PUBLIC SERVICE PENSIONS BOARD

ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE, 2013

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BOARD OF DIRECTORS
AS AT 30 JUNE 2013

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 2013

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.

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

Custodian

CIBC Mellon
Toronto, Ontario
Canada

Investment Advisors

Advisory Capital Group
Toronto, Ontario
Canada

Managing Director & Chairman's Message

The PSPB was able to steer the Fund towards another positive overall performance during the fiscal year ended 30 June, 2013 where the Fund earned a return of 12.6%, beating the benchmark by .5%. Also of note is the growth that was experienced since the end of the last fiscal year. As at 30 June, 2013 the net assets available for benefits have grown by 15.5% or CI$55.6 million bringing the total to CI$413 million. The overall return would surely have been slightly higher had it not been for the circumstances in the market during the final quarter. The market experienced sharp volatility in worldwide equities, commodities and bonds sparked by the U.S Federal Reserve's comments on tapering its quantitative easing efforts. This led to a sharp rise in yields and selling throughout global fixed income markets, with longer term bonds being hit the hardest.

In keeping with best practice and good governance the Board has also initiated two very timely reviews of critical services being provided to the organization. The first review which took place related to the Board's actuarial and benefit consultancy services arrangement and as a result an open tender was issued in accordance with the guidelines as set out by the Central Tenders Committee. By the end of the fiscal year the Board had not completed its review of the official bids that were received by the Managing Director's Tender Committee on behalf of the Board, but hope to have the matter concluded as soon as feasibly possible.

The second review that was conducted was a review of the current IT infrastructure. As it was apparent that the Board did not have the expertise to conduct a fully comprehensive review of IT infrastructure another tender was issued. This tender is also in the process of being completed simultaneously with the actuarial and benefits consulting tender.

In addition to committing to these projects the PSPB went live on the Lynchval pension administration system in September, 2012. This new system offers various features which work in tandem to improve efficiencies and data controls that could not be realized through the previous system. Although there are still a handful of customization matters which are being finalized, the PSPB is happy to have the new system in place.

Finally, after receiving a qualified opinion from the Auditor General on the financial statements for the fiscal year ended 30 June, 2012, the Auditor General has given an unqualified opinion on the financial statements for the fiscal year ended 30 June, 2013.

J C Lindsey

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, 2011 and 2013 culminating in the Public Service Pensions Law (2013 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 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 (2013 Revision), the Public Service Pensions Law (2011 Revision) Public Service Pensions (*Ex-Gratia* Pensions*)* Regulations (2012 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 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 in 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 2013 the net assets available for benefits stood at just over $413 million, which represents a $55.6 million or a 15.5 % increase in net assets from 30 June 2012. The market value of the Fund (inclusive of local & foreign investment) at the same date was approximately $397 million, representing an increase of a little over $39 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

The pullback in global equities was the worst in more than a year but the 4th quarter still managed to cap-off a slightly positive return for the broader markets of about 70 basis points. The actively managed global equity segments of the PSPB Fund recorded returns that were either flat to slightly positive by 50 basis points. Value added is positive at 40 basis points for global equities under management by GMO while IFP generated performance that lagged the market by about 20 basis points.

On a relative basis, IFP global equities ranked at the 58th percentile over the quarter and at the 53rd percentile rank over the 1-year period. Longer term, over the trailing 4 years, the relative ranking remains high at the 3rd percentile of the comparative peer sample universe of managers. On a relative basis, GMO global equities ranked at the 67th percentile over the quarter and at the 79th percentile rank over the 1-year period. Over the 3-year period, GMO ranked slightly below average at the 55th percentile rank.

Fixed Income

Over the 4th quarter, active bonds under management with PIMCO generated negative returns of 3.1% and lagged the broader market by 80 basis points. As a result, the year-to-date return of negative 2.8% is now behind the benchmark by 40 basis points while the 1-year return of 1.1% is ahead of the broader bond market by 1.8%. Longer term, annualized bond returns are generating performance that is above 4.0% and generating positive value added. Regarding relative ranking, bond performance placed at the 94th percentile for the quarter.

