

a) Investment and Market conditions¹

The Fund (In General)

Over the 2nd quarter of 2012, economic and political uncertainty weighed on pension plan total returns resulting in losses and further compounding of years of problems from weak stock markets and low interest rates. Typically, pension plans saw performance improvements realized in the 1st quarter erased through the 2nd quarter. As a result, the typical U.S. defined benefit pension plan invested 60% in equities and 40% in fixed income would have earned negative 1.8% over the quarter and 5.5% on its investments for the 6- months ending June 30, 2012. PSPB, on the other hand, earned a negative .4% over the quarter and a positive 7.3% over the 6-months ending June 30, 2012.

Global equities

On a relative basis, IFP Global Franchise (Equity investment manager) global equities ranked at the 7th percentile over the quarter and at the 1st percentile rank over the 1-year period. Longer term, over the trailing 4 years, the relative ranking was also at the 1st percentile of the comparative peer sample universe of managers. On a relative basis GMO Global Equity Allocation Fund (Equity investment manager) global equities ranked at the 18th percentile over the quarter and at the 25th percentile rank over the 1-year period. Over the longer term, GMO ranked above average across all trailing time periods.

Real estate equities

Over the reporting period, relative ranking was above average at the 68th percentile for the quarter. However, for the 1-year period and longer term trailing periods, relative ranking remains below average.

¹ Mary Linton, CFA, "Cayman Islands Public Service Pensions Board, 'Performance Review for Periods Ending June 30, 2012'," Advisory Capital Group Canada Inc., July 26, 2012.

6. Overpaid contributions/Grants

Overpaid contributions are contributions, both employee and employer, which are paid over the amount of pension due or on behalf of employees not eligible to participate in the Plan. These overpayments will be netted with receivables or refunded at the request of the employer once a proper reconciliation of the overpaid contributions has been carried out.

	30 June 2012	30 June 2011
Contributions	\$000	\$000
Overpaid contributions - Additional defined benefit cost	1,458	1,458
Overpaid contributions - Employee	158	158
Overpaid contributions - Employer	129	129
Total	1,745	1,745

	30 June 2012	30 June 2011
Pension grants	\$000	\$000
Ex-Gratia – Employer	244	244
Total	244	244

7. Ex-gratia and Parliamentary payments

Ex-gratia pensions

The Board administers the Ex-gratia Pension Plan ("Ex-Gratia") on behalf of the Cayman Islands Government as set out in the *Public Service Pensions (Ex-Gratia Pensions) Regulations (2011 Revision)*.

Eligibility for Ex-gratia Pension as set out by said law:

- (1) Any Caymanian (as defined in the *Immigration Law (2011 Revision)*) who-
 - (a) is sixty years of age or older; or
 - (aa) resides in the Islands;
 - (b) is not sixty years of age but who has been certified by the Chief Medical Officer of the Government as being permanently disabled; and
 - (c) held an office in the Public Service or the Other Public Service for any period of at least four or more years in the aggregate; and
 - (d) during at least four years (in the aggregate) of his said service, was not entitled to a pension or did not receive a contracted officer's supplement or similar compensation.

8. Assets allocated to Parliamentary pensions fund (continued)

The Parliamentary pensions fund, since inception, has been pooled for investment purposes with those of the larger Public service pensions fund for greater investment return opportunities and to contain administrative costs, and given the fact that no administration fees were charged to the Parliamentary pensions fund, it was never necessary to maintain separate financial records for each fund under management. Therefore, at this stage, to prepare and submit a balance sheet and statement of revenue and expenditure specifically for the Parliamentary pensions fund would require the PSPB to establish a basis for the split of financial data, and would involve significant allocation estimations for all financial transactions, other than for contributions and benefit payments for Members of the Legislative Assembly. Presentation of such information in a specific financial statement format would imply a greater accuracy than the allocation estimates warrant.

