Public Service Pensions Board

Annual Report for the Year Ended 30 June, 2011

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BOARD OF DIRECTORS
AS AT 30 JUNE 2011

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. Franz Manderson
Chief Officer, Portfolio of Internal & External Affairs

Mr. James Watler
President, Civil Service Association

Mr. Wayde Bardswell
Crown Counsel, Legal Department

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 2011

Professional Services

Actuary

Subramanian Sundaresan
In-house Actuary

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.

Legal Department
C I Government
Grand Cayman
Cayman Islands

Custodian

RBC Dexia
Toronto, Ontario
Canada

Investment Advisors

Advisory Capital Group
Toronto, Ontario
Canada

Managing Director & Chairman's Message

The fiscal year ending 30 June 2011 produced an 8.3% year-to-date performance and registered a 24.7% return, the highest return over its historical record. The 4th quarter of the fiscal year was particularly productive as the Fund outperformed the benchmark by 3.6%, capping off the year on a high note. Furthermore, the Fund appears to be in a favorable position and is strategically positioned to continue with the current momentum into the fiscal year ending 30 June 2012.

New managers GMO and PIMCO, who were added during the 09/10 fiscal year, have made positive contributions to the Fund in their first year of engagement.. Both managers outperformed their respective bench marks on a year-to-date basis with GMO outperforming its benchmark by 2.1%, and PIMCO producing a return 0.6% higher than its benchmark. Although a 0.6% return performance over the benchmark is not as sizeable as the 2.1% posted by GMO, it should be noted that European debt fears as well as US inflation expectations made fixed income investments quite a volatile field for PIMCO to maneuver through.

The tri-annual actuarial valuation report was completed by the Actuary during the second half of the fiscal year and his findings will be submitted to Cabinet for consideration as prescribed in the Public Service Pensions Law (2004 Revision). The last valuation was completed in 2008. The PSPB also changed addresses in early 2011 and became one of the first tenants in the Government Administration Building which replaced the old 'Glass House'. On a whole the PSPB found the move to be relatively quick and straight forward and since being acclimated, everything has been business as usual.

Finally, as the preservation of pensions funds is a priority of the PSPB it will continue to hold a conservative line on investments while looking into viable low risk opportunities to improve returns wherever possible.

Managing Director

Chairman

OVERVIEW OF THE
PUBLIC SERVICE PENSIONS BOARD

Background Information

The head office of the PSPB 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 and 2004, culminating in the Public Service Pensions Law (2004 Revision) (the Law). The Law 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 depending on whether the participant joined the service before or after 10 July 1980, with a higher rate of benefit accrual to those who commenced service before that date.

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 (2004 Revision), the Public Service Pensions (*Ex-Gratia* Pensions) Regulations 2004 and the Public Service Pensions (*Ex-Gratia* Pensions) (Amendment) Regulations 2009, 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 May 2009, 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 Pension 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 prior to 1 September 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 PPL 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 Parliamentary Pensions Plan (the PPP) as governed by the Parliamentary Pensions Law, 2004 (the PPL). 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. 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 $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 2011 the Fund (inclusive of foreign and local investments) stood at $340.8 million, which represents a $59.4 million or 17% increase in net assets from 30 June 2010.

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 investment

Market Summary

Global Equities

IFP was the best performing manager during the final quarter of the fiscal year, generating performance of 6.6%, ahead of its broad market benchmark by 6.1%. Similarly, GMO generated a positive 2.7% ahead of its policy benchmark by 2.8%. On a relative basis, IFP global equities ranked at the 2nd percentile for the quarter and 9th percentile for the 1-year period. Longer term, for the trailing 5 years, the relative ranking is at the 5th percentile of the comparative peer sample universe of managers. Regarding GMO, on a relative basis, the performance ranked at the 14th percentile rank for the quarter ending June 30, 2011 and at the 41st percentile for the 1-year period.

Despite companies throughout the world dealing with shortages of parts and components from Japan which lead to weak numbers around the world, at least partial recovery seems to be just over the horizon. Many Japanese companies are undergoing a complete or partial resumption of production, economic data over the second half of the year will be positively impacted by the tsunami effect, which should reduce growth fears. As evidence, an improvement in industrial production in Japan increased by 5.7% in June, 2011, the largest monthly gain in over 16 years.

Fixed Income

Year-to-date and year-over-year return remained positive at 3.3% and 6.0%, respectively. Although the final quarter of the fiscal year was behind the benchmark by 20 basis points, as bond market yields fell significantly, reflecting the ongoing uncertainty associated with European debt woes, the 1- year returns were ahead of the broad bench mark by 2.1%.

Regarding relative value, the bond manager's performance placed at the 10th percentile over the 1-year period. Longer term performance remains well above average at moderate levels of volatility.