Over the 1-year period, the relative ranking remains high and above average at the 25th percentile rank. Longer term, being the 3-year period, relative ranking was slightly above average.

Real Estate Equities

The steepening of the yield curve was negative for publicly listed property company performance over the 4th quarter to the extent of 3.6%, even though the expectation was for improving economic conditions which are ultimately good for commercial property fundamentals. Active management lagged the index only slightly by 10 basis points. Over the 1-year period the slippage however was more sizeable at 3.6% which negatively impacted all trailing annualized periods and value added.

Over the reporting period, relative ranking was below average and consistently ranked in the 4th quartile across all time periods exceeding one year, supporting the value added assessment.

Fund Performance

The 4th quarter experienced sharp volatility in worldwide equities, commodities and bonds sparked by the U.S, Federal Reserve's comments on tapering its quantitative easing efforts which led to a sharp rise in yields and selling throughout global fixed income markets, with longer term bonds being hit the hardest.

Specifically, U.S. Treasury bond yields rose from 1.87% to 2.52% over the quarter, which was a big move upward particularly considering that it happened within a matter of weeks approaching quarter-end. Returns over the quarter were muted by bond investments and investments in bond-like equities, such as real estate. Bonds and real estate investments both earned negative returns of 2.3% and negative 3.6%, respectively over the 4th quarter.

While global equities were only marginally positive to the extent of 70 basis points, developing or emerging markets also recorded negative returns resulting in a MSCI Index return of negative 40 basis points. Consequently, many balanced funds earned marginally negative returns over the 2nd quarter while managing to retain strongly positive returns approaching 5.0% over the year-to-date period. Returns over the 12 month period were also solidly positive and double digit.

On a relative basis, the PSPB Fund's performance ranked at the 79th percentile for the 4th quarter and the 52nd percentile rank over the 1-year period. Longer term, being the 4-year period, the PSPB Fund's relative ranking is high at the 8th percentile and above average. The Fund's long term risk return trade-off is low and above the norm when measured against a peer universe sample of about 100 diversified 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 9.65% for calendar 2012. As a result all participant contribution accounts would have been credited at the beginning of calendar year 2013 with an interest base of 9.65%. Table 1 indicates the CRR earned for the period 2005 to 2012 expressed in percentages.

Table 1

Year	2005	2006	2007	2008	2009	2010	2011	2012
Return	7.85%	12.78%	4.40%	-15.56%	11.77%	9.85%	7.30%	11.36%
CRR	6.77%	8.29%	8.29%	-0.41%	-0.49%	1.21%	9.79%	9.65%

APPENDIX 1

Copy of Public Service Pensions Board Certified Financial Statements and Notes for the year ended 30 June 2013

PUBLIC SERVICE PENSIONS BOARD

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2013

Contents

Public Service Pensions Board
Financial Statements
30 June 2013

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 (2013 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 (2013 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 2013.

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

(a) are complete and reliably reflect the financial transactions of Public Service Pensions Board for the year ended 30 June 2013;

(b) fairly reflect the financial position as at 30 June 2013 and performance for the year ended 30 June 2013;

(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 on Auditing.

Mr. Kenneth Jefferson, JP	Jewel Evans Lindsey
Chairman	Managing Director
Public Service Pensions Board	Public Service Pensions Board
Date- 7 August 2014	Date- 7 August 2014

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CAYMAN ISLANDS

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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 2013, 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 2013 and a summary of significant accounting policies and other explanatory information as set out on pages 5 to 29 in accordance with the provisions of Section 11(3) of the *Public Service Pensions Law (2011 Revision)* and Section 60(1)(a) of the *Public Management and Finance Law (2013 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 my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 control 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 I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Public Service Pensions Board as at 30 June 2013 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matters

1. I draw attention to notes 14 and 15 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 been accepted and approved by the Legislative Assembly on December 2013. As these reports have not been gazetted, 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.

