Hymans Robertson LLP has carried out an actuarial valuation of the Isle of Man Local Government Pension Scheme ("the Fund") as at 31 March 2010, details of which are set out in the report dated 28 March 2011 ("the Report"), addressed to the Borough of Douglas ("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 representation or warranties to any third party as to the accuracy or completeness of the Report.

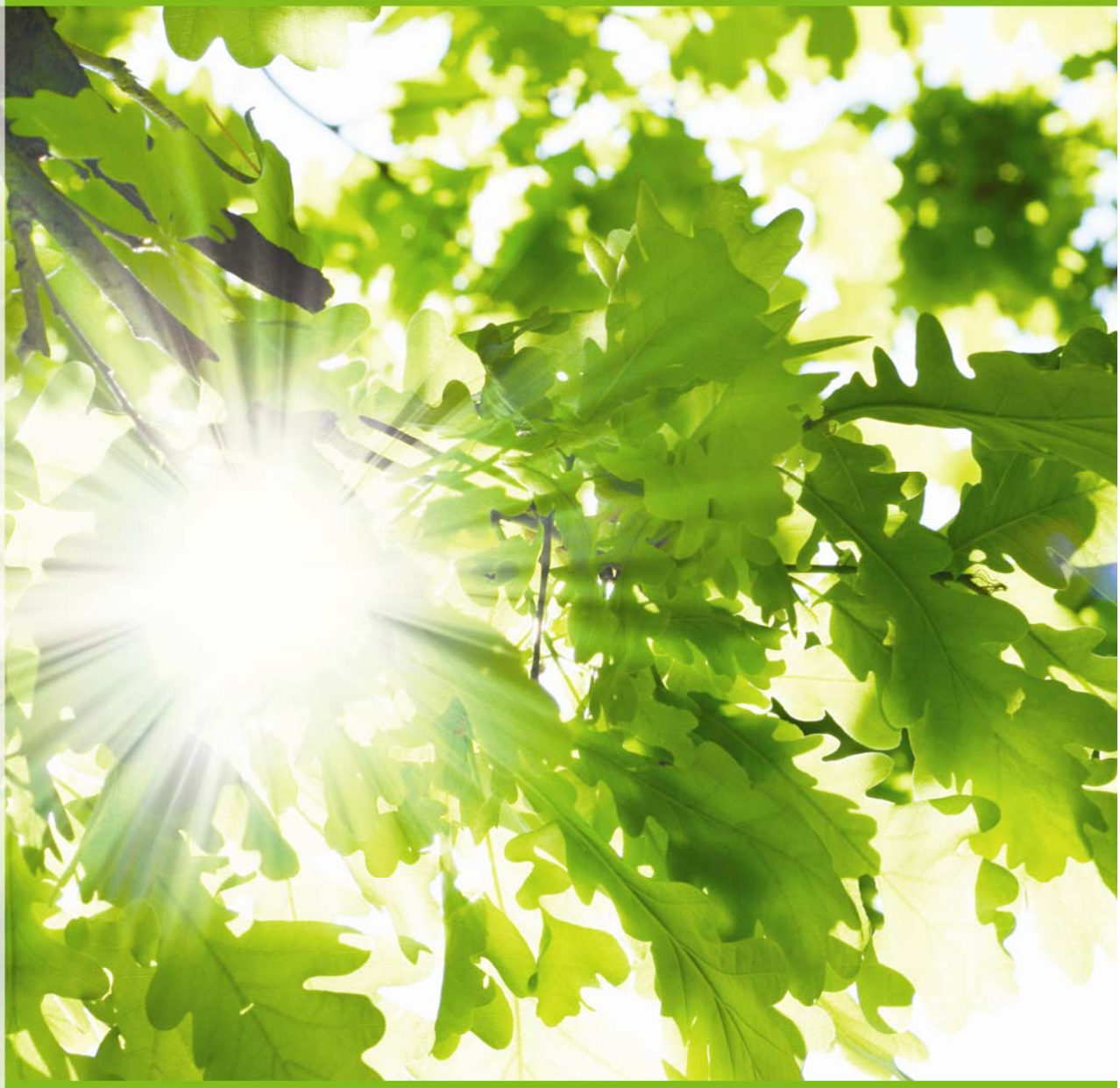
The Report was not prepared for any third party and it will not address the particular interests or concerns of any such third party. The Report is intended to advise our Client on the past service funding position of the Fund at 31 March 2010 and employer contribution rates from April 2011, and should 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.

HYMANS ROBERTSON

Isle of Man Local Government Pension Scheme

ACTUARIAL VALUATION 2010



Valuation Report

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 2010. The results are presented in this report and are briefly summarised below. It should be noted that the valuation has been carried out against an unhelpful backdrop of uncertainty over the level of existing and future benefit provision within the Isle of Man Local Government Pension Scheme.

Funding position

The table below summarises the financial position of the Fund at 31 March 2010 in respect of benefits earned by members up to this date.

Past Service Position	(£m)
Past Service Liabilities	49.4
Market Value of Assets	36.6
Surplus / (Deficit)	(12.8)
Funding Level	**74.0%**

The results show that the Fund had not met its objective of holding sufficient assets to meet the estimated current cost of past service benefits at 31 March 2010. The funding level has fallen from 80% at the previous valuation at 31 March 2007 to 74% at this valuation. This has resulted in the deficit increasing from £7m at 31 March 2007 to £12.8m at 31 March 2010.