It is important to note that the Federal Reserve concluded its second round of quantitative easing at the conclusion of the fiscal year ending June 30th, 2011. It stated that it will continue reinvesting income and bond repayments while keeping the Fed Funds target rate low for an extended period. The Fed Chairman, Bernanke emphasized that inflation expectations, which currently appear well anchored, are his key near-term issue for the Federal Reserve. Given the headwinds from high unemployment, high inventory of existing homes, tight underwriting standards, and uncertainties arising from foreclosure delays, the Federal Reserve is expected to remain on hold for the rest of 2011, with expectations for rising rates rising in the second half of 2012.

Real Estate Equities

Over the year-to-date, the performance for real estate securities continues to be rewarding as property companies are able to reflect an economic recovery which appears to remain intact despite a recent soft patch. A return of 4.3% for the quarter ending June 30, 2011 was ahead of its broad benchmark by 1.4%, and although the 1-year performance was behind its benchmark by 40 basis points an astonishing 33.7% return was achieved. Relative ranking remains above average at the 27th percentile over the quarter and at the 61st percentile over the 1-year period. Longer term, relative ranking is below average, supporting the value added evaluation.

Fund Performance

The Fund generated an outstanding 1-year performance of 24.7% as the value added over the final quarter of the fiscal year was positive at 3.6%. The 1-year value added was also positive at 3.1%. Longer term this is consistently above 4.0%; the 4-year annualized performance number, being a positive 6.5% is ahead of its policy benchmark by 5.8%. On a relative basis, the Fund's performance ranked at the 17th percentile for the 1-year period and at the 1st percentile for the 4th Quarter of the fiscal year ending June 30th, 2011.

Longer term, being the 4 and 5-year periods, the Fund's relative ranking is at the 3rd and 4th percentile rank, respectively and The Fund's long term risk return trade-off is moderate and well above the norm when measured against a peer universe sample of about 125 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 1.21% for calendar 2010 paid with effect from 1 January 2011. Table 1 indicates the CRR earned for the period 2003 to 2010 expressed in percentages.

Table 1

Year	2005	2006	2007	2008	2009	2010	2011
Return	7.85	12.78	4.40	-15.56	11.77	9.85	7.78%
CRR	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 2011

PUBLIC SERVICE PENSIONS BOARD

FINANCIAL STATEMENTS

For the Year Ended June 30, 2011

PUBLIC SERVICE PENSIONS BOARD

FINANCIAL STATEMENTS

JUNE 30, 2011

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Public Service Pensions Board
Financial Statements
30 June 2011

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 (2010 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 (2010 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 2011

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 2011;

(b) fairly reflect the financial position as at 30th June 2011 and performance for the year ended 30th June 2011;

(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- June 28/12

Jewel Evans Lindsey
Managing Director
Public Service Pensions Board

Date- June 28/12

Office of the Auditor General
CAYMAN ISLANDS

3rd Floor Anderson Square
64 Shedden Road
PO Box 2583 KY1 1103
Grand Cayman Cayman Islands

Auditor General's Report

To the Board of Directors of the Public Service Pensions Board

I have audited the accompanying financial statements of the Public Service Pensions Board (the "Board") which comprise the Statement of Net Assets Available for Benefits as at 30 June 2011, Statement of Changes in Net Assets Available for Benefits and the Statement of Cash Flows for the year then ended, a Statement of Accumulated Plan Benefits as at 30 June 2011 and a summary of significant accounting policies and other explanatory notes as set out on pages 5 to 29 in accordance with the provisions of Section 11(3) of the *Public Service Pensions Law (2004 Revision)* and Section 52 (3) of the *Public Management and Finance Law (2010 Revision)*

Management's Responsibilities for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend upon the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for my audit opinion

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 perceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Public Service Pensions Board as at 30 June 2011 and the results of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

I draw attention to note 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 respectivey have not been accepted and approved as at the date of this report. This contravenes *Section 3 of Public Service Pensions (Amendment) Law, 2004* which states that:

"After receiving a report under subsection (3) the Financial Secretary shall submit the report to the Governor and the Governor, shall either accept the report and approve, by regulations, the changes to the contribution rates recommended by the Board; or within 90 days of receiving the report, cause its own actuarial valuation to be carried out if it determines that there is good reason to do so." My opinion is not further qualified in respect of this matter.

Other Matters

1. The *Public Service Pensions Law (2004 Revision), Parliamentary Pensions Law, 2004* 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 Plans into one set of financial statements, and did not identify or disclose the investments and administrative expenses for each Fund.

The management of the Public Service Pensions Board stated: "*the Passage of the Parliamentary Pensions Law in 2004 created the unintended effect of requiring the Board to prepare and maintain a distinct and separate set of financials for the Parliamentary Pensions Fund.*"

I believe that the intent of these laws was to have separate reporting of financial information for each Fund. Section 9 (3) of the *Parliamentary Pensions Law, 2004* and *The Judges' Emoluments and Allowances Order, 2005* and Section 11(3) of the *Public Service Pensions Law (2004 Revision)*, clearly details the Auditor General's requirements in relation to each Fund specifically. These responsibilities imply that my Office is required to give an opinion on separate sets of financial statements that disclose separately the assets, liabilities and operations of each fund.