2. As discussed in Note 15 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 parliamentarian 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.
3. 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.

   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, (2010 Revision)* and *The Judges' Emoluments and Allowances Order, 2005* and Section 11(3) of the *Public Service Pensions Law (2011 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 each set of financial statements that disclose separately the assets, liabilities and operations of each fund.

My opinion is not qualified with respect to these matters.

Other Matter

The preparation of these financial statements did not comply with the requirements of the *Public Management and Finance Law (2013 Revision)* under Section 4 which prescribes that financial statements are to be prepared in accordance with International Public Sector Accounting Standards (IPSAS). IPSAS 24 provides presentation of budget information in the financial statements and disclosure of explanation of material differences between budget and actual amounts. The Public Service Pensions Board reported the financial statements in accordance with International Financial Reporting Standards (IFRS) and did not present the requirements of IPSAS 24.

Alastair Swarbrick, MA (Hon)CPFA
Auditor General

7 August, 2014
Cayman Islands

Public Service Pensions Board
Statement of Net Assets Available for Benefits
As at 30 June 2013
(Expressed in Cayman Islands Dollars)

	2013		2012 As restated	
	$000		$000	
Assets				
Current assets				
Cash and cash equivalents (Note 3)				
Cash	12,780		1,880	
Term deposits	5,060	17,840	55	1,935
Investments, at fair market value (Note 4)		396,891		357,497
Receivables				
Contributions receivable				
Employees' contributions	1,559		1,495	
Employers' contributions	1,556		1,429	
Employers' - Additional defined benefit costs	469		543	
Judiciary pension grants receivable	-		62	
Other receivables	132	3,716	217	3,746
Prepaid expenses	3	3	3	3
Total current assets		418,450		363,181
Non-current assets				
Fixed assets (Note 5)		30		22
Intangibles				
Pension administration system (Note 6)		485		556
Total non-current assets		515		578
Total assets		418,965		363,759
Liabilities				
Current liabilities				
Benefits due (Note 13)		512		2,118
Investment management fees		450		13
Accounts payable		303		269
Overpaid contributions (Notes 7 and 21)		287		287
Overpaid grants (Note 7)		244		244
PSP deferred benefit liability		105		51
Other liabilities		106		-
Total current liabilities		2,007		2,982
Non-current liabilities				
Due in respect of Judiciary contributions (Note 10)		3,620		3,021
Total liabilities		5,627		6,003
Net assets		413,338		357,756
Represented by:				
Net assets available for benefits:				
Accumulated fund (Note 21)		413,338		357,756

Kenneth Jefferson, JP
Chairman

Jewel Evans Lindsey
Managing Director

The accounting policies and notes on pages 9 to 29 form part of these financial statements.

Public Service Pensions Board
Statement of Changes in Net Assets Available for Benefits
For the year ended 30 June 2013
(Expressed in Cayman Islands Dollars)