The deterioration of the funding position reflects the adverse conditions which the Fund has had to contend with since the previous valuation. In particular, investment returns for the three years to 31 March 2010 were significantly poorer than anticipated.

Contribution rates

The table below summarises the average employer contribution rate that would be required, based on this triennial valuation.

Contribution Rates	(% of pay)
Future Service Rate	19.3%
Past Service Adjustment (20 year spread)	7.1%
Total Contribution Rate	**26.4%**

The theoretical contribution rate for the whole Fund at 31 March 2010 is 26.4% of pay. This comprises the anticipated cost of new benefits being earned by members in future (19.3%) plus the additional contributions required to repay the deficit over a 20 year period (7.1%). These rates are in addition to the contributions that will be made by members.

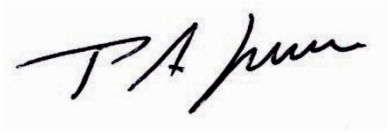
In practice, a stabilised contribution rate of 23% has been agreed for the next 3 years. This rate reflects the current level of contributions, an agreed stabilisation strategy and allows for the results of a modelling exercise that has been run alongside the valuation exercise.

Assumptions

The results shown above make a prudent allowance for the expectation that the Fund's equity-type investments will outperform gilts/bonds over the long term – the latter being in theory a closer match to the Fund's liabilities. If we were to make no allowance for this anticipated outperformance, I estimate that the funding level at 31 March 2010 would be 52%, the deficit £33.5m and the common contribution rate 46.1%.

My calculations explicitly allow for the change in benefit indexation from RPI to CPI, as announced in the Emergency Budget of June 2010 in the UK. This also has effect in the Isle of Man.

The results of the valuation are highly sensitive to the actuarial assumptions I have made about the future. If actual future demographic and economic experience does not match these assumptions, the financial position of the Fund could improve or deteriorate materially. This is precisely why the position of the Fund is monitored via regular valuations.



Peter Summers

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

28 March 2011

Introduction

I have carried out an actuarial valuation of the Isle of Man Local Government Pension Scheme as at 31 March 2010. This is my report to the Borough of Douglas ('the Administering Authority') on the results of the valuation.

Purpose

The main purposes of this valuation are:

- to assess the extent to which the Administering Authority's funding objectives were met at 31 March 2010;
- to identify the future contributions payable by the employers that participate in the Fund 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");
- to comment on the main risks to the Fund that may result in future volatility in the funding position or to employers' contributions.

Scope

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 the Fund's employers for the purpose of providing information on the funding position at 31 March 2010.

Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

Reliances and limitations

This valuation report complies with all of the relevant regulations and professional standards, as set out in **Appendix A.**

The figures in this report are based on our understanding of the benefit structure of the Isle of Man Local Government Pension Scheme as at 31 March 2010. Details of this are provided in **Appendix B**.

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. I am satisfied that the data provided was fit for the purposes of this valuation. This data is summarised in **Appendix C**.

About the Fund

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

Isle of Man Public Sector Review

The Isle of Man recently underwent a review to design and implement a new pension scheme for its public servants. To date, the Isle of Man LGPS has not been included within the scope of the review. This new public sector pension scheme is expected to be implemented in 2012. No allowance has been made for any potential changes to the benefits of the fund as a result of this review at this valuation.

Lord Hutton review of public sector pensions (UK specific)

As you will be aware, the UK Government has set up an independent review of public sector pensions including the LGPS, chaired by Lord Hutton. The Isle of Man LGPS is not part of this review. The review will look at issues such as affordability, fairness, impact on mobility and plurality of current public service provision. Again, no allowance has been made for any potential changes to the benefits that might follow the Hutton review.

Price inflation / pension increases

In the UK, the Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index (CPI) rather than the retail prices index (RPI) will be the basis for future increases to public sector pensions in payment. This also has effect in the Isle of Man and we have allowed for this in our valuation calculations as at 31 March 2010.

Funding Strategy Statement

The Administering Authority prepares a Funding Strategy Statement (FSS) in respect of the Fund, in collaboration with me (the Fund's actuary) and after consultation with the Fund's employers and investment adviser. The FSS will be reviewed as part of the 2010 triennial valuation exercise and I have taken account of this as part of my valuation of the Fund.

Funding objectives

The objectives of the Fund's funding policy are broadly 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;
- not to restrain unnecessarily the investment strategy of the Fund, so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the local ratepayer from an employer defaulting on its pension obligations.

What are the Fund's liabilities?

The Fund's liabilities are essentially the benefits promised to Fund members (past and current contributors) and, upon their death, any benefits promised to their dependants. This valuation places a current or present value on these liabilities in order to arrive at an estimated cost at the valuation date.

It is important to realise that the results of this valuation can only ever be an estimate. The actual cost of providing members' benefits is not known in advance, as it will be influenced by future events that cannot be predicted with absolute certainty.

The final cost of members' benefits will depend 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.

These benefits are common to all employers participating in the Fund.

There are a small number of discretionary powers that may be exercised by the Administering Authority or by individual employers. With the exception of an employer's power to augment a member's benefits or to allow a member to receive their benefits earlier than planned without reduction (e.g. upon 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 events unless agreed otherwise.

(ii) The profile of the membership.

