Hymans Robertson LLP has carried out an actuarial valuation of the Isle of Man Local Government Pension Fund ("the Fund") as at 31 March 2007, details of which are set out in the report dated 13th March 2008 ("the Report"), addressed to Isle of Man Local Government Pension Fund ("the Client"). The Report was prepared for the sole use and benefit of our Client and not for any other party; and Hymans Robertson LLP makes no representations or warranties to any third party as to the accuracy or completeness of the Report.

The Report was not prepared for any third party and it will not address the particular interests or concerns of any such third party. The Report is intended to advise our Client on the past service funding position of the Fund at 31 March 2007 and employer contribution rates from April 2008, and should not be considered a substitute for specific advice in relation to other individual circumstances.

As this Report has not been prepared for a third party, no reliance by any party will be placed on the Report. It follows that there is no duty or liability by Hymans Robertson LLP (or its members, partners, officers, employees and agents) to any party other than the named Client. Hymans Robertson LLP therefore disclaims all liability and responsibility arising from any reliance on or use of the Report by any person having access to the Report or by anyone who may be informed of the contents of the Report.

The report must not be used for any commercial purposes unless Hymans Robertson LLP agrees in advance.

HYMANS ROBERTSON

Isle Of Man Local Government Pension Scheme

Actuarial valuation as at 31 March 2007

13 March 2008

Peter Summers

Fellow of the Faculty of Actuaries
For and on behalf of Hymans Robertson LLP

PUBLIC SECTOR

Contents

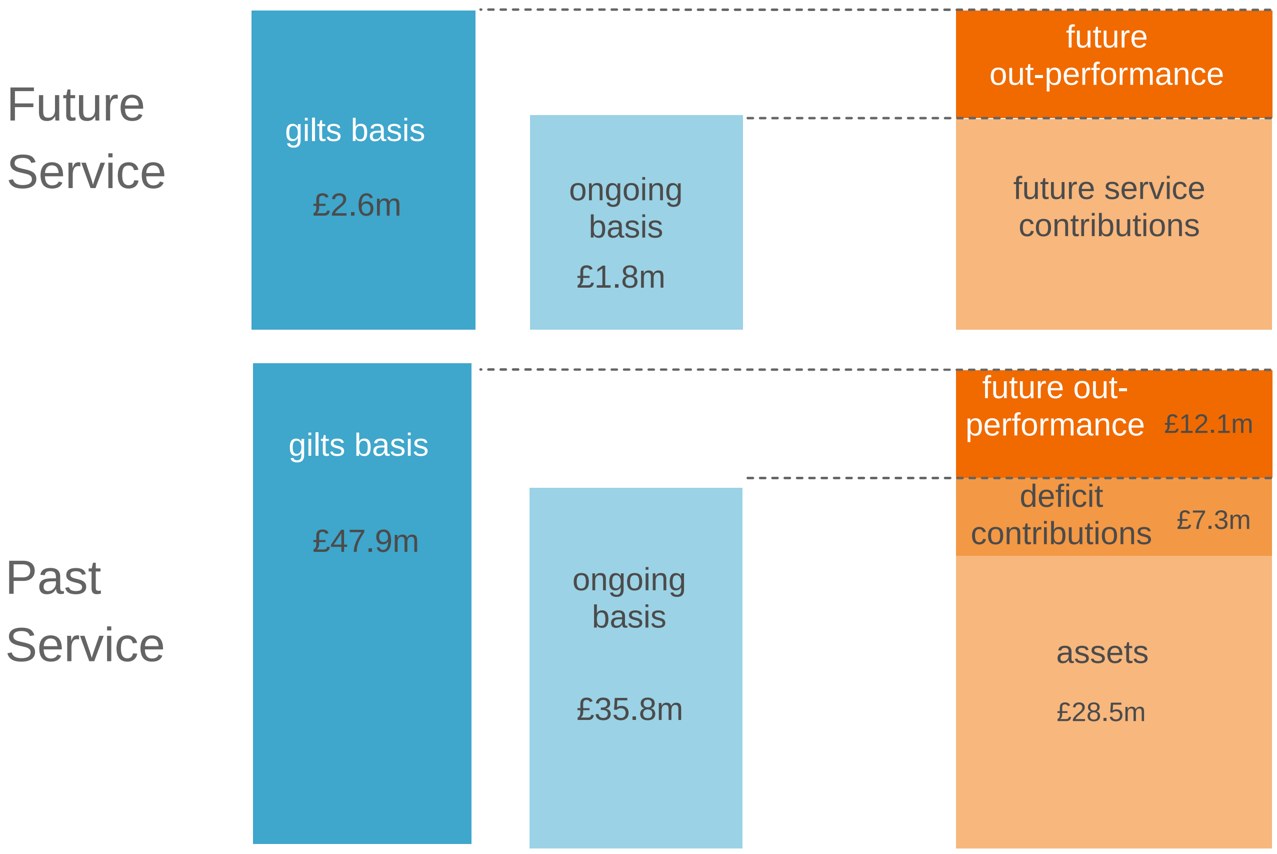
Executive summary

I have carried out an actuarial valuation of the Isle of Man Local Government Pension Scheme ('the Fund') as at 31 March 2007 ('the valuation date'). The results are presented in this report and summarised below.

The Fund's objective of holding sufficient assets to meet the estimated current cost of providing members' past service benefits was not met at the valuation date. The funding level was 79.6% (compared to 63.3% at 31 March 2004) and there was a funding shortfall of (£7.3m).

Without anticipating an element of future equity out-performance, the 'gilt-based' funding level would be 59.3% at the valuation date, and there would be a shortfall of (£19.5m).

The Fund's financial position at the valuation date is illustrated graphically in the chart below.



The employers' average future service contribution rate as at 31 March 2007 (ignoring the past service shortfall) is 16.6% of pensionable pay. Assuming that a funding level of 100% is to be targeted over a period of 14 years, the common employers' contribution rate is 23% of pensionable pay. These figures take advance credit from outperformance of the Fund's assets relative to gilt yields on the valuation basis. Ignoring this credit for outperformance the future service contribution rate would be 25.8%, and the common contribution rate would be 41.2% of pay.

The minimum contributions to be paid by each employer from 1 April 2008 to 31 March 2011 are shown in the Rates and Adjustment Certificate at Appendix H.

The results of the valuation are very sensitive to the actuarial assumptions made. If actual future demographic and economic experience does not match the assumptions, the financial position of the Fund could deteriorate materially.

Peter Summers

Fellow of the Faculty of Actuaries

13 March 2008

1 Introduction

I have carried out an actuarial valuation of the Isle of Man Local Government Pension Scheme ('the Fund') as at 31 March 2007 ('the valuation date') and this is my report to Borough of Douglas ('the Administering Authority') on the results of the valuation.

The main purposes of this valuation are:

- to assess the extent to which the Administering Authority's funding objectives were met at the valuation date;
- to identify the contributions payable by the employers to the Fund in future in order to meet the Administering Authority's funding objectives;
- to enable completion of all relevant certificates and statements in connection with the Local Government Superannuation Scheme 2003 (Statutory Document No. 61/03), approved by Tynwald in 2003 ("the Regulations"), and other relevant regulations (see Appendix A); and
- to comment on the circumstances that may give rise to future volatility in the funding level of the Fund or employers' contributions.

This report is provided solely for the purpose of the Administering Authority to consider the management of the Fund and in particular to fulfil their and my statutory obligations. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with my prior written consent, in which case it should be released in its entirety. This report can be passed to Fund employers for the purpose of providing information on the funding of the Fund.

Neither I nor Hymans Robertson LLP accept any liability to any other party unless we have expressly accepted such liability in writing.

2 About the Fund

The Fund is a multi-employer defined benefit pension scheme. It is contracted out of the State Second Pension.

Funding objectives

The objectives of the Fund's funding policy are as follows:

- to ensure the long-term solvency of the Fund;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- to ensure that employers are aware of the risks and potential returns of the investment strategy;
- to try to maintain stability of employer contributions;
- to use reasonable measures to reduce the risk to other employers and ultimately to the ratepayer from an employer defaulting on its pensions obligations;

What are the Fund's liabilities?

The Fund's liabilities are essentially the benefits promised to Fund members (past and current contributors) and to members' dependants on their death. The valuation places a current or present value on these liabilities on the valuation date.

The cost of members' benefits depends on three main factors:

(i) The benefits promised to members.