	2013	2012 As restated
	$000	$000
Pensions		
Contributions		
Employees	13,205	13,211
Employers	12,532	12,684
Employers - Additional defined benefit cost	17,390	2,623
Total	43,127	28,518
Late payment penalty income	-	1
Pre-Funded Ex-gratia pensions (Note 8)	1,098	1,111
Total Contributions	44,225	29,630
Benefits paid to participants (Note 11)		
Public service pensions	(24,703)	(27,724)
Parliamentarian pensions	(1,339)	(1,203)
Ex-Gratia pensions (Note 8)	(814)	(1,043)
Total benefits paid to participants	(26,856)	(29,970)
Net pensions	17,369	(340)
Investing		
Investment income		
Unrealized gain on investments - net	20,057	6,525
Relized gain on sale of investments - net	17,662	9,730
Dividends earned on investments	6,980	6,146
Interest earned on investments	159	64
Realized (loss)/gain on foreign exchange	(77)	365
Investment income – other	16	-
Interest earned on term deposits and call accounts	5	3
Unrealized gain/(loss) on foreign exchange		(1,563)
Total investment income	44,802	21,270
Investment expenses		
Investment management and custodial fees (Note 16)	(3,171)	(2,549)
Interest attributable to Judiciary contributions (Note 10)	(341)	(176)
Other investment expenses	(12)	(19)
Total investment expenses	(3,524)	(2,744)
Net investment income	41,278	18,526
Operating		
Operating income		
Other income	135	119
Gain/(loss) on sale of fixed assets	-	9
Total operating income	135	128
Operating expenses		
Administrative expenses (Note 12)	(2,862)	(3,037)
Depreciation and amortization (Notes 5 and 6)	(96)	(13)
Write-off of accounts receivable and stale-dated items	(242)	-
Total operating expenses	(3,200)	(3,050)
Net operating (loss)	(3,065)	(2,922)
Net increase in assets	55,582	15,264
Net assets available for benefits at start of year (Note 21)	357,756	342,492
Net assets available for benefits at end of year (Note 21)	413,338	357,756

The accounting policies and notes on pages 9 to 29 form part of these financial statements.

Public Service Pensions Board
Statement of Cash Flows
For the year ended 30 June 2013
(Expressed in Cayman Islands Dollars)

	2013 $000	2012 $000
Cash flows from operating activities		
Receipts		
Contributions received from employees	13,170	12,850
Contributions received from employers	12,435	12,368
Other income received	220	227
Net investment income received	73	60
Total	**25,898**	**25,505**
Payments		
Benefits paid to participants - Public Service	(26,309)	(26,089)
Administrative expenses paid	(2,958)	(3,296)
Investment management fees and other expenses paid	(1,771)	(1,660)
Benefits paid to participants - Parliamentarian	(1,339)	(1,203)
Benefits paid to participants - Ex-Gratia	(814)	(1,043)
Total	**(33,191)**	**(33,291)**
Net cash used in operating activities	**(7,293)**	**(7,786)**
Cash flows from investing activities		
Proceeds from sale of investments	4,357	-
Purchase of investments	-	(8,333)
Purchase of fixed assets and intangibles	(33)	(10)
Proceeds on the disposition of fixed assets	-	9
Net cash provided by/(applied to) investing activities	**4,324**	**(8,334)**
Cash flows from financing activities		
Contributions received from employers - Additional defined benefit	17,518	2,695
Ex-gratia grant and prepaid Ex-gratia grant	1,098	1,111
Net cash received from financing activities	**18,616**	**3,806**
Cash flows from judiciary contributions		
Contributions received from employer	198	111
Contributions received from employees	104	92
Benefits paid to participants	(44)	(43)
Net cash received from judiciary contributions	**258**	**160**
Net increase (decrease) in cash and cash equivalents during the year	15,905	(12,154)
Cash and cash equivalents at beginning of year	1,935	14,089
Cash and cash equivalents at end of year (Note 3)	17,840	1,935

The accounting policies and notes on pages 9 to 29 form part of these financial statements.

Public Service Pensions Board
Statement of Accumulated Plan Benefits
For the year ended 30 June 2013
(Expressed in Cayman Islands Dollars)

	2013	2012 As restated
	$000	$000
Actuarial present value of accumulated plan benefits (Note 15)		
Inactive and Active Participants	(494,849)	(494,849)
Total actuarial present value of accumulated plan benefits	(494,849)	(494,849)
Fund's net assets available for benefits at year-end (Note 21)	413,338	357,756
Fund deficit (Note 21)	(81,511)	(137,093)

The accounting policies and notes on pages 9 to 29 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 of the Cayman Islands Government 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 each consist of two parts: a Defined benefit part and a Defined contribution part. All employees who joined any of the Plans 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 any of the Plans contribute at the rate of six percent of pensionable earnings and employers contribute a matching six percent. 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	
	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 of the Cayman Islands	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 of the Cayman Islands	9.57%	1.00%	0.26%	1.00%
Cayman Islands Airport Authority	13.14%	1.00%	N/A	1.00%
Cayman Island Health Services Authority	1.00%	1.00%	N/A	1.00%