2. The preparation of these financial statements did not comply with the requirements of the *Public Management and Finance Law (2010 Revision)* under:

   Section 4: the financial statements are to be prepared in accordance with International Public Sector Accounting Standards. The Public Service Pensions Board presented the financial statements in accordance with International Financial Reporting Standards and was audited to those Standards. In my opinion, I do not believe there would be a material difference in the presentation and accounting of the financial transactions of the Public Service Pensions Board.

Alastair J. Swarbrick, MA (Hons), CPFA
Auditor General

Cayman Islands
28 June 2012

Public Service Pensions Board
Statement of Net Assets Available for Benefits
As at 30 June 2011
(Expressed in Cayman Islands Dollars)

	2011		2010	
	$ 000		$ 000	
ASSETS				
Current Assets				
Cash and Cash Equivalents (Note 3)				
Cash	5,617		6,317	
Term Deposits	8,472	14 089	8,429	14,746
Investments, at Fair Market Value (Note 4)		328,848		284,564
Receivables				
Contributions Receivable				
Employer's contributions	1,120		925	
Employer's - Additional Defined Benefit Costs	509		4,109	
Employee's contributions	1,120		925	
Pension Grants receivable				
Judiciary Grant Receivable (Note 9)	62		62	
Operating Grant Receivable	-		760	
Other Receivables	392	3,202	763	7,534
Prepayments				
PSP Fund Surplus	28		81	
Prepaid Expenses	9	37	-	81
Non-Current Assets				
Fixed Assets, Net (Note 5)		25		188
Total Assets		346,201		307,113
LIABILITIES				
Current Liabilities				
Investment Management Fees	8		278	
Accounts Payable	380		530	
Overpaid Contributions (Note 6)	1,745		1,745	
Overpaid Grants (Note 6)	244		317	
Benefits Due (Note 12)	463	2,840	438	3,308
Non-Current Liabilities				
Due in Respect of Judiciary Contributions (Note 9)		2,579		2,408
Total Liabilities		5,419		5,716
Net Assets		340,782		301,397
Represented by				
Net Assets Available for Benefits:				
Accumulated Fund		340,782		301,397

Signed on behalf of the Public Service Pensions Board on June 28 2012.

Kenneth Jefferson, JP
Chairman

Jewel Evans Lindsey
Managing Director

The Notes to the Financial Statements on pages 9 to 29 form an integral part of these financial statements

Public Service Pensions Board
Statement of Changes in Net Assets Available for Benefits
For the Year Ended 30 June 2011
(Expressed in Cayman Islands Dollars)

	2011 $ 000	2010 $ 000
Pensions		
Contributions		
Employers	13,266	13,109
Employers' - Additional Defined Benefit Cost	2,629	2,619
Employees	13,241	13,330
Total	29,136	29,058
Late payment penalty income	-	61
Pre-Funded Pensions in Payment (Note 8)		
Ex-Gratia Pensions	349	378
Total Contributions	29,485	29,497
Benefits paid to participants (Note 10)		
Public Service Pensions	(25,295)	(24,582)
Parliamentarian Pensions	(1,218)	(1,609)
Ex Gratia Pensions	(553)	(387)
Judicial	-	43
Total Benefits paid to participants	(27,066)	(26,535)
Net Pensions	2,419	2,962
Investing		
Investment Income		
Unrealized (Loss) on Investments	52,033	(7,661)
Gain (Loss) on Sale of Investments (Note 4d)	7,681	38,398
Dividends Earned on Investments	4,639	3,389
Realized Gain (Loss) on Foreign Exchange	842	1,385
Interest Earned on Term Deposits and Call Accounts	42	48
Investment Income - Other	16	-
Interest Earned on Investments	-	(3)
Unrealized (Loss) on Foreign Exchange	(26)	193
Total Investment Income (Loss)	65,227	35,749
Investment Expenses		
Investment Management and Custodial Fees (Note 15)	(2,309)	(1,986)
Interest Attributable to Judiciary Contributions (Note 9)	(134)	(233)
Other Investment Expenses	(2)	(5)
Total Investment Expenses	(2,445)	(2,224)
Net Investment Income (Loss)	62,782	33,525
Operating		
Operating Income		
Government Grant	540	600
Gain (Loss) on Sale of Fixed Assets	(126)	-
Other Income	140	219
Total Operating Income	554	819
Operating Expenses		
Administrative Expenses (Note 11)	(3,359)	(3,462)
Write back of accounts receivable	-	(205)
Write back of stale dated items	326	-
Depreciation - Fixed Assets (Note 6)	(49)	(200)
Total Operating Expense	(3,082)	(3,867)
Net Operating Loss	(2,528)	(3,048)
Net increase in assets	62,673	33,439
Net Assets Available for benefits at start of year (Note 21)	278,109	247,958
Net Assets Available for benefits at end of year	340,782	281,397

The Notes to the Financial Statements on pages 9 to 29 form an integral part of these financial statements.