The Fund provides pensions and other benefits to members and their beneficiaries. The benefits in force on the valuation date are set out in the Regulations. Employee members are required to pay contributions to the Fund, generally at the rate of 6% of pensionable pay[1]. The principal elements of the Fund's benefit structure are summarised in Appendix B. These benefits are common to all employers participating in the Fund.

[1] A closed group of manual workers who joined before April 1998 contribute 5% of pay.

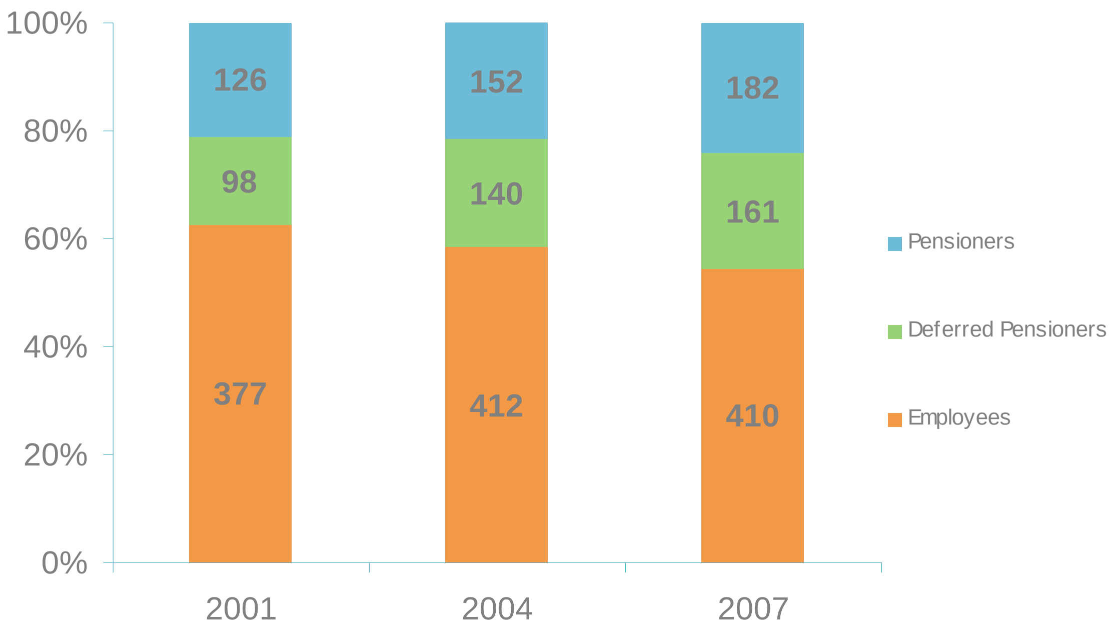
In the UK the benefits and member contributions payable by and to the LGPS respectively, have been amended, with effect from 1 April 2008. This has impacted on the 2007 round of actuarial valuations. These changes are yet to be implemented in the Isle of Man and no allowance has been made for any such (potential) future changes.

There are a small number of discretionary powers that may be exercised by the Administering Authority or by individual employers. The principal discretions are also summarised in Appendix B. With the exception of the employers' powers to pay early unreduced benefits or augment benefits, normally on early retirement, I would not expect the exercise of these powers to have a material effect on the valuation results. In any event, I would expect additional employer payments, in addition to the employer contributions set out in the rates and adjustments certificate, to be made in respect of such early retirements unless agreed otherwise.

The requirements of sex-equality legislation (for example in respect of differences in the guaranteed minimum pensions for men and women) and age-equality legislation are not clear cut. In this valuation, I have not taken account of any additional costs which may arise from any future requirement to amend the LGPS benefit structure in respect of these issues.

(ii) The profile of the members

The membership of the Fund at the current and previous two valuations are summarised in the chart below and described in more detail in Appendix C.



The cost of the benefits is expressed as a percentage of the pensionable pay of employee members. As the proportion of pensioner and deferred members increases, so the contribution rate (as a percentage of pay) becomes more sensitive to the past service position. The profile of the employee members (age, sex and category) also affects how much future benefits will cost.

(iii) When and for how long will the benefits be paid

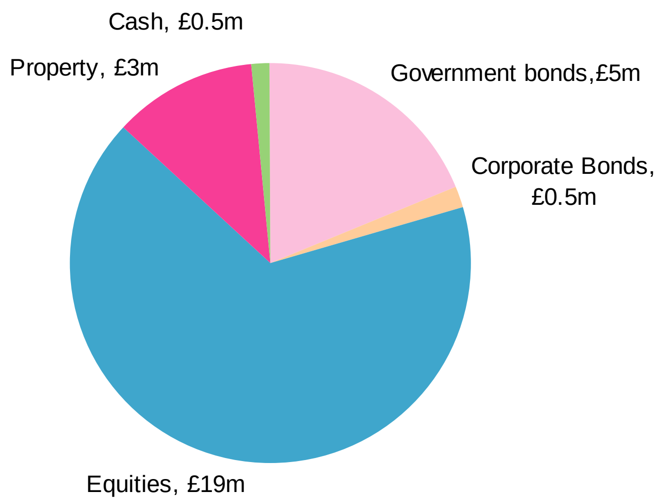
The timing and amount of benefit payments depends on future experience, such as when members will retire and how long they will live in retirement. In assessing the expected cost of members' benefits, I need to use actuarial assumptions about such experience. I explain the actuarial assumptions later in this report.

It should be noted that the actual future cost of providing members' benefits is not known in advance. The purpose of the valuation is to assess how much the Fund needs to hold now to pay those benefits, taking account the above factors and its funding objectives.

What are the Fund's assets?

The Fund's assets are invested by the Administering Authority. The market value of assets at the valuation date (excluding money purchase AVC funds) was £28.5m as shown in the audited accounts for the Fund for the period ending on 31 March 2007. No part of the Fund is comprised of insurance policies.

The Fund's assets at 31 March 2007 are summarised in the chart below and in more detail in Appendix C. The consolidated Revenue Account for the three year period to 31 March 2007 is also summarised in Appendix C.



Notes: (1) Cash includes net current assets (liabilities).

The membership and accounting data has been provided by the Administering Authority and I have relied on the accuracy of the information provided.

3 Funding method and assumptions

I have used a funding method and assumptions for this valuation consistent with the Administering Authority's funding objectives. The methodology and assumptions are described below, and in more detail in Appendices D and F.

Methodology

For this valuation, as for the previous valuation, I have used a funding method which identifies separately the expected cost of members' benefits in respect of scheme membership completed before the valuation date ('past service') and in respect of scheme membership expected to be completed after the valuation date ('future service').

The method I have chosen compares the value of assets with the value of past service benefits, taking account of all expected future salary increases. The funding level is the value of the assets divided by the value of the past service liabilities. Where the funding level is greater than 100% there is a surplus in the fund (i.e. where assets are greater than the value of the past service benefits). Where the funding level is less than 100% there is a shortfall (i.e. where the assets are lower than the value of the past service benefits). The funding target is to achieve a funding level of 100% over a specific period. The "past service adjustment" is the additional employer contribution calculated to be required to target 100% over that period if there is a deficit (a contribution reduction will be calculated if there is a surplus). The past service adjustments can be expressed as a monetary amount or as a percentage of the value of the members' pensionable pay over the period.

To determine the employer contribution requirement for future service for the Fund as a whole, I have assessed the cost of future service benefits for the year following the valuation date, taking account of expected future salary increases. The contribution rate required to meet the expected cost of future service benefits is derived as this value expressed as a percentage of the value of members' pensionable pay over the year. This is known as the 'Projected Unit method' and is explained in further detail in Appendix D.

To determine the employer contribution requirement for future service for employers who no longer admit new members, I would normally assess the cost of future service benefits over the expected remaining period of contributory membership of employee members, again taking account of expected future salary increases. The contribution rate required to meet the expected cost of future service benefits is derived as this value less expected member contributions expressed as a percentage of the value of members' pensionable pay over their expected future working lives. This is known as the 'Attained Age method' and is explained in further detail in Appendix D.

Finally, an allowance for expenses is added to the Employer contribution rate.

Actuarial assumptions

In the actuarial valuation, I must use assumptions about the factors affecting the Fund's finances in the future. The assumptions to which the valuation is most sensitive are described here and a full statement of the assumptions is given in Appendix F.

The main financial assumptions I have adopted for the valuation of members' benefits are shown below.