1. Introduction and background information (continued)

c. Contributions (continued)

	2005		2002	
	Defined Benefit*	Defined Contribution	Defined Benefit*	Defined Contribution
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 and Communications Technology Authority	N/A	1.00%	N/A	N/A

* The full liability for any additional defined benefit costs are 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 of 12% of pensionable earnings of the normal benefit accrual cost plus the annual cost of meeting the unfunded past service liabilities.

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 on currency. The Board has established an asset mix policy in collaboration with its investment managers with a goal to achieve long-term returns three to four percent 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

Basis of preparation

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.

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.

Reporting and functional currency
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 2013.

Judgments and estimates
The preparation of financial statements in conformity with International Financial Reporting Standards 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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. The recommended rate of contributions contained therein, both contributions received and contributions receivable in these financial statements are reflective of the 2005 recommended contribution rates, which are the last approved rates.

2. Significant accounting policies (continued)

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, depreciation is charged to operations per annum on a straight line basis as follows:

Furniture and fixtures	10%
Computer equipment and software	20%
Office equipment	20%
Vehicle	25%

Intangibles
Intangible asset is comprised of externally acquired software for internal use. It is measured at cost and amortized on a straight-line basis over its useful life over a period not exceeding 5 years.

Disposals
Gains and losses on disposals of fixed assets are determined by comparing the sale proceeds with the carrying amount of the asset. Gains and losses on disposals during the year are included in the Statement of Changes in Net Assets Available for Benefits.

Foreign currency transactions
Transactions in foreign currencies, other than in 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.

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 2013**	**30 Jun 2012**
	$ 000	**$ 000**
Cash	12,780	1,880
Term deposits	5,060	55
Total	**17,840**	**1,935**

3. Cash and cash equivalents (continued)

The detail of the term deposits at Cayman National Bank at 30 June 2013 is shown below:

At 30 June 2013

Account number	Principal $000	Value date	Maturity date	Interest rate
TD-013-07285	5,005	28 June 2013	29 July 2013	0.220%
TD-013-06149	55	7 June 2013	09 December 2013	0.290%
Total	5,060			

At 30 June 2012

Account number	Principal $000	Value date	Maturity date	Interest rate
TD-013-06149	55	05 June 2009	07 December 2012	0.125%

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)*.

a) Investment and Market conditions[1]

The Fund (In General)

During the 2nd quarter, 2013, overall performance of the PSPB Fund was a negative 80 basis points and lagged its policy benchmark of negative 30 basis points by 50 basis points. Despite the weak quarterly performance, the return over the 1-year period remained double digit positive at 12.6%, being ahead of the policy benchmark by 50 basis points. Longer term, annualized returns and value added remained strongly positive with the 4-year return being double digit at 14.7%, delivering 4.1% in value-added performance.

On a relative basis, the PSPB Fund's performance ranked at the 79th percentile for the 2nd quarter and the 52nd percentile rank over the 1-year period. Longer term, being the 4-year period, the PSPB Fund's relative ranking is high at the 8th percentile and above average.

The Fund's long term risk return trade-off is low and above the norm when measured against a peer universe sample of about 100 diversified funds.

[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.

4. Investments (continued)

a) Investment and Market conditions[1] (continued)

Global equities

The pullback in global equities was the worst in more than a year but the 2nd quarter still managed to cap-off a slightly positive return for the broader markets of about 70 basis points. The actively managed global equity segments of the PSPB Fund recorded returns that were either flat to slightly positive by 50 basis points. Value added is positive at 40 basis points for global equities under management by Grantham, Mayo, Otterloo (GMO) while Independent Franchise Partners (IFP) generated performance that lagged the market by about 20 basis points.
On a relative basis, IFP global equities ranked at the 58th percentile over the quarter and at the 53rd percentile rank over the 1-year period. Longer term (over the trailing 4 years) the relative ranking remains high at the 3rd percentile of the comparative peer sample universe of managers.