Public Service Pensions Board
Statement of Cash Flows
For the Year Ended 30 June 2011
(Expressed in Cayman Islands Dollars)

	2011 $ 000	2010 $ 000
Cash flows from operating activities		
Contributions received from employees	13,046	13,670
Contributions received from employers	13,072	13,567
Benefits Paid to Participants - Public Service	(25,250)	(24,581)
Benefits Paid to Participants - Parliamentarian	(1,218)	(1,669)
Benefits Paid to Participants – ExGratia	(553)	(307)
Net Investment Income Received	86	57
Other Income Received	2,131	287
Administrative Expenses Paid	(3,488)	(3,450)
Investment Management Fees and Other Expenses Paid	(1,726)	(1,316)
Net cash provided by operating activities	[illegible]	(3,842)
Cash flows from investing activities		
Purchase of investments	-	(268,391)
Proceeds from sale and maturity of investments	-	268,724
Purchase of Fixed Assets	(10)	(73)
Net cash applied to investing activities	(10)	8,260
Cash flows from financing activities		
Contributions received from employers - Additional Defined Benefit	2,912	2,428
Ex-gratia Grant and Prepaid Ex-gratia Grant	407	291
Net cash received from financing activities	3,319	2,719
Cash flows from judiciary contributions		
Contributions received from employees	59	78
Contributions received from employer	59	209
Benefits Paid to Participants	(188)	46
Net cash received from judiciary contributions	[illegible]	333
Net increase / (decrease) in cash and cash equivalents	(657)	7,470
Cash and cash equivalents at beginning of year	14,746	7,276
Cash and cash equivalents at end of year (Note 3)	14,089	14,746

The Notes to the Financial Statements on pages 9 to 29 form an integral part of these financial statements.

Public Service Pensions Board
Statement of Accumulated Plan Benefits
As at 30 June 2011
(Expressed in Cayman Islands Dollars)

	2011	2010
	$ 000	$ 000
Actuarial present value of accumulated plan benefits (Note 14)		
Inactive and Active Participants	(494,849)	(456,329)
Total Actuarial present value of accumulated plan benefits	(494,849)	(456,329)
Fund's Net Assets Available for Benefits at the Valuation Date	340,782	281,397
Fund Deficit	(154,067)	(174,932)

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 (2004 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.

1. Introduction and Background Information (continued)

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 were prescribed by the Board based on the 1 January 2005 and 1 January 2002 actuarial results and were as follows:

	2005		2002	
	Defined Benefit*	Defined Contribution	Defined Benefit*	Defined Contribution
Cayman Islands Government (See note 20)	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%
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%
National Roads Authority	2.24%	1.00%	N/A	1.00%
Cayman Islands Development Bank	17.11%	1.00%	N/A	1.00%
Cays Foundation	12.31%	1.00%	N/A	1.00%
National Housing Development Trust	N/A	1.00%	N/A	1.00%
Information & Communication Technology Authority	N/A	1.00%	N/A	N/A

* The full liability for additional defined benefit costs will be borne by each respective employer.

Contribution rates for the additional defined benefit costs are based on pensionable earnings as of the valuation date and reflect the following:

i. with respect to the defined contribution participants, the cost of certain benefits provided that are of a defined benefit nature;

ii. with respect to the defined benefit participants, the excess over 12% of pensionable earnings, of the normal benefit accrual cost plus the annual cost of meeting the unfunded past service liabilities.

1. **Introduction and Background Information (continued)**

Additional employers have joined the Public Service Pensions Plan as a result of the increasing number of Statutory Authorities being established by the Government. It was not possible to determine an appropriate additional defined benefit rate for the newer authorities as they have not been subject to an actuarial valuation.

An interim rate of 1% was applied to all authorities in 2004. New rates will be prescribed based on the 2011 Actuarial Valuation; unless the Governor in Cabinet fails to accept the Board's Actuarial Valuation and causes its own Valuation to be carried out.

d. **Investment Policy**

The investment objective of the Board is for the Fund to earn returns that will, in conjunction with the financing plan, result in it becoming fully funded or self-sustaining. The investments are diversified within the constraints of the Law to ensure that risk is not unduly concentrated in any one type of investment or area of currency. The Board has established an Asset Mix Policy in collaboration with its investment managers with a goal to achieve long-term returns 3-4% above inflation. The Asset Mix Policy indicates the policy and permissible ranges for broad classes of investments. In the longer term the investment portfolio will have a bias to equities because these have been shown to provide a greater return when compared to other classes of investments.

2. **Significant Accounting Policies**

These financial statements are prepared on a going concern basis under the historical cost convention and in accordance with International Financial Reporting Standards and present the aggregate financial position of the Fund as a separate financial reporting entity independent of the plan sponsors and plan participants. 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.

2. **Significant Accounting Policies (continued)**

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.

Investments: Investments are stated at their fair market value at the date of the Statements of Net Assets Available for Benefits. Realized and unrealized gains and losses are recognized in the Statements of Changes in Net Assets Available for Benefits.