The profile of the members (e.g. their pensionable pay, age, sex and category) affects how much their future benefits will ultimately cost the Fund.

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 relative to employee members so the contribution rate (as a percentage of pay) becomes more sensitive to the funding position and not simply the cost of new benefits being earned by members in future. A summary of the data at this and the previous valuation is given in Appendix C.

(iii) The level of benefits paid, when they will come into payment and how long they will be paid for.

All of these factors depend on future experience, such as when members will retire and how long they will live for after retirement. In assessing the anticipated cost of members' benefits, I need to make assumptions about this future experience. I explain these actuarial assumptions later in this report.

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 31 March 2010 (excluding money purchase AVC funds) was £36.6m, as shown in the audited accounts for the Fund for the period ending on 31 March 2010 that have been provided to me by the Administering Authority. No part of the Fund was comprised of insurance policies at 31 March 2010.

Funding method and assumptions

I have used a funding method and set of assumptions for this valuation that are consistent with the Administering Authority's funding objectives set out in its Funding Strategy Statement. The methodology and assumptions are described below, and in more detail in **Appendix D** and **Appendix E** respectively.

Funding method

For this valuation, as for the previous valuation, I have used a funding method which identifies separately the estimated cost of members' benefits in respect of scheme membership completed before 31 March 2010 ('past service') and in respect of scheme membership expected to be completed after 31 March 2010 ('future service').

Past service

The method I have adopted compares the assets (taken at market value) with the value placed on the Fund's past service liabilities (calculated using a market-based approach) at the valuation date. By maintaining a link to the market in both cases, this helps ensure that the assets and liabilities are valued in a consistent manner. My calculation of the Fund's liabilities also explicitly allows for anticipated future pay and pension 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.

Total contribution rate

The total contribution rate comprises the future service rate plus any "past service adjustment".

The future service rate has been determined using the Projected Unit Method.

The past service adjustment is the additional employer contribution required to bring the funding level back to 100% over an agreed period if there is a deficit (conversely, a contribution reduction can apply if there is a surplus). The past service adjustment can be expressed as a monetary amount or as a percentage of the value of the members' pensionable pay over the period.

Actuarial assumptions

In the actuarial valuation, I must use assumptions about the factors affecting the Fund's finances in the future. Broadly speaking, our assumptions fall into two categories – financial and demographic.

Demographic assumptions typically try to forecast **when** exactly benefits will come into payment and what form these will take. For example, when members will retire (e.g. at their normal retirement age or earlier), how long they will then survive and whether they will exchange some of their pension for tax-free cash.

Financial assumptions typically try to predict the **size** of these benefits. For example, how large members' final salaries will be at retirement and how their pensions will increase over time. In addition, the financial assumptions also help us to estimate how much all these benefits will cost the Fund in today's money.

Details of our recommended assumptions for this valuation are set out below.

Financial assumptions

A summary of the main financial assumptions adopted for the valuation of members' benefits are shown below.

Assumption	Description	31 March 2010 Nominal	31 March 2010 Real
Price Inflation (CPI)	Market expectation of long term future inflation as measured by the difference between yields on fixed and index-linked Government bonds at the valuation date, less 0.5% p.a.	3.3%	-
Pay increases*	CPI plus 2.0% p.a.	5.3%	2.0%
"Gilt-based" discount rate	Yield on fixed interest (nominal) and index-linked (real) Government bonds	4.5%	1.2%
Funding basis discount rate	"Gilt-based" discount rate plus an Asset Outperformance Assumption of 1.6% p.a.	6.1%	2.8%

** 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter. Plus an allowance for promotional pay increases.*

Discount rate

The funding valuation is effectively a budgeting exercise, to assess the funds needed to meet the benefits as they fall due. In order to place a current value on the future benefit payments from the Fund, I need to 'discount' these future cashflows back 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 discontinuance valuation will likely use the yield on suitably dated Government bonds. For a funding valuation such as this one, I have set the discount rate by taking into account the Fund's current and expected future investment strategy and, in particular, how this strategy is expected to outperform the returns from Government bonds over the long term. I allow for this by applying an Asset Outperformance Assumption, which is effectively a margin in excess of the yield available on Government bonds.

For the purposes of this valuation, I have adopted an Asset Outperformance Assumption of 1.6% p.a. This results in a discount rate of 6.10% p.a.

The selection of an appropriate Asset Outperformance Assumption is a matter of judgement, based on available evidence. It is one way of measuring the degree of prudence in the funding strategy. I believe that an Asset Outperformance Assumption of 1.6% p.a. is a prudent one for the purposes of this valuation. However, the degree of risk inherent in the Fund's investment strategy should always be considered as fully as possible when setting out a funding strategy.

Price inflation / pension increases

In the UK, the Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index (CPI) rather than the retail prices index (RPI) will be the basis for future increases to public sector pensions in payment and in deferment. This also has effect in the Isle of Man and I have allowed for this in my valuation calculations as at 31 March 2010.

At the previous valuation, the assumption for RPI was derived from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, I have adopted a similar approach. However, I have then adjusted this market-derived RPI rate downwards by 0.5% pa to derive the assumption for CPI.

Salary increases

My long term assumption for salary increases is RPI plus 1.5% p.a. This translates to CPI plus 2.0% p.a.