On a relative basis, GMO global equities ranked at the 67th percentile over the quarter and at the 79th percentile rank over the 1-year period. Over the 3-year period, GMO ranked slightly below average at the 55th percentile rank.

Real estate equities

The steepening of the yield curve was negative for publicly-listed property company performance over the 2nd quarter to the extent of 3.6%, even though the expectation was for improving economic conditions which are ultimately good for commercial property fundamentals. Active management lagged the index only slightly by 10 basis points. Over the 1-year period the slippage however was more sizeable at 3.6% which negatively impacted all trailing annualized periods and value added.

Over the reporting period, relative ranking was below average and consistently ranked in the 4th quartile across all time periods exceeding one year, supporting the value added assessment.

Fixed income

Over the 2nd quarter, active bonds under management with PIMCO generated negative returns of 3.1% and lagged the broader market by 80 basis points. As a result, the year-to-date return of negative 2.8% is now behind the benchmark by 40 basis points while the 1-year return of 1.1% is ahead of the broader bond market by 1.8%. Longer term, annualized bond returns are generating performance that is above 4.0% and generating positive value added.

Regarding relative ranking, bond performance placed at the 94th percentile for the quarter. Over the 1-year period, the relative ranking remains high and above average at the 25th percentile rank. Longer term, being the 3-year period, relative ranking was slightly above average.

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[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.

4. Investments (continued)

b) Investment returns

Total Returns to 30 June 2013
Annualized for periods exceeding 1 year

Last 3 Months	Year-to-Date	1 Year	2 Years	3 Years	4 Years	5 years	7 years	From Inception
(0.8)%	5.0%	12.6%	9.4%	14.3%	14.7%	10.3%	8.8%	5.7%

c) Investment portfolios

The investment portfolios are summarized below:

Description	30 June 2013 $ 000	30 June 2013 %	30 June 2012 $ 000	30 June 2012 %
Global Equities	272,074	68.55	230,440	64.46
Fixed Income	112,387	28.32	115,788	32.39
Real Estate equities	12,430	3.13	11,269	3.15
Total	**396,891**	**100.00**	**357,497**	**100.00**

5. Fixed assets

Fixed assets consist of the following components:

	Furniture & Fixtures $000	Office Equipment $000	Computer Equipment $000	Computer Software $000	Vehicles $000	Total $000
Cost						
As at 01 July 2012	4	2	143	32	20	201
Additions	-	16	1	1	-	18
As at 30 June 2013	4	18	144	33	20	219
Accumulated Depreciation						
As at 01 July 2012	-	1	129	29	20	179
Depreciation	1	3	5	1	-	10
As at 30 June 2013	1	4	134	30	20	189
Carrying value at 30 June 2013	**3**	**14**	**10**	**3**	**-**	**30**

5. Fixed Assets (continued)

	Furniture & Fixtures	Office Equipment - Board	Computer Equipment	Computer Software	Vehicles	Total
	$000	$000	$000	$000	$000	$000
Cost						
As at 01 July 2011	-	2	137	32	20	191
Additions	4	-	6	-	-	10
As at 30 June 2012	4	2	143	32	20	201
Accumulated Depreciation						
As at 01 July 2011	-	1	119	26	20	166
Depreciation	-	-	10	3	-	13
As at 30 June 2012	-	1	129	29	20	179
Carrying value at 30 June 2012	4	1	14	3	-	22

6. Intangibles

Intangibles consist of Plan Administration System as follows:

	$000
Cost	
As at 01 July 2012	556
Additions	15
As at 30 June 2013	571
Accumulated Amortization	
As at 01 July 2012	-
Amortization	86
As at 30 June 2013	86
Carrying value at 30 June 2013	485

7. 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 is carried out.