Investment Income: Investment income is accounted for on the accrual basis.

Fixed Assets: Fixed assets are initially recorded at cost. Subsequently amortization is computed per annum on a straight line basis as follows:

Furniture and Fixtures	10%
Computer Equipment and Software	20%
Office Equipment	20%
Vehicle	25%
Leasehold Improvements	50%

Foreign Currency Transactions: Transactions in foreign currencies, other than US Dollars, are translated at the rate of exchange prevailing at the date of the transaction. Transactions in US Dollars are translated at the rate of US$1.20 = CI$1.00. Assets and liabilities denominated in foreign currencies are translated at the rate prevailing at the date of the Statement of Net Assets Available for Benefits. Exchange gains and losses are recognized in the Statement of Changes in Net Assets Available for Benefits.

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3. Cash and Cash Equivalents

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of bank balances and term deposits maturing within one year from the financial statement date.

Cash and cash equivalents	30 Jun 2011	30 Jun 2010
Cash	$ 5,617,020	$ 6,316,687
Term Deposits	8,471,517	8,428,801
Total	$14,088,537	$14,745,488

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

Account Number	Principal	Value Date	Maturity Date	Interest Rate
TD 023 08423	$ 8,416,376	May 25/11	July 25/11	0.5000%
TD-013 06149	55,141	June 7/11	Dec 7/11	0.1250%
Total	$ 8,471,517			

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 (2004 Revision)*.

Investment and Market Conditions, per Advisory Capital

a) Investment and Market Conditions[1]

The Fund (in General):

Uncertainties triggered by the Greek debt crisis, the U.S. debt ceiling limit, slowing manufacturing growth, stubbornly high unemployment and a severely depressed U.S. real estate market weighed heavily on pension plan investment sentiment and sparked a correction-like pull back in performance even though a late quarter rebound managed to soften the retracement in overall pension returns. Pension plan assets, on average, rose only 0.8% in the 3-months ending June 2011, nudging year-to-date performance to 4.9%.

[1] Mary Linton, CFA, "Cayman Islands Public Service Pensions Board, 'Performance Review for Periods Ending June 30, 2011'," Advisory Capital Group Canada Inc., July 30, 2011.

4. Investments (continued)

Global Equities:

Both segments of actively managed global equities produced returns ahead of the broad market index generating sizeable value added. IFP was the best performing, generating performance of 6.6%, ahead of its broad market benchmark by 6.1%. Similarly, GMO generated a positive 2.7% ahead of its policy benchmark by 2.8%.

Real Estate Equities:

The 1-year performance, while behind its benchmark by 40 basis points, managed to produce an astonishing 33.7% return. Relative ranking remains above average at the 61st percentile over the 1-year period.

Fixed Income:

Actively managed bonds within the Fund generated positive returns of 2.1%. The year-to-date and year-over-year return remained strongly positive at 3.3% and 6.0%, respectively. The 1-year returns were ahead of the broad benchmark by 2.1%. With regards to relative value, the bond manager's performance placed at the 10th percentile over the 1-year period. Longer term performance remains well above average at moderate levels of volatility.

b) **Investment Returns**

Total Returns to June 30, 2011
Annualized for periods exceeding 1 year

1 Month	Last 3 Months	Year-to-Date	1 Year	2 Years	3 Years	4 Years	5 years	From Inception
-1.1%	4.6%	8.3%	24.7%	20.2%	10.9%	6.5%	8.5%	5.0%

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4. Investments (continued)

c) Investment Portfolios

The investment portfolios are detailed below:

	30 June 2011		30 June 2010	
Equities	$ 207,756,331	63.18%	$ 151,914,062	57.42%
Fixed Income	109,775,455	33.38%	104,081,708	39.34%
Real Estate	11,316,050	3.44%	8,568,678	3.24%
Total	$ 328,847,836	100.00%	$ 264,564,448	100.00%

5. Fixed Assets

Fixed assets consist of the following components:

	Leasehold Improvement	Furniture & Fixture	Office Equipment	Office Equipment - Board	Computer Equipment	Computer Software	Vehicles	Total
Cost								
As at 01 July 2010	$ 318,233	$ 161,069	$ 108,781	$ 1,193	$ 130,579	$ 27,506	$ 19,900	$ 768,260
Purchased in the period	6,603	-	31	489	6,057	5,100	-	17,271
Disposal in the period	-	-	(908)	-	-	-	-	(908)
Adjustments	(324,836)	(161,070)	(108,906)	-	-	-	-	(594,800)
As at 30 June 2011	-	-	-	1,682	136,636	32,606	19,900	190,822
Accum Depreciation								
As at 01 July 2010	299,071	30,668	104,224	239	108,832	22,277	15,920	581,231
Provision in the period	17,219	12,080	1,368	336	10,349	3,759	3,980	49,070
Disposal in the period	(316,290)	(42,748)	(105,879)	-	-	-	-	(464,917)
Adjustments	-	-	182	-	-	-	-	182
As at 30 June 2011	-	-	-	575	119,181	26,036	19,900	165,691
Net Book Value								
As at 30 June 2011	$ -	$ -	$ -	$ 1,107	$ 17,455	$ 6,569	$ -	$ 25,131
As at 30 June 2010	$ 20,162	$ 130,402	$ 5,556	$ 954	$ 21,748	$ 5,229	$ 3,980	$ 186,030

PSPB moved into the new Government Administration Building (GAB) on March 31, 2011. As at April 1, 2011, all Furniture and Fittings and Office Equipment utilized by PSPB are owned and maintained by Government Building Administration. Therefore all amounts for Furniture and Fittings, Office Equipment and Leasehold Improvement related to the previous offices at the Smith Road Centre have been written off and are reflected in the above table.