Assumption	Derivation	Rate at 31 March 2007	
		Nominal	Real
Price Inflation (RPI)	Market expectation of long term future inflation as measured by the difference between yields on fixed and index-linked Government bonds as at the valuation date	3.2%	-
Pay Increases *	Assumed to be 1.5% p.a. in excess of price inflation	4.7%	1.5%
'Gilt-based' discount rate	The yield on fixed-interest (nominal) and index-linked (real) Government bonds	4.5%	1.3%
Funding basis discount rate	Assumed to be 1.6% p.a. above the yield on fixed interest Government bonds	6.1%	2.9%

** Plus an allowance for promotional pay increases.*

Discount rate

In order to place a current value on the future benefit cashflows expected to be paid from the Fund, I need to 'discount' the future cashflows to the valuation date at a suitable rate. Different valuations can be categorised by the approach taken to setting the discount rate. For example, under the accounting standard FRS17, the discount rate is determined as the yield on AA-rated corporate bonds. By comparison, a 'gilt-based' valuation will use the yield on suitably dated Government bonds. These valuations are intended to place a 'value' on the pension promise.

The funding valuation is effectively a budgeting exercise, to assess the funds needed to meet the benefits as they fall due. For this purpose, I have set the discount rate taking into account the Fund's current and expected future investment strategy and assumed an asset outperformance assumption of 1.6% p.a.. One way of measuring the degree of prudence in the funding strategy is to measure the extent to which advance credit is taken for expected future investment returns over and above gilt returns. Funding strategy should not however be considered in isolation and the degree of risk inherent in the Fund's investment strategy should also be considered.

Longevity

In addition to the financial assumptions, the main assumption to which the valuation results are most sensitive is that relating to future longevity. For this valuation, I have adopted assumptions which give the following average future life expectancies for pensioners aged 65 at the valuation date:

	Assumptions to assess funding positions at 31 March 2007		Assumptions to assess funding positions at 31 March 2004	
Males (M) or Females (F)	M	F	M	F
Average future life expectancy (in years) for a pensioner aged 65 at the valuation date	19.6	22.5	18.4	21.3
Average future life expectancy (in years) at age 65 for a non-pensioner at the valuation date	20.7	23.6	18.4	21.3

Assets

I have taken the assets of the Fund into account at their market value as indicated in the audited accounts for the period ended 31 March 2007.

In my opinion, the basis for placing a value on members' benefits is compatible with that for valuing the assets: both are related to market conditions at the valuation date.

4 Funding position: Are the objectives met?

As I noted earlier, the Administering Authority has a number of funding objectives for the Fund. In broad terms, the main ‘past service’ objective is to hold sufficient assets in the Fund to meet the assessed cost of members’ past service benefits and the main ‘future service’ objective is to maintain a relatively stable employer contribution rate. These objectives are potentially conflicting.

Past service

In assessing the extent to which the funding objective was met at the valuation date, I have used the funding method and actuarial assumptions described in the previous section of this report. My results are presented in the form of a ‘funding level’ which is the ratio of the value of assets to the assessed cost of members’ past service benefits (based on service to the valuation date). A funding level of 100% would correspond to the objective being exactly met. The table below compares the value of the assets and liabilities at the valuation date.

Valuation date	2007
Past Service Liabilities	£m
Employees	21.8
Deferred Pensioners	3.3
Pensioners	10.7
Total Liabilities	**35.8**
Assets	28.5
Surplus/(Deficit)	(7.3)
Funding Level	79.6%

At the valuation date the funding level was 79.6%.

The main funding objective was not met: there was a shortfall of assets to the assessed cost of members’ benefits of £7.3m. More details of the funding position are given in Appendix G.

Future service

I have calculated the long-term contribution rate that the Fund employers would need to pay to meet the assessed cost of members’ benefits as they are built up in the future (the ‘future service contribution rate’). Again, I have used the method and assumptions set out in the previous section of this report and therefore the resulting contribution rate is that which should (if the actuarial assumptions match actual experience) ensure that the Administering Authority‘s main funding objective is met for benefits earned after the valuation date. It ignores the shortfall in the Fund at the valuation date.

The combined employers’ future service contribution rate (after deducting employee members’ contributions) is 16.6% of pensionable pay, payable with effect from 1 April 2008. This contribution rate includes expenses and the expected cost of lump sum death benefits, but excludes early retirement strain and augmentation costs which are payable by Fund employers in addition to the contribution rate.

The total employer contribution rate requirement is given in section 6, with further detail, including a comparison with 2004 rates, shown in Appendix G.

5 Changes since the previous valuation

The previous formal actuarial valuation of the Fund was carried out with an effective date of 31 March 2004. Since then, there have been changes to the Fund and its membership, to the economic environment in which the Fund operates and to the valuation process. Many of these changes have affected the valuation results. The relevant changes, and their effects on the actuarial valuation, are described in Appendix E and summarised below.

Changes to the assumptions

The financial assumptions have changed since the previous valuation. The financial assumptions used in this and the previous valuation are shown in Appendix F. Further detail on changes is included in Appendix E

Changes to the economic environment

Since the previous valuation, equity markets have risen and bond markets have risen (so yields have fallen). Market expectations of inflation have risen. Overall, changes in economic factors have been favourable in terms of their effect on the funding level. Lower real gilt yields have however increased the assessed cost of future service benefits.

Changes to the Fund membership

The Fund membership has changed since the previous valuation, as new employee members have joined the Fund and members have left the Fund, retired and died. Whilst membership changes were anticipated at the previous valuation, the actual changes have inevitably not exactly matched the assumptions made at the previous valuation.

Further details of the Fund membership and its changes since the previous valuation are given in Appendix C.

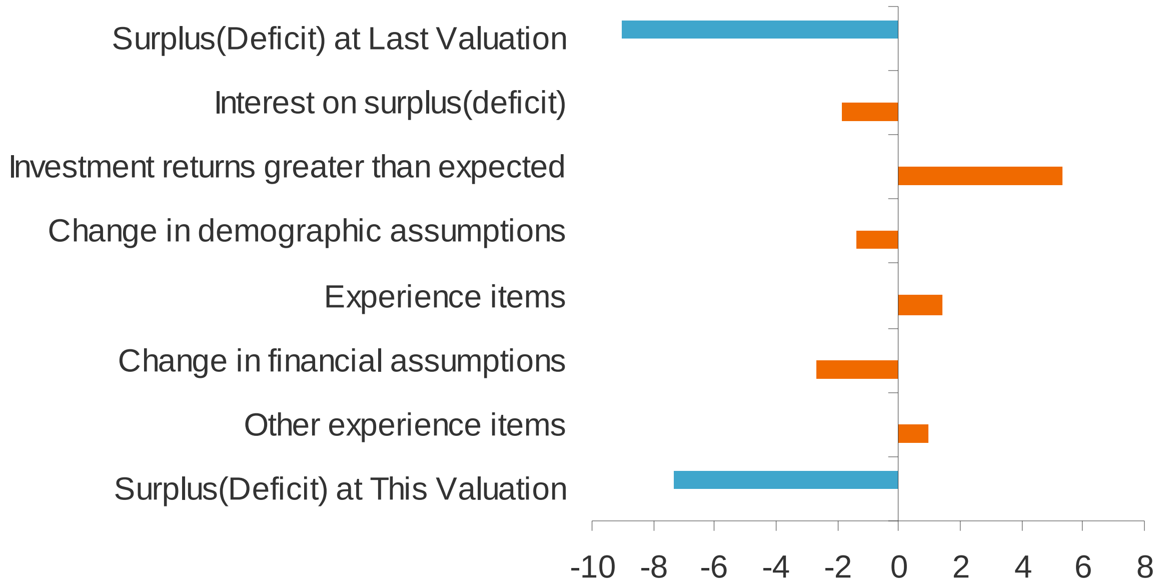
Changes to the Fund's assets

The Fund's assets have been augmented by employer and employee contributions paid in, transfer values received, and interest and investment gains. Conversely, the assets have been depleted by benefit payments to members and their beneficiaries, transfer values and refunds paid/and payment of administration and other expenses. Overall, there has been a net increase in the market value of the Fund's assets, only some of which was anticipated in the previous valuation.

In the report on the previous actuarial valuation I recommended that contributions be paid in line with the rates shown in the Rates and Adjustment certificate appended to that report over the period from 1 April 2005 to 31 March 2008. The Fund employers have paid contributions over the period from 1 April 2005 in line with those recommended rates.