However, the UK Government has announced that pay for public sector employees will be frozen for a period of two years, with a flat increase of £250 being applied to all those earning less than £21,000 pa. Although this "pay freeze" does not officially apply to local government employers, it has been suggested that they will be expected to show similar restraint in respect of pay awards. Based on an analysis of the membership in LGPS funds, I believe that the average expected increase in pensionable pay across all employers should be around 1% pa for the next two years. I have also used this assumption for the Isle of Man Local Government Pension Scheme. I have set the salary increase assumption at this valuation to 1% pa for 2010/11 and 2011/12. After this point, the assumption will revert back to the long-term rate of CPI plus 2.0% pa.

Note that this assumption is made in respect the general level of salary increases (e.g. as a result of inflation and other macroeconomic factors). I have also made a separate allowance for expected pay rises granted in the future as a result of members achieving promotion. This assumption takes the form of a set of tables which model the expected promotional pay awards based on each member's age and class.

Longevity

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. For this valuation, I have adopted assumptions which give the following average future life expectancies for members:

	Actives & Deferreds		Current Pensioners	
Assumed life expectancy at age 65	Male	Female	Male	Female
2007 valuation longevity	20.7	23.6	19.6	22.5
2010 valuation - baseline	18.1	20.7	18.1	20.8
2010 valuation - improvements	22.0	24.8	20.1	22.9

Further details of the mortality assumptions adopted for this valuation can be found in Appendix E.

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 2010.

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.

Funding position at 31 March 2010

The Administering Authority has prepared a Funding Strategy Statement which sets out its 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 past service 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'. This is the ratio of the value of assets to the assessed cost of members' past service benefits (based on service accrued by members prior to the valuation date). A funding level of 100% would correspond to the objective being met exactly. The table below compares the value of the assets and liabilities at 31 March 2010.

Valuation Date	**31 March 2010**
Past Service Position	**(£m)**
Past Service Liabilities	
Employees	29.1
Deferred Pensioners	6.0
Pensioners	14.3
Total Liabilities	49.4
Market Value of Assets	36.6
Surplus / (Deficit)	**(12.8)**
Funding Level	**74.0%**

The main funding objective was not met: there was a shortfall of assets to the assessed cost of members' benefits of £12.8m.

Future service

I have calculated the average long-term contribution rate that the Fund employers would need to pay to meet the estimated cost of members' benefits that will be earned after 31 March 2010 (the 'future service contribution rate'). Again, I have used the method and assumptions set out in the previous section of this report. The resulting contribution rate is that which should (if the actuarial assumptions about the future are borne out in practice) ensure that the Administering Authority's main future service funding objective is met. The table below details this future service contribution rate:

Valuation Date	**31 March 2010**
Future service rate	**% of pay**
Cost of new benefits earned in future	23.1%
Expenses	2.2%
Total	25.3%
Employee contribution rate	6.0%
Future service rate (employer)	**19.3%**

Note that this future service contribution rate makes no allowance for the £12.8m past service shortfall in the Fund described above. The employee contribution rate includes any Additional Voluntary Contributions being paid by employees as at 31 March 2010.

A comparison of the results of this valuation and the previous one at 31 March 2007 is provided in **Appendix F**.

Funding position: changes since the previous valuation

The previous formal actuarial valuation of the Fund was carried out with an effective date of 31 March 2007. Since then, there have been changes to the Fund and its membership and to the economic environment in which the Fund operates. Many of these changes have affected the valuation results and these are summarised below.

Changes to the Fund's 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.

Changes to the Fund's assets

The Fund's assets have been augmented by employer and employee contributions paid in and transfer values received. However, the assets have been depleted by retirement benefit payments, transfer values, refunds paid and payment of administration and other expenses. Most importantly, investment returns for the three years to 31 March 2010 were lower than anticipated.

Overall, the Fund's assets have grown since the previous valuation but by a smaller amount than anticipated. This has had an adverse impact on the funding position.

Changes to the estimated cost of the Fund's liabilities

Economic factors

The underlying bond yields that form the foundation of our discount rate assumption were the same at 31 March 2010 as they were at the previous valuation. My Asset Outperformance Assumption has also remained constant. The discount rate I have used to estimate the cost of future benefit payments is therefore unchanged.

Benefit payments themselves are linked to inflation – via pension increases and also salary increases. Market expectations of inflation, as measured by the Retail Prices Index (RPI), have risen since the previous valuation. However, this has been largely offset by the intention to link future pension increases to the Consumer Price Index (CPI).

Rising price inflation is often accompanied by rising salary inflation. However, salaries in the public sector are under considerable pressure at present and many LGPS employee members are likely to receive much lower pay rises in the short term and I have made an allowance for this in my calculations.

The overall effect of economic factors on the value of the Fund's liabilities at this valuation is broadly neutral.

Demographic factors

The value placed on the Fund's liabilities is also affected by when future benefits are expected to come into payment and how long they are expected to be paid for. A key factor in this is the life expectancy of members.