6. Overpaid Contributions

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 are either netted with receivables or refunded at the request of the employer.

Contributions	30 June 2011	30 June 2010
Overpaid Contributions - Employer	$ 128,916	$ 128,916
Overpaid Contributions - Employee	157,880	157,880
Overpaid Contributions - Additional Defined Benefit Cost	1,458,346	1,458,346
Total	$ 1,745,142	$ 1,745,142

Pension Grants	30 June 2011	30 June 2010
Parliamentarian Grants - Employer	$ -	$ 131,310
Ex-Gratia - Employer	243,678	185,501
Total	$ 243,678	$ 316,811

7. Ex-Gratia and Parliamentarian/Payments

Ex-Gratia Pensions:

The Board administers the payment of 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, 2004.*

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

i. Any Caymanian (as defined in the Immigration Law, 2003) who-
ii. is sixty years of age or older; or
iii. is not sixty years of age but who has been certified by the Chief Medical Officer of the Government as being permanently disabled; and
iv. 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
v. 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.

7. Ex-Gratia and Parliamentarian/Payments (continued)

Ex-Gratia Pension Payment Activity 2007-2011

Year	2006-7	2007-8	2008-9	2009-10	2010-11
Annual Grant	$ 422,090	$ 520,000	$ 447,500	$ 378,149	$ 349,057
Annual Payments	(311,722)	(312,318)	(490,833)	(307,309)	(553,542)
Surplus / (Deficit)	$ 110,368	$ 207,692	$ (43,333)	$ 70,840	$(204,485)
Accumulated Surplus/(Deficit)	$ 21,741	$ 229,433	$ 186,090	$ 256,930	$ 52,444

Parliamentary Pensions:

The Members of the Legislative Assembly participate in the Parliamentary Pensions Plan as governed by the *Parliamentary Pensions Law, 1984 (1995 Revision)* (the "Parliamentary Pensions Law"). Members contribute at a rate of 6% of pensionable earnings and employers contribute a matching 6%. An additional contribution as prescribed by the latest Actuarial Valuation is made by the employer to cover the additional defined benefit cost associated with the plan. All contributions received are pooled for investment purposes with those of the Public Service Pensions Fund. The Board does not charge any fees for acting as administrators of the Parliamentary Pensions Plan

The *Parliamentary Pensions Law* provides for payment of retirement benefits to eligible members with 2 or more parliamentary terms or for periods equal in aggregate to not less than 6 years. Normal retirement age under the *Parliamentary Pensions Law* is 55. The maximum amount of pension payable to the Parliamentarians cannot exceed two-thirds of their highest salary earned whilst a member of the Legislative Assembly.

8. Assets Allocated to Parliamentary Pensions Fund

The Board administers the Government sponsored pension plans which consist of the Public Service Pensions Plan, Ex-gratia allowances, and the Parliamentary Pensions Plan. Historically, and in accordance with the establishment of the Fund under *the Parliamentary Pensions Law (1995)*, the financial statements and records of the Fund have been prepared and maintained on a combined or consolidated basis.

8. Assets Allocated to Parliamentary Pensions Fund (continued)

Passage of the *Parliamentary Pensions Law* in 2004 created the unintended effect of requiring the Board to prepare and maintain a distinct and separate set of financial statements for the Parliamentary Pensions Fund. Section 9 of the *Parliamentary Pensions Law, 2004* currently states that "the Board shall prepare and maintain financial statements relating to the Parliamentary Pensions Fund. These financial statements shall include a balance sheet, statement of revenue and expenditure, and any other financial statements as may be required."

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 Pension 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 that 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 14 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 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. An 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 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. The Parliamentary Pension Plan were pre-funded by payments from the Government up until the passage of the *Parliamentary Pensions Law (2004)* on 23 August 2004 which required that benefit payments should be paid from the Parliamentarian Pensions Fund.

Benefits Due relates to participants who had attained the age of 60 prior to 30 June 2005 and whose pension payments had not commenced. Under section 23 of the *Public Service Pensions Law (2004 Revision)*, participants of the Plan were required to initiate their pension upon attaining the age of 60 and as such were no longer eligible to accrue further benefits.