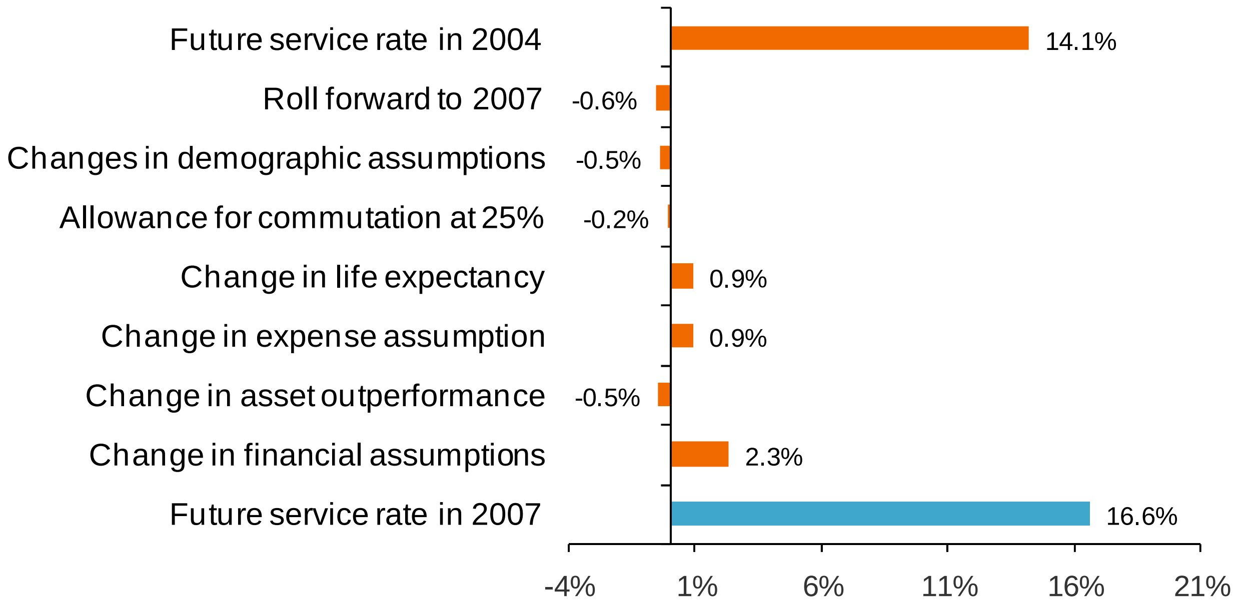
Changes to the funding position

The changes described above have combined to improve the Fund's funding position since the previous valuation. The chart below illustrates the effect of the various factors on the funding position.



Changes to the contribution requirement

The maturing of the Fund's employee membership coupled with the fall in real gilt yields, changes to the funding assumptions, and an increased expense allowance have led to an increase in the assessed cost of future benefit accruing, as shown by the chart below.



Further detail on the funding level and contribution requirements is shown in section 6.

6 Employer contributions payable

Whole Fund position

The employers' average cost of future service benefits (i.e. ignoring the past service shortfall) is 16.6% of pensionable pay (as defined in Appendix B). This is the future contribution rate payable over the long term by the Fund employers to meet the Administering Authority's funding objectives, based on the assumptions set out in this report.

The common contribution rate payable is the cost of future benefit accrual, increased by an amount to bring the funding level back to 100% over a period of 14 years as per the funds' objectives.

The employer common contribution rate based on the funding position as at 31 March 2007 is as follows:

Employer contribution rates	31 March 2007
	% pensionable payroll
Total future service cost	20.5%
Employee contributions (excluding AVCs)	5.8%
Expenses	1.9%
Net employer future service cost	16.6%
Past service adjustment - 14 year spread	6.4%
Employer contribution rate	23.0%

Employer contribution rates

I have the power to make adjustments to the common rate of employers' contribution to take account of certain circumstances that are peculiar to individual employers, or groups of employers.

To formally confirm these contribution rates, a Rates and Adjustment Certificate is included as Appendix H, detailing the minimum contributions to be paid by each Fund employer from 1 April 2008 to 31 March 2011.

Further sums should be paid to the Fund by employers to meet the capital costs of any unreduced early retirements, reduced early retirements before age 60 and/or augmentation (i.e. additional membership or additional pension) using the methods and factors issued by me from time to time or as otherwise agreed.

In addition, payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within my assumptions.

The contributions shown in the Rates and Adjustment Certificate include expenses and the expected cost of lump sum death benefits, but excludes early retirement strain and augmentation costs which are payable by Fund employers in addition.

Recommendations

Valuation frequency

Under the provisions of the Regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2010. In light of the uncertainty of future financial conditions I recommend that consideration is given to monitoring the financial position of the Fund in the period up to the next triennial valuation. Such monitoring would give early warning of changes to funding positions and possible contribution rate changes.

Investment strategy and risk management

I recommend that the Administering Authority continues to review its investment strategy and ongoing risk management programme. The investment strategy is being reviewed in parallel with this valuation exercise.

New employers joining the fund

Any new employers or admission bodies joining the Fund should be referred to me as the Fund actuary for individual calculation as to the required level of contribution. They should also agree to pay the capital costs (as a one-off lump sum payment) of any early retirements or augmentation based on my advice and using methods and factors issued by the actuary from time to time, together with any additional contributions that may be required if their ill-health early retirement experience is worse than assumed.

Other matters

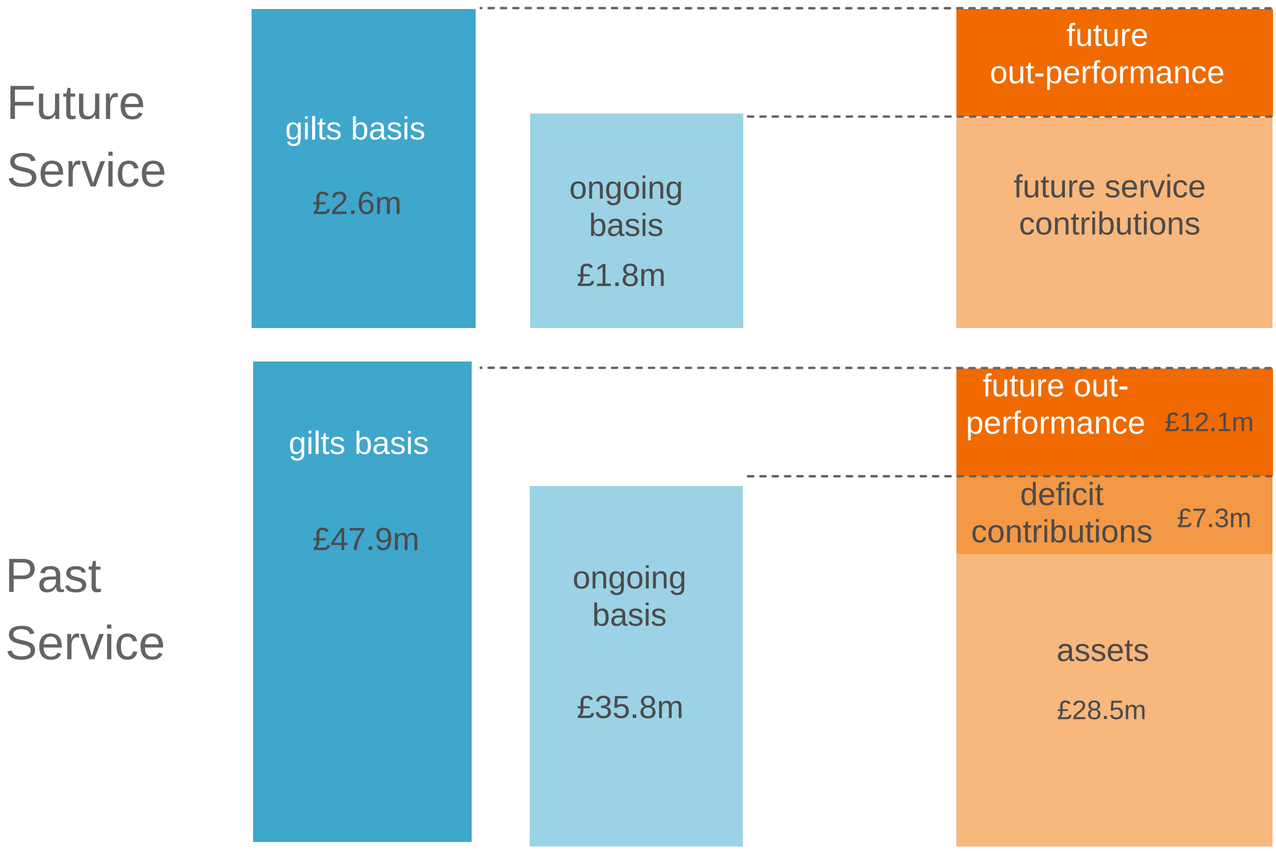
Any Admission Body who ceases to participate in the Fund should be referred to me in accordance with the regulations.