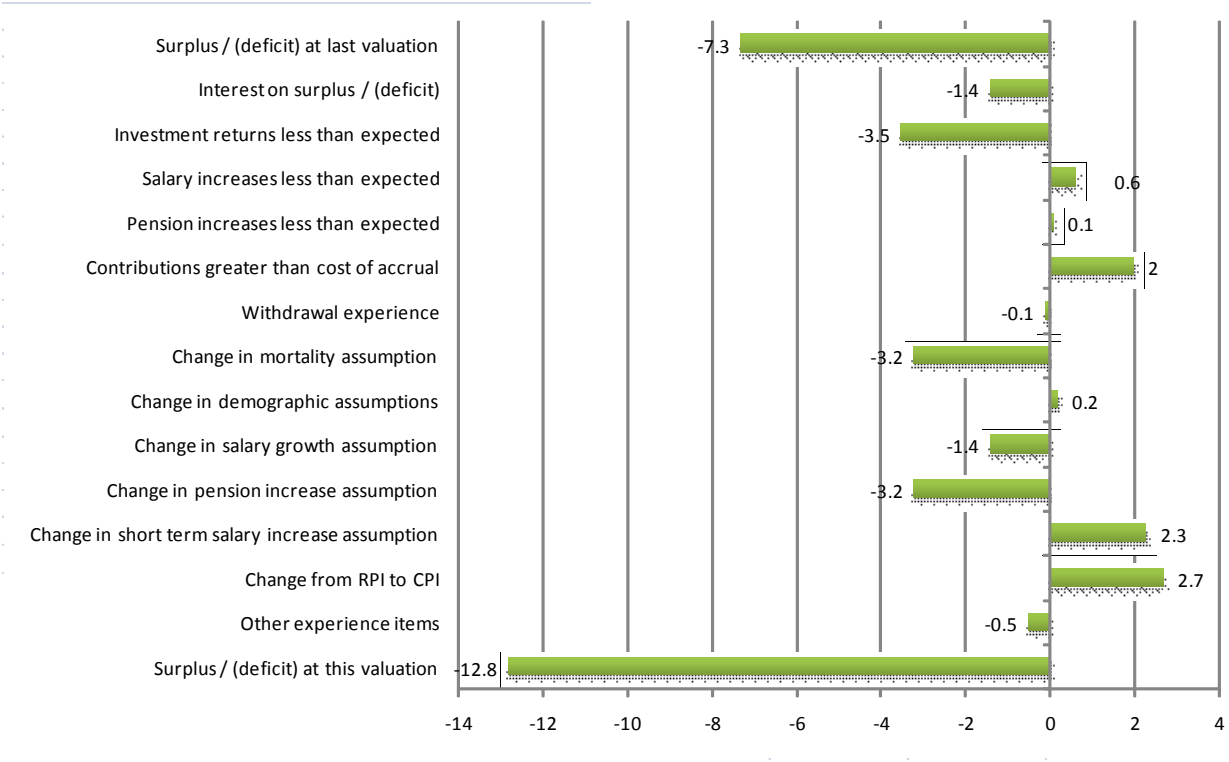
The assumptions relating to the longevity of current and future pensioners have changed since the previous valuation, to reflect the recent experience of the Fund and other evidence published by the Actuarial Profession.

Some of the other demographic assumptions that we use have also changed since the previous valuation in light of recent experience e.g. the predicted nature and amount of early leavers and ill health early retirements.

The overall effect of changes in demographic factors has been to increase the value of the Fund's liabilities.

Summary of changes to the funding position

The chart below illustrates the factors that caused the funding position to deteriorate between 31 March 2007 and 31 March 2010:



Employer contributions payable

Whole Fund

The average future service rate for Fund employers is 19.3% of pensionable pay. This is the average future contribution rate payable over the long term by the Fund employers to meet cost of benefits earned by members after the valuation date. This reflects the Administering Authority's funding objectives and is based on the assumptions set out in this report.

The total (or "common") contribution rate payable is the average future service rate for Fund employers plus an additional amount to recover the deficit and bring the funding level back to 100% over a period of 20 years, as set out in the Funding Strategy Statement. This additional amount is referred to as the past service adjustment.

The common contribution rate based on the funding position as at 31 March 2010 is detailed below:

Valuation Date	**31 March 2010**
Total contribution rate	**% of pay**
Future service rate	19.3%
Past Service Adjustment (20 year spread)	7.1%
Total contribution rate	**26.4%**

Modelling and Stabilised Contribution Rates

The Administering Authority commissioned modelling work (known as ComPASS) to take place alongside this triennial valuation. This modelling used Asset Liability Model (ALM) techniques to look at the long term impact of overlaying a stabilisation mechanism on the contribution rate application within the Fund. The conclusion from this modelling was that a stabilised contribution strategy was appropriate and would appear to do no long term damage. For this reason the contribution rate in Appendix H is lower than the theoretical rate set out above – it has been stabilised at the existing level.

Employers

The contribution rates to be paid by each employer from 1 April 2011 are set out in the Rates and Adjustments Certificate in **Appendix H**. Note that these are the minimum contribution requirements for each employer.