The Board acted as advisor to government, and was closely involved in the process of drafting the *Parliamentary Pensions Law, 2004*. To ensure consistency, the language and provisions of the Parliamentary Pensions Law were initially extracted directly from the Public Service Pensions Law. Through an oversight exacerbated by the Board's delays in tabling financial statements, not all administrative aspects of the draft law were fully tested, and inadvertently, the provision requiring a separate set of financial statements was repeated in the Parliamentary Pensions Law. It was not the intention to create unnecessary administrative burden in the compilation of data that provides little or no meaning to the users of the financial information. Accordingly, the Board has chosen to comply with the spirit of the *Parliamentary Pensions Law, 2004*, and has prepared these financial statements on a combined or consolidated basis in accordance with historical practice. Note 15 to these financial statements outlines the share of assets allocated to each of the plan funds, including the Parliamentary pensions plan.

9. Judiciary pension contributions

The liability as shown on the Statement of Net Assets Available for Benefits reflects contributions received to date, and an element of income allocated to those contributions based on the Fund's annual rate of return. The Fund receives contributions on behalf of Judges of the Grand Court. These members contribute at a rate of 10% of pensionable earnings and employers were to contribute an additional 31% effective 1 January 2000 through to 1 January 2005. Actuarial valuations as at 1 January 2011 and 2008 concluded that existing contribution rates to the plan are sufficient. The assets duly belonging to the Judges of the Grand Court are under the administration of the Board. These contributions have been pooled for investment purposes with those of the Fund.

10. Benefits paid to participants

Beginning in April 1999, payments were paid directly out of the Fund for pensioners of the Public Service Pensions Plan. The government continued to pre-fund payments made to recipients of the Ex-gratia allowances.

14. Pension contributions (Re: Actuarial valuations – effective 1 January 2005)

Actuarial valuations with an effective date of 1 January 2011 were conducted for three separate plans; the Public service pensions plan, the Parliamentary pensions plan and the Judiciary pensions plan. These Actuarial valuation reports were completed on 12 April 2012 and submitted to the Financial Secretary on 19 April 2012. As the Cabinet has not yet accepted and approved the 2011 or the 2008 reports and the recommended rate of contributions contained therein, contributions received and contributions receivable are based on the 2005 Actuarial valuation which was accepted by the Board, approved by Cabinet, and tabled in the Legislative Assembly on 9 November 2006.

14. Pension contributions (Re: Actuarial valuations – effective 1 January 2005) (continued)

The principal assumptions for the 2011 Actuarial valuations (excluding the estimated retirement age which varied with each Plan) used in the computation of the actuarial estimate of the pension liability for each of the three named Pensions plans are as follows:

- i. annual salary increases of 3.5%;
- ii. long term inflation rate of 2.5% per annum;
- iii. valuation interest rate to discount future benefit payments of 8%;
- iv. expected long-term rate of return on the Fund's invested assets of 8%;
- v. anticipated future pensions payments increases of 2.5% per annum; and
- vi. estimated retirement age of 55 for the Parliamentary Pensions Plan, 57 for the Public Service Pensions Plan, and 65 for the Judiciary Pensions Plan.

Where actuarial results calculate that a Plan's share of Fund assets exceed the calculated past service liability, the Plan is said to have a Fund surplus. Conversely, should Past service liabilities exceed a particular Plan's share of Fund assets; the result is called a Fund deficiency. Fund deficiencies arise mainly as a result of participants having accrued considerable Defined Benefit entitlements prior to establishment of the Fund. Results of the actuarial valuations are summarized under separate caption below for each of the Plans.

a. Public service pensions plan actuarial valuation – 1 January 2011

The Actuarial valuation calculated a Fund deficiency as at 1 January 2011 of approximately \$165,860,000 consisting of the following components:

Public service pensions plan	Amount
	\$000
Value of pension fund allocated assets	309,868
Past service liability	(475,728)
Fund deficiency	(165,860)

14. Pension contributions (Re: Actuarial valuations – effective 1 January 2005) (continued)

c. Judiciary pensions plan actuarial valuation – 1 January 2011

The Actuarial valuation calculated a Fund surplus as at 1 January 2011 of approximately \$447,000 consisting of the following components:

Judiciary pensions plan	Amount
	\$000
Value of pensions fund allocated assets	\$ 2,846
Past service liability	(2,399)
Fund surplus	\$ 447

The actuarial valuation calculated an annual cost of 16.77% which is the required amount to fund the cost of benefits earned during the current year for both Defined Benefit and Defined Contributions components, with allowance for future pay projections. The actuary recommends a contribution rate of 10.76% for the defined benefit portion of the plan and the continuation of contribution rates of 30% for the defined contribution portion of the plan (10% from the employee and 20% from the employer).