Any bulk movement of scheme members involving 2 or more scheme members being transferred from or to another pension arrangement should be referred to me to consider the impact on the Fund.

7 Actuarial risk analysis

The valuation results depend critically on the actuarial assumptions made, in particular the net discount rate (the gap between the discount rate and the rate at which benefits and pensionable pay increase in future), and the assumptions for future life expectancy.

In section 4, in order to place a current value on the liabilities, I discounted the future cashflows to the valuation date assuming that the assets held by the Fund will outperform index-linked gilts by 1.6% p.a. One way of measuring the degree of prudence in the funding strategy is to measure the extent to which advance credit is taken for expected future investment returns over and above gilt returns. The following chart summarises the effect on the valuation results if no advance credit was taken for additional outperformance above gilt returns (i.e. a ‘gilts basis’ was used to value the liabilities).



Over time, the funding position and the contributions required will depend on the extent to which future experience matches the assumptions made. In the previous section, I showed the extent to which the assumptions made at the previous valuation did not reflect actual experience over the period to 31 March 2007. The valuation results do not include explicit contingency reserves for other unexpected financial and demographic effects.   In this section I discuss the potential implications of the actuarial assumptions not being met in the future.

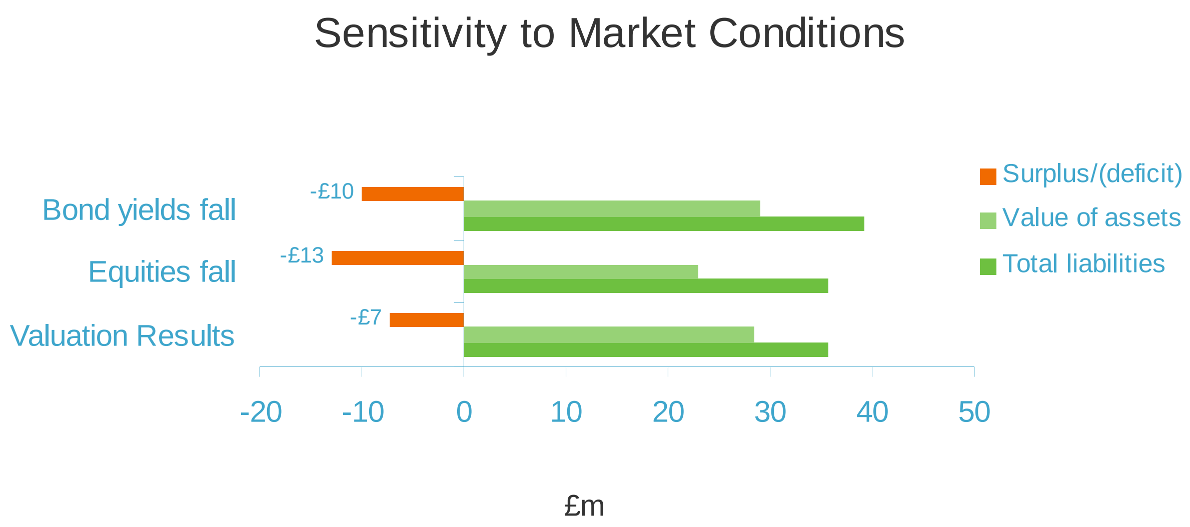
Investment risk

The valuation results are particularly sensitive to the assumed discount rate (i.e. the assumed future investment returns). If future investment returns are less than the assumed discount rate, the funding level will deteriorate. To illustrate the sensitivity of the funding level to changes in equity and bond markets, I have considered the impact of the following events occurring soon after 31 March 2007:

- Equities and equity-type investments (such as property) fall by 25%, with no change in bond markets;
- The price of bonds rises so that there is a 1% fall in the nominal redemption yields available on fixed interest bonds and a 0.5% fall in the real yield available on index-linked bonds, with no change in equity markets.

The events illustrated are by no means exhaustive. They should not be taken as the limit of how extreme future experience could be.

The chart below shows how the funding level would be affected if those events occurred on 31 March 2007.



The calculation of the Fund's funding position makes implicit allowance for future investment returns in excess of those that could be obtained on closely matching fixed and index-linked Government bonds ('gilts'). While the current investment strategy is expected to yield investment returns in excess of those available on closely matching Government bonds, such returns cannot be guaranteed and can only be achieved with a higher level of risk of underperformance. To illustrate the potential costs of reducing this mismatching risk, I have also calculated the amount of assets that would be needed at the valuation date to enable the Administering Authority to invest in closely matching Government bonds.

On this basis, the Administering Authority would need assets of some £47.9m resulting in a shortfall of £19.5m at the valuation date. Looked at another way, the assessed cost of members' past service benefits of £35.8m shown in Section 4 of this report implicitly assume that the Administering Authority's investment strategy will generate investment growth of £12.1m in excess of that available on closely matching Government bonds.

Longevity risk

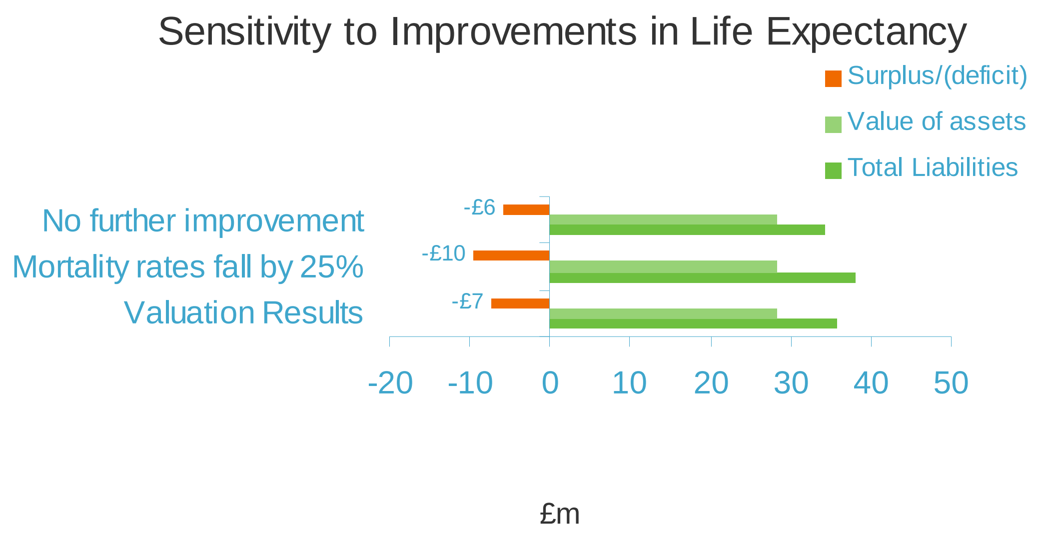
The valuation results are very sensitive to unexpected changes in future longevity. If longevity improves in the future at a faster pace than allowed for in the valuation assumptions, the Fund's funding level will decline and the required employer contribution rate will increase. Recent medical advances, changes in lifestyles and generally greater awareness of health-related matters have resulted in longevity improving in recent years at a faster pace than most experts had foreseen. It is unknown whether such improvements will continue in the future. Certain factors, such as advancements in genetic medicine would point towards even greater improvements in longevity in the future; conversely, the increase in childhood obesity may result in a decline in longevity in future generations.

As a measure of the sensitivity of the valuation to future life expectancy I have considered the results which would arise if I assumed that

- mortality rates at all ages immediately fall by 25%;
- that the improvements in longevity of pensioners seen recently cease altogether so that future mortality rates are the same as current ones.

The events illustrated are by no means exhaustive. They should not be taken as the limit of how extreme future experience could be.

The chart below shows how the funding level would be affected if those events occurred on 31 March 2007.



Other risks and sensitivities

The other main assumptions to which the valuation results are sensitive, together with their associated risks, are described below.