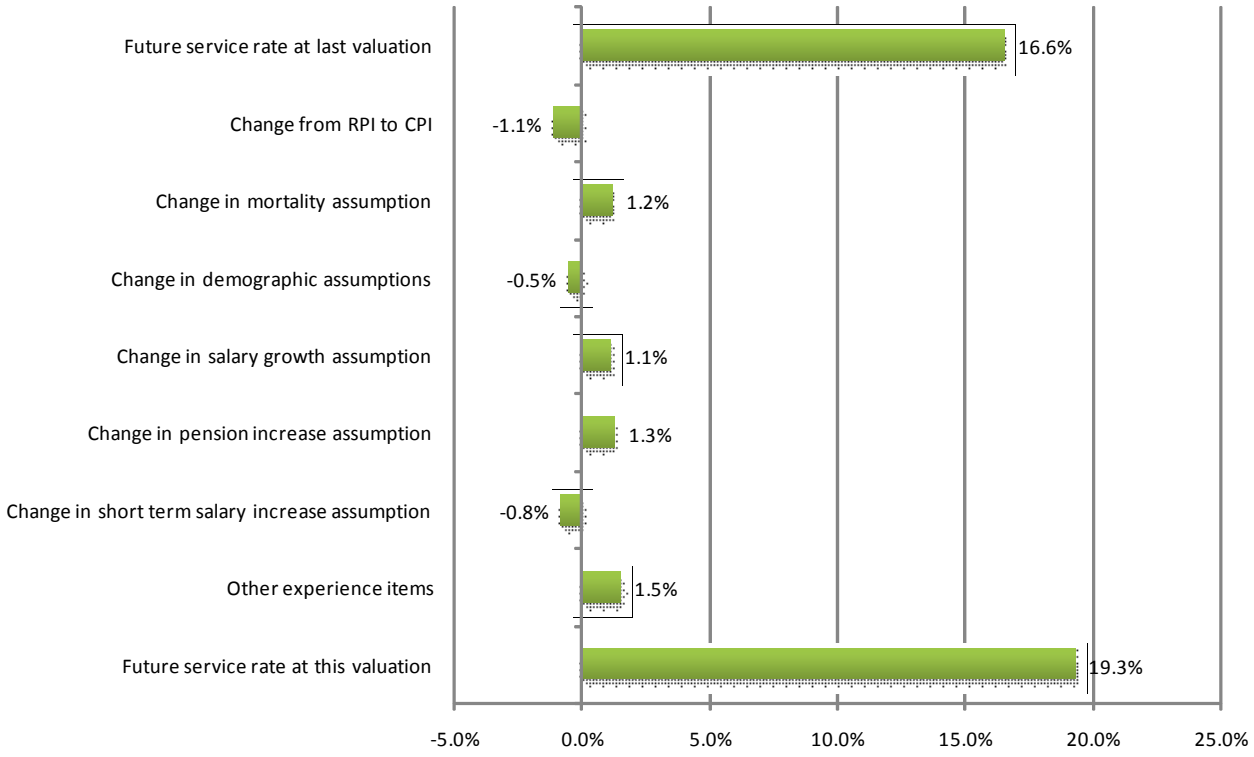
Further sums should be paid to the Fund by employers to meet the capital costs of any unreduced early retirements, reduced early retirements before age 60 and/or augmentation (i.e. additional membership) using the methods and factors issued by me from time to time or as otherwise agreed.

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 exclude early retirement strain and augmentation costs which are payable by Fund employers in addition.

Summary of changes to the future service rate

The chart below illustrates the factors that caused the future service rate to increase between 31 March 2007 and 31 March 2010:



Further 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 2013. 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 regularly review its investment strategy and ongoing risk management programme.

Other matters

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.

Risk assessment

The valuation results depend critically on the actuarial assumptions that are made about the future of the Fund. If all of the assumptions made at this valuation were exactly borne out in practice then the results presented in this document would represent the true cost of the Fund as it currently stands at 31 March 2010.

However, no one can predict the future with certainty and it is unlikely that future experience will exactly match all of our assumptions. The future therefore presents a variety of risks to the Fund and these should be considered as part of the valuation process.

In particular:

- The main risks to the financial health of the Fund should be **identified**.
- Where possible, the financial significance of these risks should be **quantified**.
- Consideration should be given as to how these risks can then be **managed**.
- These risks should then be **monitored** to assess whether any risk management strategy is actually working.

This section investigates the potential implications of the actuarial assumptions not being borne out in practice.

Set out below is a brief assessment of the main risks and their effect on the valuation results, beginning with a look at the effect of changing the main assumptions and then focusing on two of the most significant risks – namely investment risk and longevity risk.

Sensitivity of valuation results to changes in assumptions

The table below gives an indication of the sensitivity the valuation results to small changes in some of the main assumptions used.

		Impact	
Assumption	**Change**	**Funding level**	**Deficit**
Discount rate	Increases by 0.5%	Rises by 7%	Falls by £5m
Salary increases	Increases by 0.5%	Falls by 2%	Rises by £2m
Price inflation / pension increases	Increases by 0.5%	Falls by 4%	Rises by £3m
Life expectancy	Increases by 1 year	Falls by 1%	Rises by £1m
Exchange of pension for tax-free cash	Increase take-up by 10%	Rises by 1%	Falls by £1m

This is not an exhaustive list of the assumptions used in the valuation. For example, changes to the assumed level of withdrawals and ill health retirements will also have an effect on the valuation results. However, the table contains those assumptions that typically are of most interest and have the biggest impact.

Note that the table shows the effect of changes to each assumption in isolation. In reality, it is perfectly possible for the experience of the Fund to deviate from our assumptions simultaneously and so the precise effect on the funding position is therefore more complex.