An overfunded (surplus) situation has risen as a result of the actuarial gains resulting from the termination of one active participant and contribution income in excess of expectations.

15. Investment consultancy fees

The Board utilizes the services of various Investment Managers and other investment consultants in the course of its business. During the year, the Board employed the services of the following:

- a. Independent Franchise Partners ("IFP", as Investment manager)
- b. PIMCO ("PIMCO", as Investment manager)
- c. GMO Global Equity Fund ("GMO", as Investment manager)
- d. ING Clarion Real Estate Securities, L.P. ("ING", as Investment manager)
- e. CIBC Mellon Global Securities Company ("CIBC Mellon" as Custodian)
- f. Advisory Capital (Investment consultant)

16. Financial Instruments (continued)

Some inherent risks are further mitigated by specific circumstances:

Credit risk

Financial assets that potentially subject the Board to credit risk consist principally of current, call and fixed deposits, long and short-term investments, accounts and interest receivable and other receivables and prepayments. The Board's current, call and fixed deposits are placed with high credit quality institutions. Credit risk with respect to long and short-term investments, accounts and interest receivable, and other receivables and prepayments is limited because the Board only transacts business with counterparts it believes to be reputable and capable of performing their contractual obligations. The greatest risk that the Board faces, other than market related risks in terms of its investments, is the possibility that there could be some form of pension contribution holiday. Should this happen it would seriously impede the Boards operations, as it would then become necessary to liquidate the investments in order to meet its statutory financial obligations.

Interest rate risk

The Board's interest bearing investments and deposits are at fixed interest rates.

Inflation risk

Inflation risks are mitigated by regular review and adjustment of Plan funding, in accordance with the mandated Actuarial valuations due every three years.

A risk factor unique to pension/annuity plans is "Longevity risk:

Longevity risk

Longevity risk applies primarily to the Defined benefit (DB) part of the Plans. Longevity risk is also mitigated by regular review and adjustment of the Plans funding in accordance with the mandated Actuarial valuations due every three years.

Fair values

The carrying amount of current, call, and fixed deposits, accounts and interest receivable, other receivables and prepayments, demand liabilities, and other liabilities and payables approximated their fair value due to the short-term maturities of these assets and liabilities. The market value of investments is presented in Note 4. The fair values of other assets and liabilities are not materially different from the carrying amounts.

Main actuarial risks to the funding of the plans

There are several actuarial risks that can adversely impact the funding of the plan. The key ones are as follows:

- a. Contribution risks
- b. Financial assumption risks
- c. Demographic assumption risks
- d. Plan structure risks

18. Related party transactions (continued)

Intra-government agencies

The Board engaged the services of the Computer Services Department and the Office of the Auditor General during the year. The transactions amounted to \$55K and \$67K, respectively. The services are deemed to have been engaged at arm's length.

19. Plan participants

IAS 19 Accounting policy requires the Public Service Pensions Board to disclose the entities to which the assets of the fund belong and the amounts for each participant. The current pension administration system does not allow for the breakdown of this information. The ministries and portfolios in Public service pensions plan are the following:

- a. Audit Office
- b. Cabinet Office
- c. Judicial Administration Department
- d. Portfolio of Legal Affairs
- e. Portfolio of Finance and Economics
- f. Ministry of Tourism, Economics, Investment and Commerce
- g. Office of the Complaints Commissioner
- h. Portfolio of the Civil Service
- i. Portfolio of Internal and External Affairs
- j. Ministry of District Administration, Planning, Agriculture and Housing
- k. Ministry of Education, Employment, Training, Youth, Sports, Culture
- l. Ministry of Health and Human Services
- m. Ministry of Communication, Works and Infrastructure

See note 1 (c) for Statutory authorities and Government companies that participate in the plan.

20. Prior period adjustment

The beginning balance of Net Assets Available for Benefits included prior period adjustments amounted to \$253K representing capitalization of expenses relating to the new pension administration system and reclassification of prior year operating expenses.