Risk	Effect on funding level	Effect on future service benefits
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	Reduction	Increase if future returns are expected to be lower than previously assumed
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	Reduction	Increase
Pay and price inflation more than anticipated	Reduction	Increase if expected to continue
Pensioners living longer than anticipated in the valuation assumptions.	Reduction	Increase if expected to continue
More members retiring early on ill-health grounds, and/or retiring at a younger age than assumed	Reduction	Increase if expected to continue
Fewer active members withdrawing from pensionable service (with refunds of contributions or deferred pensions) than assumed	Reduction	Increase if expected to continue
Members convert less pension to cash at retirement than assumed	Reduction	Increase if expected to continue
Average age of the employee membership rises	Reduction	Increase
Changes to regulations to be more favourable in respect of benefits package	Reduction if changes affect past service	Increase
Changes to overriding pension legislation or tax rules to be more favourable to members	Reduction if changes affect past service	Increase

Peter Summers FFA

for and on behalf of Hymans Robertson LLP

13 March 2008

Appendix A – About the actuarial valuation

This valuation is carried out in accordance with the regulations on the Island. These adopt some regulations in the UK. In particular, they adopt Regulation 77 of the Local Government Pension Scheme Regulations 1997, as amended, ('the Regulations'), which specifies that the Administering Authority must obtain:

- an actuarial valuation of the assets and liabilities of the Fund as at 31 March 1998 and every three years thereafter;
- a report by an actuary; and
- a rates and adjustments certificate.

Within the rates and adjustment certificate I am required to specify:

- the employers' common contribution rate which, in my opinion, should be paid by all employers so as to ensure the Fund's solvency, and
- any individual adjustments (increases or decreases) to the common contribution rate which, in my opinion, are required by reason of any circumstances peculiar to that employer,

which for this valuation apply for each year of the period of three years beginning with 1 April 2008.

Under the provisions of the Regulations, I am required to have regard to:

- the existing and prospective liabilities of the Fund arising from circumstances common to all those bodies participating in the Fund,
- the desirability of maintaining as nearly constant a rate as possible, and

This report has been prepared in accordance with version 8.0 of the guidelines 'GN9: Funding Defined Benefits - Presentation of Actuarial Advice' published by the Faculty and Institute of Actuaries. However the following aspects of GN9 are not relevant to the LGPS and its funds in the current circumstances and I have not reported on them:

- Paragraph 3.4.16 of GN9 requires the actuary to include the certification of technical provision in relation to a valuation under Part 3 of the Pensions Act 2004. As Part 3 of the Pensions Act 2004 does not apply to the LGPS, this report does not comply with paragraph 3.4.16 of GN9; and
- Part 3.5 of GN9 requires the actuary to report on the value of the liabilities that would arise had the Fund wound up on the valuation date (based on the cost of buying out the accrued benefits with insurance policies). As the LGPS is a statutory scheme, there is no regulatory provision for scheme wind up and the scheme members have a statutory right to their accrued benefits. Therefore the concept of solvency on a buy-out basis does not apply to the Fund. Accordingly, this report does not comply with part 3.5 of GN9.

The previous formal actuarial valuation was carried out as at 31 March 2004 by myself and the results were set out in my report dated 8 March 2005.

Appendix B – Summary of the Fund's benefits

The non-discretionary Fund benefits that I have taken into account in this valuation for active members are summarised below.

Provision	Benefit Structure
Normal retirement age (NRA)	Age 65. However, for members who joined prior to 1 April 1998, NRA is the age between 60 and 65 when the member attains 25 years scheme membership.
Earliest retirement age (ERA) on which immediate unreduced benefits can be paid on voluntary retirement	NRA or, if earlier, the rule of 85 date (when years of age plus years of scheme membership total to 85). Limitations on payment of benefits prior to age 60.
Member contributions	Officers - 6% of pensionable pay Manual Workers – 5% of pensionable pay if has protected lower rates rights or 6% for post 31 March 1998 entrants or former entrants with no protected rights.
Pensionable pay	All salary, wages, fees and other payments in respect of the employment, excluding non-contractual overtime and some other specified amounts. Some scheme members may be covered by special agreements.
Final pay	The pensionable pay in the year up to the date of leaving the scheme. Alternative methods used in some cases, e.g. where there has been a break in service or a drop in pensionable pay.
Period of scheme membership	Total years and days of service during which a member of the Fund. Additional periods may be granted (e.g. transfers from other pension arrangements, augmentation).
Normal retirement benefits at NRA	Annual Retirement Pension - 1/80th of final pay for each year of scheme membership. Lump Sum Retirement Grant - 3/80th of final pay for each year of scheme membership.

Provision	Benefit Structure
Employer's consent early retirement benefits (non ill-health)	On retirement after age 50 with employer's consent a pension and lump sum based on actual scheme membership completed may be paid. Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction. Otherwise, benefits are subject to reduction on account of early payment, unless this is waived by the employer.
Ill-health benefits	In the event of premature retirement due to permanent ill-health or incapacity, an immediate pension and lump sum are paid based on actual scheme membership plus an enhancement period of scheme membership. The enhancement period is dependent on scheme membership at date of leaving and is seldom more than 6 years 243 days. No reduction is applied due to early payment.
Pension increases	All pensions in payment, deferred pensions and dependant's pensions other than benefits arising from the payment of additional voluntary contributions are increased annually. Pensions are increased partially under the Pensions (Increases) Act and partially in accordance with statutory requirements (depending on the proportions relating to pre 88 GMP, post 88 GMP and excess over GMP).
Death after retirement	A spouse's pension of one half of the member's pension (generally post 1 April 1972 service for widowers' pension) is payable; plus If the member dies within five years of retiring and before age 75 the balance of five years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.
Death in service	A lump sum of two times final pay; plus A spouse's pension of one half of the ill-health retirement pension that would have been paid to the scheme member if he had retired on the day of death (generally post 1 April 1972 service for widowers' pension); plus Children's pensions may also be payable.
Leaving service options	If the member has completed two years' or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions ; or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than two years' scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 7.5%.

Provision	Benefit Structure
State pension scheme	The Fund is contracted-out of the State Second Pension and the benefits payable to each member are guaranteed to be not less than those required to enable the Fund to be contracted-out.

All benefits under the Fund are subject to limits laid down from time to time by the Isle of Man Treasury

Note: Certain categories of members of the Fund are entitled to benefits that differ from those summarised above.

Discretionary benefits

The Regulations give employers a number of discretionary powers. These include:

- the awards of periods of augmentation under Regulation 52 and Regulation 53;
- the payment of benefits on employer’s consent prior to age 60 under Regulation 31;
- not applying the suspension of spouses’ pensions on remarriage or cohabitation for members who retired before 1 April 1998.

The effect on benefits or contributions as a result the use of these provisions prior to 1 April 2007 has been allowed for in this valuation to the extent that this is reflected in the membership data provided. No allowance has been made for the future use of discretionary powers. My assumptions do not anticipate any saving from the suspension of spouses’ pension; to the extent that this continues, there will be a saving.

Appendix C – Membership data and assets

Membership data - employee members

	31-Mar-07		31-Mar-04	
	Number	Pensionable pay [£000]p.a.	Number	Pensionable pay [£000]p.a.
Full-time members				
Male officers	36	1,301	40	1,254
Female officers	24	648	29	632
Male manuals	76	1,553	97	1,696
Female manuals	10	161	11	141
Post April 1998 males	167	3,735	159	2,596
Post April 1998 females	49	1,053	36	555
Total full-time members	**362**	**8,451**	**372**	**6,874**
Part-time members				
Male officers	0	0	1	46
Female officers	8	147	8	100
Male manuals	0	0	1	5
Female manuals	4	39	7	40
Post April 1998 males	13	228	4	29
Post April 1998 females	23	222	19	105
Total part-time members	**48**	**636**	**40**	**325**
Total members	**410**	**9,087**	**412**	**7,199**

The average age of employee members is 50.9 years. The average expected future working life of existing employee members is 8.6 years. All of these figures are weighted by liability.

Note that the numbers in the above table refer to the number of records and so will include ‘double counting’ of members in more than one employment.

Membership data - pensioners, spouses and children

	31-Mar-07		31-Mar-04	
	Number	Pensions [£000] p.a.	Number	Pensions [£000] p.a.
Normal/early retirements				
Male officers	45	390	35	324
Female officers	19	64	11	34
Male manuals	35	54	26	33
Female manuals	6	7	1	0
Ill-health retirements				
Male officers	13	160	14	167
Female officers	3	12	5	13
Male manuals	17	49	12	28
Female manuals	4	11	4	10
Dependants				
Widows	37	107	42	114
Widowers	1	1	0	0
Children	2	1	2	1
Total	**182**	**856**	**152**	**724**

The average age of pensioner members (weighted by liability and excluding spouses' and civil partners' pensions and children's pensions in payment) is 67.7. Note that the numbers in the above table refer to the number of records and so will include 'double counting' of members in receipt of, or potentially in receipt of, more than one benefit.