Investment risk

Valuation results at 31 March 2010 on a gilts basis

The current investment strategy of the Fund includes a high proportion of equity-type assets (such as equities and property). In the long term, it is expected that such assets will outperform gilts, which are generally considered to be a closer match to the future benefit outflows from the Fund. The scale of this outperformance is a matter of judgement based on available evidence. In deriving the discount rate for the purposes of this valuation, I have assumed that the assets held by the Fund will outperform index-linked gilts by 1.6% per annum. I consider this to be a prudent assumption.

However, this outperformance cannot be guaranteed and the Administering Authority must consider the implications of this on the funding position. The following chart summarises the effect on the valuation results if no advance credit is taken for additional outperformance above gilt returns (i.e. if a 'gilts basis' was used to value the liabilities).

Valuation Date	31 March 2010
Past Service Position	**(£m)**
Total Liabilities	70.1
Market Value of Assets	36.6
Surplus / (Deficit)	**(33.5)**
Funding Level	**52.2%**
Contribution rates	**% of pay**
Future service rate	31.3%
Past Service Adjustment (20 year spread)	14.8%
Total contribution rate	46.1%

On this basis, the Administering Authority would need assets of some £70m to fully fund the liabilities at the valuation date. Given the actual market value of the Fund's assets, this would result in a funding shortfall of £33.5m.

Sensitivity of valuation results to market conditions and investment performance

As the assets of the Fund are taken at their market value, volatility in investment performance can have an immediate and tangible effect on the funding level and deficit. This is particularly relevant because the Fund is invested predominantly in riskier assets such as equities and equity-type investments (e.g. property). A rise or fall in the level of equity markets has a direct impact on the financial position of the Fund, which may seem obvious.

Less obvious is the effect of anticipated investment performance on the Fund's liabilities (and future service cost). Here it is the returns available on government bonds that are of crucial importance, as the discount rate that we use to place a value on the Fund's liabilities is based on gilt yields at the valuation date plus a margin of 1.6% p.a.

The table below shows how the funding level (top), deficit (middle) and total contribution rate (bottom) would vary if investment conditions at 31 March 2010 had been different. The level of the FTSE 100 Price index is taken as a suitable proxy for asset performance whilst the index-linked gilt yield is taken as a yardstick for the valuation of liabilities.

Index Linked Gilt Yield	4680	5180	5680	6180	6680
0.90%	66% (16.0) 27.4%	72% (13.5) 26.0%	77% (11.0) 24.6%	82% (8.5) 23.1%	87% (6.0) 21.7%
0.70%	64% (17.8) 29.3%	69% (15.3) 27.9%	74% (12.8) 26.4%	79% (10.3) 25.1%	84% (7.8) 23.7%
0.50%	62% (19.7) 31.2%	66% (17.2) 29.8%	71% (14.7) 28.5%	76% (12.2) 27.1%	81% (9.7) 25.7%
	FTSE 100 Price Index				

The shaded box contains the results for this valuation. Note that this does not take account of the performance of all asset classes held by the Fund (e.g. overseas equities, property, bonds, cash etc) but it does serve to highlight, in broad terms, the sensitivity of the valuation results to investment conditions at the valuation date.

Note that the scenarios illustrated above are by no means exhaustive. They should not be taken as the limit of how extreme future investment experience could be. The discount rate assumption adopted at this valuation is expected to be appropriate over the long term. Short term volatility of equity markets does not invalidate this assumption.

Longevity risk

The valuation results are also very sensitive to unexpected changes in future longevity. All else being equal, if longevity improves in the future at a faster pace than allowed for in the valuation assumptions, the funding level will decline and the required employer contribution rates will increase.

Recent medical advances, changes in lifestyle and a greater awareness of health-related matters have resulted in life expectancy amongst pension fund members improving in recent years at a faster pace than was originally foreseen. It is unknown whether and to what extent such improvements will continue in the future.

For the purposes of this valuation, we have selected assumptions that we believe make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund since the previous valuation.

The table below shows how the valuation results at 31 March 2010 are affected by adopting different longevity assumptions.

	Impact		
Longevity assumption	Funding level	Deficit (£m)	Future service rate
2007 valuation longevity	78%	(10.4)	19.0%
2010 valuation (baseline)	80%	(9.1)	18.0%
2010 valuation (with improvements)	74%	(12.8)	19.3%
2010 valuation (further improvements)	71%	(14.8)	20.2%
1 year extra longevity	69%	(15.2)	21.0%

The shaded box contains the results for this valuation. This allows for a "cohort effect". The cohort effect allows for a generation of people born between the two world wars whose life expectancy seems to continue to increase i.e. that generation continues to survive in large numbers each year. A key question would be how much longer we will continue to see this. Current evidence suggests people are living 2 years longer every decade and this phenomenon presently shows no signs of slowing. The mortality assumptions adopted for this valuation allow for people living around 0.75 years longer per decade. We have not allowed for the potential full improvements in life expectancy at this valuation and have effectively adopted a "wait and see" approach.

The "further improvements" are a more cautious set of assumptions that make an allowance for the continuation of recently observed high levels of improvement in life expectancy, arising from this "cohort effect". The assumptions adopted here result in people living around 1.5 years longer per decade over the long term.

The last row illustrates the effect of assuming that members live for one year longer than these further improvements imply.

Again, the range of assumptions shown here is by no means exhaustive and should not be considered as the limits of how extreme future longevity experience could be.

Other risks to consider

The table below summarises the effect that changes in some of the other valuation assumptions and risk factors would have on the funding position. Note that these are probably unlikely to change in such a way that would rank them as amongst the highest risks facing the Fund and therefore the analysis is qualitative rather than quantitative.