7. Overpaid contributions/Grants (continued)

	30 June 2013	30 June 2012 (As restated)
Contributions	**$000**	**$000**
Overpaid contributions - Employee	158	158
Overpaid contributions - Employer	129	129
Total	**287**	**287**

	30 June 2013	30 June 2012
Pension grants	**$000**	**$000**
Ex-Gratia – Employer	244	244
Total	**244**	**244**

In the 2011/12 financial statements (without restatement), the total overpaid contribution balance totaled $1,745,142. During the 12/13 financial year, a comprehensive reconciliation of all payments into the pension administration system was undertaken to ensure that all payments received and any over or underpayment made by each individual Employer at the Employee level were properly applied. As a result, the following components of the 2011/12 balance of overpaid contribution account were determined:

	Amount
	$000
Error in recording accrual for Overpaid Contributions	979
Amounts relating to actual overpayment of past service liabilities that had been factored into actuarial valuation in 2005	479
	1,458

The presentation in these financial statements of the prior year corresponding figures of this account have been restated to reflect the correction described above, representing a variance of $1,458,346 compared to what was originally reported in the prior year financial statements. The correction consisted in recognizing these amounts as Contributions Received in the statement of changes in net assets available for benefits. The effect of such restatement on certain perior year corresponding figures are presented in Note 21.

At the time of preparing these financial statements, reconciliation procedures on the remaining amount of $286,796 are still progressing, and any adjustments required will be undertaken when these differences are thereby resolved. The said balance is reported as overpaid contributions for the year ended 30 June 2013 (2012: $287 thousand).

8. Ex-gratia and Parliamentarian 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."

An estimate of the payments to be administered during the year are appropriated to and received by PSPB, and reported as Annual Grants. Payments administered during each year are reported as annual payments. Excess or deficient funds result at year-end and reported either as receivables or payables respectively.

Ex-gratia pension payment activity: 2008 - 2012

Description	2008-09 $000	2009-10 $000	2010-11 $000	2011-12 $000	2012-13 $000
Accumulated Surplus /(Deficit)- Beginning of year	229	186	257	(47)	(13)
Annual Grant	448	378	349	1,111	1,098
Annual Payments	(491)	(307)	(653)	(1,077)	(814)
Surplus / (Deficit)	(43)	71	(304)	34	284
Accumulated Surplus / (Deficit) – End of year	186	257	(47)	(13)	271

8. Ex-gratia and Parliamentarian payments (continued)

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 six percent of pensionable earnings and employers contribute a matching six percent. 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 other funds. 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.

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.

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."

9. Assets allocated to Parliamentary pensions fund

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, in addition to 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.

9. Assets allocated to Parliamentary pensions fund (continued)

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 based on actuarial estimates as of 1 January 2011.

10. 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.

11. 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.

The Parliamentary Pensions 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 benefit payments be paid directly from the Parliamentarian Pensions Fund.

12. Administrative expenses

Description	30 June 2013 $000	30 June 2012 $000
Salaries and benefits	2,218	2,349
Office accommodation	381	326
General administrative	77	53
Other professional fees	72	214
Audit fees	67	67
Actuarial fees	33	9
Trustee-related expenses	14	19
Total	**2,862**	**3,037**

13. 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 2013 and 30 June 2012. Under section 23 of the *Public Service Pensions Law (2011 Revision),* participants of the Plan were required to initiate their pension benefit payments upon attaining the age of 60 and as such were no longer eligible to accrue further pension contributions from the employer.

14. 2011 Actuarial valuation report

In accordance with the *Public Service Pensions Law (2011 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 19 April 2012. As Cabinet has not yet accepted and approved the 2011 and 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 recommended contribution rates, which are the last approved rates. However, the 2013 and 2012 Statement of accumulated plan benefits is based on the 2011 actuarial valuation report.

15. 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.

15. 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 (actuarial estimate)	Amount $000
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. 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.