Membership data - deferred pensioners

	31-Mar-07		31-Mar-04	
	Number	Pensions [£000] p.a.	Number	Pensions [£000] p.a.
Men	108	164	90	116
Women	53	88	50	70
Total	161	252	140	186

The deferred pension shown includes revaluation up to and including that granted by the 2007 Pension Increase Order. The average age of deferred pensioners (weighted by liability) is 46.4. The figures above also include status 2 and status 9 members as at the valuation date.

Note that the numbers in the above table refer to the number of records and so will include 'double counting' of members in receipt of, or potentially in receipt of, more than one benefit.

Assets at 31 March 2007

A summary of the Fund's assets (excluding Members' money-purchase Additional Voluntary Contributions) as at 31 March 2007 is as follows:

	Market Value [£000]	Percentage of total Assets %
UK equities	10,004	35%
Overseas equities	8,897	31%
UK fixed interest bonds	4,009	14%
UK index linked bonds	1,327	5%
UK corporate bonds	499	2%
Overseas bonds	0	0%
Property	3,305	12%
Cash and net current assets	409	1%
Total	**28,451**	**100%**

Revenue account for the three years to 31 March 2007

Revenue Accounts		£000			
	Year to	31-Mar-07	31-Mar-06	31-Mar-05	Total
EXPENDITURE	Retirement pensions	807	802	695	2,303
	Retirement grants	134	228	199	561
	Death benefits	44	6	55	105
	Transfer values	29	90	47	166
	Refunds	21	15	15	51
	Admin expenses	159	153	162	474
	Investment expenses	125	105	69	298
	Other expenditure				
INCOME	Employee contributions	547	509	474	1,530
	Employer contributions	2,025	1,849	1,736	5,609
	Transfer values	140	256	137	533
	Investment income	668	524	495	1,688
	Other income	0	0	0	0
Assets at start of year		25,150	18,551	15,551	15,551
Net cashflow		2,062	1,739	1,599	5,401
Change in value		1,242	4,859	1,401	7,502
Assets at end of year		28,451	25,150	18,551	28,451
RETURNS	Approx rate of return	6.9%	27.5%	11.3%	51.8%

Appendix D – Funding method

Using the actuarial assumptions described in section 3 (and Appendix F) I estimate the payments which will be made from the Fund throughout the future lifetimes of existing employee members, deferred pensioners, pensioners and their dependants. I then calculate the amount of money which, if invested now, would be sufficient to make these payments in future, assuming that future investment returns are in line the discount rate. This amount is the estimated cost of members' benefits. I make separate calculations for benefits arising from scheme membership before the valuation date ('past service') and from scheme membership after the valuation date ('future service').

Past service funding position

I compare the value of the assets with the estimated cost of members' past service benefits. The ratio of the asset value to the estimated cost of members' past service benefits is known as the 'funding level'. If the funding level is more than 100% there is a 'surplus'; if it is less than 100% there is a 'shortfall'.

Future service contribution rate: Whole Fund and employers admitting new entrants

I calculate the estimated cost of benefits accruing to existing employee members over the year following the valuation date allowing for all expected future pay and pension increases. This amount is expressed as a percentage of the members' pensionable pay over the year following the valuation date and is known as the 'future service contribution rate'.

This method of assessing the future contribution requirement is applied only to the Fund membership at the valuation date. If new entrants are admitted to the Fund to the extent that the membership profile remains broadly unchanged (and if the actuarial assumptions are unchanged) then the future service contribution rate assessed at future valuations should be reasonably stable. However, if the average age of employee members rises (for example if few or no new entrants are admitted to the Fund), and if the actuarial assumptions are unchanged, then the future service contribution rate will increase.

This funding method is known as the Projected Unit Method.

Future service contribution rate: Employers not admitting new entrants

I calculate the estimated cost of benefits accruing to existing employee members over their expected future working life allowing for all expected future pay and pension increases. This amount is expressed as a percentage of the members' pensionable salaries over their expected future working life and is known as the 'future service contribution rate'.

This method of assessing the future contribution requirement is applied only to the Fund membership at the valuation date. If no new entrants are admitted to the Fund, so that the membership profile gradually ages, (and if the actuarial assumptions are unchanged) then the contribution rate assessed at future valuations should be reasonably stable, provided that any surplus or shortfall in the past service position is reflected in the contribution rate.

This funding method is known as the Attained Age Method.

Future service contribution rate: All cases

Under each of the two methods described above to calculate the future service contribution rate, the cost of the lump sum death in service benefit is separately assessed as the amount which is likely to be paid out in an average year, based on the membership structure at the valuation date.

The total ‘future service contribution rate’ is then the sum of either the ‘Projected Unit Method’ rate or the ‘Attained Age Method’ rate, plus the lump sum death benefit cost. It is the rate at which the Fund employers, together with the employee members, should contribute to the Fund to meet the cost of members’ benefits expected to arise from service after the valuation date. For the period from 1 April 2008 to 31 March 2010, employee members will be contributing at fixed rates (albeit with various tiers). Therefore the Fund employers’ future service contribution rate is the total future service contribution rate less the member contribution rate. An addition is made to cover the expected future expenses of administering the Fund.

Appendix E – Changes since the previous valuation

Changes to the assumptions

The financial assumptions have changed since the previous valuation. The differences between the financial assumptions used for this and the previous valuation reflect a change in the economic environment between the two valuations, rather than being a change in funding policy or a change in investment policy. The financial assumptions used in this and the previous valuation are shown in Appendix F.

The assumptions relating to the mortality of current and future pensioners have changed since the previous valuation, to reflect recent experience in the Fund and more up-to-date standard mortality tables produced by the actuarial profession. The effect of the change in assumptions on the expected future lifespan of Fund members is illustrated in Appendix F.

Some of the other demographic assumptions have also changed since the previous valuation. The changes reflect updated expectations of future experience based on an analysis of recent past experience in the Fund.

Changes to the economic environment

Since the previous valuation, equity markets have risen and bond markets have risen (so yields have fallen). Market expectations of inflation have risen. Overall, changes in economic factors have been favourable in terms of their effect on the funding level. Lower real gilt yields have however increased the assessed cost of future service benefits.

Changes to the Fund membership

The Fund membership has changed since the previous valuation, as new employee members have joined the Fund and members have left the Fund, retired and died. Whilst membership changes were anticipated at the previous valuation, the actual changes have inevitably not exactly matched the assumptions made at the previous valuation.

In general, the Fund has matured since the previous valuation: employee members are, on average, closer to retirement and the portion of the total assessed cost of benefits attributable to pensioner members has increased. Further details of the Fund membership and its changes since the previous valuation are given in Appendix C.

Changes to the Fund's assets

The Fund's assets have been augmented by employer and employee contributions paid in, transfer values received, and interest and investment gains. Conversely, the assets have been depleted by benefit payments to members and their beneficiaries, transfer values and refunds paid and payment of administration and other expenses. Overall, there has been a net increase in the market value of the Fund's assets, only some of which was anticipated in the previous valuation.

Appendix F – Actuarial assumptions

Financial assumptions

	Assumptions to assess funding position at 31 March 2004	Assumptions to assess funding position at 31 March 2007	Assumptions to assess 'gilt based' position at 31 March 2007
Annual rate of price inflation	2.9%	3.2%	3.2%
Annual rate of pension increases			
- on pensions in excess of GMPs	2.9%	3.2%	3.2%
- on pensions accrued after April 1997	2.9%	3.2%	3.2%
- on post-88 GMPs in payment	2.0%	2.8%	2.8%
- on pre-88 GMPs in payment	0.0%	0.0%	0.0%
Annual rate of increase of deferred pensions	2.9%	3.2%	3.2%
Annual rate of pay increases	4.4% (2)	4.7% (1)	4.7% (1)
Discount rate			
	6.3%	6.1%	4.5%
Expenses	1.0%	1.9%	1.9%

(1) plus an allowance for promotional increases (see table below).

(2) plus an allowance for promotional increases.

Mortality assumptions

PMA92/PFA92 TABLES BASED ON CALENDAR YEAR PROJECTIONS

For current pensioners mortality is projected to Calendar Year 2017, whilst for members yet to retire it is projected to 2033.