11. Administrative Expenses

Administrative Expenses	30 June 2011	30 June 2010
Salaries and Benefits	$ 2,673,491	$ 2,553,606
Office Accommodation	64,197	118,756
General Administrative	393,457	537,608
Actuarial Fees	10,623	29,230
Audit Fees	114,292	61,228
Other Professional Fees	84,222	132,562
Trustee Allowances & Training	17,823	28,985
Total	$ 3,358,105	$ 3,461,975

During the year, management reclassified some expenses to better reflect the nature and functionality of those expenses. Corresponding prior year amounts have also been reclassified.

12. **Benefits Due**

Benefits Due represents the liability to pay participants who had attained the age of 60 and whose pension payments had not commenced prior to the fiscal year ends of 30 June 2011 and 30 June 2010. Under section 23 of the *Public Service Pensions Law (2004 Revision)*, participants of the Plan were required to initiate their pension upon attaining the age of 60 and as such were no longer eligible to accrue further pension benefits.

13. **2011 Actuarial Valuation Report**

In accordance with the Public Service Pensions Law (2004 Revision), the Board fulfilled its statutory obligations by preparing the 01 January, 2011 Actuarial Valuation report which was completed on 12 April, 2012 and submitted to the Financial Secretary on April 19, 2012. 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 Report, which are the last approved rates. However, the 2011 Statement of Accumulated Plan Benefits is based on the 2011 actuarial valuation report.

14. **Pension Contributions (Re: Actuarial Valuations – Effective 1 January 2008)**

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 April 19, 2012. As the Cabinet has not yet accepted and approved the 2011 nor 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 2008) (continued)

The principal assumptions for the 2008 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 Pension 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 $165M consisting of the following components:

Public Service Pensions Plan	(CI$ 000s)
Value of Pension Fund Allocated Assets	$ 309,868
Past Service Liability	(475,728)
Fund Deficiency	$ (165,860)

The actuarial valuation calculated a normal cost of 12.40% which is the required amount to fund the cost of Defined Contribution benefits earned during the current year, with allowance for future pay projections.

14. Pension Contributions (Re: Actuarial Valuations – Effective 1 January 2005) (continued)

The normal cost to fund the cost of Defined Benefit contributions was determined to be 15.65% during the current year. Amortization of the Fund Deficiency, attributable to the Defined Benefit component of the Plan, over a 20 year period results in an additional contribution rate of 28.58%. Therefore, the total annual cost of the Defined Benefit component of the Plan as at 1 January 2011 was calculated to be 44.23% of total pensionable emoluments.

The Actuary has determined that a continuation of the current level of contributions to the DB plan (close to 12% of salaries) is projected to result in the depletion of the DB allocated fund by the year 2026. It is also determined that by the year 2013 it is expected that , under the current scenario, that total plan contributions (including both DB and DC contributions) will be insufficient to meet benefit payments and expenses. The actuary recommends that the basic 12.00% employee/employer contribution rates be increased by 32.23% (to 44.23%) for the Defined Benefit, and 0.40% (to 12.40%) for the Defined Contribution components of the Plan.

b. Parliamentarian Pensions Plan Actuarial Valuation – 1 January 2011

The Actuarial Valuation calculated a Fund Deficiency as at 1 January 2008of $12.9M consisting of the following components:

Parliamentarian Pensions Plan	(CI$ 000s)
Value of Pension Fund Allocated Assets	$ 3,809
Past Service Liability	(16,722)
Fund Deficiency	$ (12,913)

The actuarial valuation calculated a normal cost of 12.40% which is the required amount to fund the cost of Defined Contribution benefits earned during the current year, with allowance for future pay projections. The normal cost to fund the cost of Defined Benefit contributions was determined to be 36.47% during the current year.

14. Pension Contributions (Re: Actuarial Valuations – Effective 1 January 2005) (continued)

Amortization of the Fund Deficiency, attributable to the Defined Benefit component of the Plan, over a 20 year period results in an additional contribution rate of 82.68%. Therefore, the total annual cost of the Defined Benefit component of the Plan as at 1 January 2011 was calculated to be 119.15% of total pensionable emoluments.

The Actuary has determined that the Fund continues to be severely underfunded. Assets allocated to the Parliamentarian Pension Plan cover only 22% of the past service obligations. The Plan's assets are also insufficient to cover the benefits currently in payment. Without any future contributions, the assets are sufficient to cover only 3 years of benefit payments.

c. Judiciary Pensions Plan Actuarial Valuation – 1 January 2011

The Actuarial Valuation calculated a Fund Surplus as at 1 January 2011 of $ 447K consisting of the following components:

Judicial Pensions Plan	(CI$ 000s)
Value of Pension 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 DB and DC 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.