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

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

The Actuary has determined that a continuation of the current level of contributions to the Defined Benefit plan (close to 12% of salaries) is projected to result in the depletion of the Defined Benefit allocated fund by the year 2026. It is also determined that by the year 2013, under the current scenario, that total plan contributions (Including both Defined Benefit and Defined Contributions 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 2011 of approximately $12,913,000 consisting of the following components:

Parliamentarian pensions plan (actuarial estimate)	Amount $000
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. 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 pensions 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.

15. 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 (actuarial estimate)	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 arisen as a result of the actuarial gains from the termination of one active participant and contribution income in excess of expectations.

16. 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. Investment consultancy fees (continued)

The Board incurred investment management and consultancy expenses as follows:

	30 June 2013 $000	30 Jun 2012 $000
Investment managers		
Independent Franchise Partners	1,547	1,330
PIMCO	585	558
ING Clarion Real Estate Securities	228	196
GMO Global Equity Fund	163	141
Custodian		
CIBC Mellon	85	48
Investment advisor		
Advisory Capital	333	229
Legal fees (custodial transition)		
Pillsbury, Winthrop, Shaw, Pittman LLP	230	47
Total	**3,171**	**2,549**

17. Financial instruments risks

All investments are subject to one or more types of "inherent" risk(s) which is expected and necessary to assume in order to achieve needed returns. From a pensions 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 Investment 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.

17. 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.

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

17. 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 17 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 increased, 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.

18. Leases and commitments

On March 31, 2011, PSPB moved into the new Government Administration Building. The Board is leasing 3,798 square feet under a year-to-year term. Occupational charges are as follows:

Occupational charges	Space	Running cost	Total
Unit cost	$ 12 / sq ft	$ 52.35 / sq ft	$ 64.35 / sq ft
Monthly cost	$3,798	$16,569	$20,367
Annual	$45,576	$198,825	$244,401

19. Related party transactions

Key management personnel
There are six full-time equivalent personnel considered as "Key management personnel". 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 Key management personnel in 2012-13 was $941 thousand (2011-12: $1 million).

19. 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 $55 thousand and $67 Thousands, respectively (2011-12: $55 Thousand and $67 Thousand, 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. Office of the Premier
f. Ministry of Finance, Tourism and Development
g. Office of the Complaints Commissioner
h. Portfolio of the Civil Service
i. Portfolio of Internal and External Affairs
j. Ministry of District Administration, Works, Lands and Agriculture
k. Ministry of Education, Training and Employment
l. Ministry of Health Environment, Youth Sports and Culture
m. Ministry of Community Affairs, Gender and Housing
n. Information Commisioner's Office

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

21. Prior period adjustment

The correction described in Note 7 necessitated that the following previously reported figures in the 2011/12 financial statements are restated in these financial statements as corresponding figures. The financial statement items affected are as follows:

Financial statement areas	As reported in the 30 June 2012 audited financial statements	Adjustments arising from current year restatement	Restated 30 June 2012 balances reflected as prior year figures in current year financial statements
	CI$000	CI$000	CI$000
Statement of Net Assets Available for Benefits:			
Liabilities			
Overpaid contributions	1,745	(1,458)	287
Total current liabilities	4,440	(1,458)	2,982
Total liabilities	7,461	(1,458)	6,003
Net Assets			
Net assets available for benefits: Accumulated fund	356,298	1,458	357,756
Statement of Changes in Net Assets Available for Benefits:			
Net assets available for benefits at start of year	341,035	1,458	342,493
Net assets available for benefits at end of year	356,298	1,458	357,756
Statement of Accumulated Plan Benefits:			
Fund's net assets available for benefits at the valuation date	356,298	1,458	357,756
Fund deficit	(138,551)	1,458	(137,093)

22. Subsequent events

On 11 December 2013, the 2008 and 2011 Actuarial valuation reports which were completed 17 March 2009 and 12 April 2012 respectively, were tabled in the Legislative Assembly and accepted.