Age ratings set out in the table below:

	Males	Females
Officers (& post-98 joiners)	**No age rating**	**No age rating**
Manuals	**+3 years**	**+2 years**

Ill Health Retirement - as above, except rated up by 5 years (6 years for male officers and male post-98 joiners)

Widows – one year older than female pensioners

Other demographic valuation assumptions

Retirements in ill health	Allowance has been made for ill-health retirements before Normal Pension Age (see table below).
Withdrawals	Allowance has been made for withdrawals from service (see table below).
Family details	A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 80% for males and 75% for females. Husbands are assumed to be 3 years older than wives.
Commutation	25% of future retirements elect to exchange pension for additional tax free cash up to Treasury limits.

The tables below show details of the assumptions actually used for specimen ages. The promotional pay scale is an annual average for all employees at each age. It is in addition to the allowance for general pay inflation described above. For membership movements, the percentages represent the probability that an individual at each age leaves service within the following twelve months.

Age	Incidence per 1000 active members per anumm											
	Male Officers & Post 98			Male Manuals			Female Officers & Post 98			Female Manuals		
	Death	Ill Health		Death	Ill Health		Death	Ill Health		Death	Ill Health	
		FT	PT		FT	PT		FT	PT		FT	PT
20	0.30	0	0	0.38	0	0	0.16	0	0	0.20	0	0
25	0.30	0	0	0.38	2.24	1.79	0.16	0.42	0.34	0.20	2.60	2.08
30	0.36	0.42	0.34	0.45	3.64	2.91	0.24	0.70	0.56	0.30	3.60	2.88
35	0.42	0.56	0.45	0.53	5.46	4.37	0.40	1.40	1.12	0.50	5.20	4.16
40	0.72	0.98	0.78	0.90	7.56	6.05	0.64	1.82	1.46	0.80	7.20	5.76
45	1.20	2.24	1.79	1.50	10.92	8.74	1.04	2.94	2.35	1.30	9.20	7.36
50	1.92	6.16	4.93	2.40	15.96	12.77	1.52	5.74	4.59	1.90	13.60	10.88
55	3.00	12.60	10.08	3.75	25.76	20.61	2.00	15.12	12.10	2.50	25.60	20.48
60	5.40	25.20	20.16	6.75	49.00	39.20	2.56	0	0	3.20	0	0

Age	Promotional Salary Scales							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	FT	PT	FT	PT	FT	PT	FT	PT
20	100	100	100	100	100	100	100	100
25	100	100	100	100	100	100	100	100
30	123	113	100	100	115	105	100	100
35	138	123	100	100	126	110	100	100
40	148	128	100	100	136	115	100	100
45	158	128	100	100	136	115	100	100
50	168	128	100	100	136	115	100	100
55	168	128	100	100	136	115	100	100
60	168	128	100	100	136	115	100	100

Age	Incidence for 1000 active members per annum							
	Male Officers & Post 98 Males Withdrawals		Male Manuals Withdrawals		Female Officers & Post 98 Withdrawals		Female Manuals Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT
20	176.26	293.76	293.76	587.52	167.18	232.20	278.64	371.52
25	116.42	194.04	194.04	388.08	112.46	156.20	187.44	249.92
30	82.58	137.64	137.64	275.28	94.25	130.90	157.08	209.44
35	64.51	107.52	107.52	215.04	81.29	112.90	135.48	180.64
40	51.91	86.52	86.52	173.04	67.61	93.90	112.68	150.24
45	42.48	70.80	70.80	141.60	55.66	77.30	92.76	123.68
50	32.90	54.84	54.84	109.68	42.41	58.90	70.68	94.24
55	28.51	47.52	47.52	95.04	32.69	45.40	54.48	72.64
60	17.28	28.80	28.80	57.60	15.19	21.10	25.32	33.76

Appendix G – Detailed valuation results

In section 4 of this report, I showed that at the valuation date, the funding level calculated in relation to the Administering Authority's chosen funding objective was 79.6% and the objective was not met, as there was a funding shortfall of £7.3m. The table below shows these results, together with those from the previous valuation, in more detail.

Funding position ([£000s])	31-Mar-07	31-Mar-04
A. Value of assets	**28,451**	**15,550**
Assessed cost of past service benefits in respect of:		
Employee members	21,789	14,210
Pensioner members	10,694	8,210
Deferred pensioner members	3,281	2,160
B. Total assessed cost of past service benefits	**35,764**	**24,580**
Funding surplus/(shortfall) (A minus B)	**(7,314)**	**(9,030)**
Funding level (A as a percentage of B)	**79.6%**	**63.3%**

Section 4 also showed that I calculate the overall 'future service contribution rate' payable by the Fund employers (ignoring the shortfall in the Fund at the valuation date) to be 16.6% of pensionable pay payable with effect from 1 April 2008. The derivation of this contribution rate, together with that calculated at the previous valuation and the past service adjustment, is shown below.

Employer contribution rates	31 March 2007	31 March 2004
	% pensionable payroll	% pensionable payroll
Total future service cost	20.5%	18.9%
Employee contributions (excluding AVCs)	5.8%	5.7%
Expenses	1.9%	1.0%
Net employer future service cost	16.6%	14.1%
Past service adjustment[(i)]	6.4%	9.1%
Employer contribution rate	23.0%	23.2%

(i) past service is recovered over 17 years in 2004, and 14 years in 2007.

Appendix H – Rates and adjustments certificate

In accordance with the Regulations, I have made an assessment of the contributions that should be paid to the Fund by the employing authorities as from 1 April 2008 in order to maintain the solvency of the Fund.

The required contribution rates are set out in the attached statement.

Signature:	
Date:	13 March 2008
Name:	Peter Summers FFA
Qualification:	Fellow of the Faculty of Actuaries
Firm:	Hymans Robertson LLP
	20 Waterloo Street
	Glasgow
	G2 6DB

Statement to the rates and adjustments certificate

The Common Rate of Contribution payable by each employing authority under the Regulations for the period 1 April 2008 to 31 March 2011 is 23% of pensionable pay (as defined in Appendix B).

No individual adjustments are in place resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay as set out below:

Employer code	Employer	Minimum contributions for the year ending		
		31 Mar 2009	31 Mar 2010	31 Mar 2011
1	Braddan Parish Commissioners	23.0%	23.0%	23.0%
2	Braddan Church, Vicar and Wardens	23.0%	23.0%	23.0%
3	Bride Parish Commissioners	23.0%	23.0%	23.0%
4	Castletown Commissioners	23.0%	23.0%	23.0%
5	Crossroad Caring for Carers	23.0%	23.0%	23.0%
6	Douglas Corporation	23.0%	23.0%	23.0%
7	Leonard Cheshire Foundation	23.0%	23.0%	23.0%
8	Malew Parish Commissioners	23.0%	23.0%	23.0%
9	Manx Foundation for Physically Disabled	23.0%	23.0%	23.0%
10	Marashen Crescent Housing Committee	23.0%	23.0%	23.0%
11	Manx Churches Adoption and Welfare Society	23.0%	23.0%	23.0%
12	Michael Commissioners	23.0%	23.0%	23.0%
13	Northern Local Authorities Swimming Pool Board	23.0%	23.0%	23.0%
14	Onchan District Commissioners	23.0%	23.0%	23.0%
15	Peel Town Commissioners	23.0%	23.0%	23.0%
16	Port Erin Commissioners	23.0%	23.0%	23.0%
17	Port St Mary Commisioners	23.0%	23.0%	23.0%
18	Ramsey Town Commissioners	23.0%	23.0%	23.0%
19	Ramsey and Northern District Housing Committee	23.0%	23.0%	23.0%
20	Southern Civic Amenity Site Board	23.0%	23.0%	23.0%
21	Southern Local Authorities Swimming Pool Board	23.0%	23.0%	23.0%
22	St Peters Church Vicar and Wardens	23.0%	23.0%	23.0%
	Non Contributing members			
23	Manx Blind			
24	Peel and Western District Housing Committee			
25	Department of Tourism and Leisure (Villa Marina)			

Notes

Contributions expressed as a percentage should be paid into Isle of Man Local Government Pension Scheme ('the Fund') at a frequency in accordance with the requirements of the Regulations.

Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentation using methods and factors issued by me from time to time.

Further sums may be required to be paid to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those included within my assumptions.

The certified contribution rates represent the minimum level of contributions to be paid. Future periodic contributions may be adjusted on a basis approved by the Fund actuary.