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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. RBC Dexia Investment Services ("RBC Dexia" as Custodian)
f. Advisory Capital (Investment Consultants)

During the year, the Board discontinued the services of the following investment managers:

a. Western Asset Management ("WAM", as Investment Manager)
b. Morgan Stanley Investment Management Ltd ("Morgan Stanley", as Investment Manager)

The Board incurred investment management and consultancy expenses as follows:

Investment Consultancy Fees	30-Jun-2011	30-Jun-2010
Investment Managers		
Independent Franchise Partners	$ 1,142,086	$ 527,926
PIMCO	537,487	227,592
ING	177,573	166,137
GMO Global Equity Fund	139,623	29,304
Western Asset Management	-	305,793
Morgan Stanley	-	398,548
Custodian		
RBC Dexia Custodial Fees	106,814	102,444
Investment Adviser		
Advisory Capital	205,036	228,340
Total	$ 2,308,618	$ 1,986,085

16. Financial instruments

All investments are subject to one or more types of "inherent" risk which is expected and necessary to assume in order to achieve needed returns. From a Pension Plan perspective, inherent risk factors typically comprise of:

a. Capital risk
b. Credit risk
c. Inflation risk
d. Interest Rate risk
e. Balance Sheet/Liquidity risk
f. Market/Equity risk

The portfolio is currently comprised primarily of investments in two pooled funds in both the equities and fixed income sectors. It is a very risk-averse strategy through which inherent risks are mitigated primarily by adherence to asset allocation and diversification policies prescribed by statute. Each class of assets is managed by separate internationally recognized money managers, who are recommended by the Committee and approved by the Board of Trustees, thereby further diversifying the portfolio among unrelated managers and investments. Performance of each investment manager is monitored and measured against international benchmarks by independent investment consultants (Advisory Capital). Senior Management and the Board also perform annual due-diligence visits to each investment managers.

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.

16. **Financial Instruments (continued)**

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

16. Financial Instruments (continued)

Contribution Risks: This arises when contributions are not being paid in accordance with actuarial valuation requirements. In addition, delays in tabling the actuarial valuation reports and delays in enabling regulations to prescribe the recommended rates exacerbate this.

Financial assumption risks: The most important one here is when the assumed rate of return on investments is not being met. Note 16 on Financial Instruments details some of the risks associated with this. Other financial risks include inflation, which impacts the rate at which pension payments are increases, and pay increases above those assumed in the valuation.

Demographic assumption risks: These include retirements occurring before the expected retirement ages, and longevity risks.

Plan structure risks: Currently there is considerable subsidy provided to Defined Contribution participants in the form of very generous actuarial factors being used in the conversion of account balances to pensions at retirement. This subsidy reduces the value of the assets that can be allocated to the Defined Benefit Part. In addition, there are other inherent features of the plans, such as the retirement pensions being based on final month's pay that can lead to adverse plan experiences.

17. Leases and Commitments

From April 1, 2009 to March 31, 2011, the Board leased premises from TPC Limited under the following terms: The lease was divided into 2 parts - ground and second floor agreement. The rental agreement for the ground and second floor was a payment of $32 / per square foot of the gross rentable area (being usable area grossed up by a common area factor of 18%) per annum by equal monthly instalments in advance of 1 day of each month. The total main floor and second floor was approximately 1,632.58 sq ft. and 3,915.3 sq ft respectively of gross rentable area. Interest was to accrue at a prescribed rate (3%) on any rent or other payment of which was more than 10 days overdue.

17. Leases and Commitments (continued)

On March 31, 2011, PSPB moved into the new Government Administration Building.

18. Subsequent Events

Market volatility and uncertainty continue as markets still have not fully recovered from the global financial and economic crises. Conditions are further exacerbated by the sovereign debt crises, which has resulted in the implementation of (or attempts to implement) austerity programs around the world, and by the uncertainty created by the U.S. Debt Ceiling crisis. Significant economic problems and uncertainty are expected to persist into the foreseeable future

PSPB successfully transitioned to new investment custodians, from RBC Dexia to CIBC Mellon, effective December 1, 2011.

19. Related Party Transactions

Key Management Personnel

There are four full-time equivalent personnel considered at the Senior Management Level. The total remuneration includes: regular salary, pension contributions, health insurance contributions, acting allowances, duty allowances, motor car upkeep/allowance, and COLA back pay. Total remuneration for Senior Management in 2010/11 was approximately $493K (2010: $675K).

Intra-Government Agencies

The Board engaged the services of the Computer Services Department and the Office of the Auditor General during the year. During the year, the transactions amounted to $60K (2009/10 - $103K) and $65K (2009/10 - $61K) respectively. The services are deemed to have been engaged at arm's length.

20. **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. Ministry of Finance, Development and Tourism
f. Ministry of District Administration, Works, Lands and Agriculture
g. Office of the Complaints Commissioner
h. Portfolio of the Civil Service
i. Portfolio of Internal and External Affairs
j. Ministry of Community Affairs, Gender and Housing
k. Ministry of Education, Training and Employment
l. Ministry of Health, Environment, Youth, Sports and Culture

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

21. **Prior Period Adjustment**

The beginning balance of net assets available for benefits included accrued contributions amounting to $3.2M. This receivable relates to prior years contributions for additional defined benefit costs requiring an adjustment to reduce the beginning balance of the net assets available for benefits to the correct amount.