	Impact	
Risk	**Funding level**	**Future service rate**
Greater level of ill health retirement	Decreases	Increases
Greater level of withdrawals	Increases	Decreases
Rise in average age of employee members	Marginal effect	Increases
Pay and price inflation higher than anticipated	Decreases	Increases
Members convert less pension to cash at retirement than assumed	Decreases	Increases
Changes to Regulations that make benefit package more favourable to members	Decreases (if changes affect past service)	Increases

Other risks which may be applicable to the Isle of Man Local Government Pension Scheme are listed below:

- Change in benefit structure: as mentioned in the 'About the Fund' section, most of the other Isle of Man public sector pension arrangements recently underwent a review. There is a risk (or opportunity) relating to a potential change of benefit as a result of the wider Isle of Man public sector pension changes.
- Changes in benefit structure: the Hutton review of public sector pension in the UK has the potential to change the benefits of the LGPS in the UK. Although the Isle of Man LGPS is not part of this review, it may have a knock on impact on the Isle of Man LGPS.
- Administration risk: there is a significant risk that the Isle of Man LGPS becomes impossible to administer efficiently if the benefit structure is allowed to inadvertently diverge further from the UK version of the LGPS.

Managing the risks

Whilst there are certain things, such as the performance of investment markets or the life expectancy of members, that are not directly within the control of the pension fund, that does not mean that nothing can be done to understand the risks further and to mitigate their effect. Although these risks are difficult (or impossible) to eliminate, steps can be taken to manage them.

Ways in which some of these risks can be managed could be:

- Set aside a specific reserve to act as a cushion against adverse future experience (possibly by selecting a set of actuarial assumptions at future valuations that are purposely more prudent).
- Take steps internally to monitor the decisions taken by members and employers (e.g. relating to early / ill health retirements or salary increases) in a bid to curtail any adverse impact on the Fund.
- Carrying out a review of the future security of the Fund's employers (i.e. assessing the strength of employer covenants).
- Carrying out a bespoke analysis of the longevity of Fund members and monitor how this changes over time, so that the longevity assumptions at the valuation match as closely as possible the experience of the Fund.
- Undertake an asset-liability modelling exercise that investigates the effect on the Fund of thousands of possible investment scenarios that may arise in the future (as has been done). An assessment can then be made as to whether long term, secure employers in the Fund can stabilise their future contribution rates (thus introducing more certainty into their future budgets) without jeopardising the long-term health of the Fund.

Adopting one or more of these measures can assist with the management of risk within the pension fund.

Summary

I have carried out an actuarial valuation of the Isle of Man Local Government Pension Scheme ('the Fund') as at 31 March 2010. The results are presented in this report and are briefly summarised below.

Funding position

The table below summarises the financial position of the Fund at 31 March 2010 in respect of benefits earned by members up to this date.

Past Service Position	(£m)
Past Service Liabilities	49.4
Market Value of Assets	36.6
Surplus / (Deficit)	(12.8)
Funding Level	**74.0%**

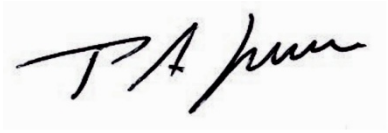
The deterioration of the funding position reflects the adverse conditions which the Fund has had to contend with since the previous valuation. In particular, investment returns for the three years to 31 March 2010 were significantly poorer than anticipated.

Contribution rates

The table below summarises the employer contribution rate that would be required, based on this triennial valuation.

Contribution Rates	(% of pay)
Future Service Rate	19.3%
Past Service Adjustment (20 year spread)	7.1%
Total Contribution Rate	**26.4%**

In practice, a stabilisation mechanism has been applied to the existing contribution rate and it is a lower stabilised rate that will be paid by employers over the next 3 years.



Peter Summers

Fellow of the Institute and Faculty of Actuaries

28 March 2011

Appendix A: Regulations and professional standards

LGPS regulations

This valuation is carried out in accordance with the regulations on the Island, namely The Isle of Man Local Government Pension Scheme Regulations 2003, 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 in every third year thereafter;
- a report by an actuary in respect of the valuation; and
- a rates and adjustments certificate prepared by an actuary.

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 a particular employer,

which for this valuation apply for each year of the period of three years beginning with 1 April 2011.

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 common rate as possible, and
- the current version of the Administering Authority's funding strategy statement.

Professional standards

Guidance Note 9 (GN9)

This report has been prepared in accordance with version 8.1 of the guidelines 'GN9: Funding Defined Benefits - Presentation of Actuarial Advice' published by the Board for Actuarial Standards. However the following aspects of GN9 are not relevant to the LGPS and its funds in the current circumstances and I have therefore 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 2007 by myself and the results were set out in our report dated March 2008.

Technical Actuarial Standards

Technical Actuarial Standards (TASs) are issued by the Board for Actuarial Standards and they set the standard for certain items of actuarial work, in terms of the type of information provided and the way it is communicated. As your actuary, I must comply with these standards when presenting the results of the triennial valuation.

This valuation report complies with the Technical Actuarial Standards on Reporting (TAS R) and Data (TAS D) for the purpose of recording the results of the actuarial valuation at 31 March 2010.

In order to further ensure that the requirements of TAS R are met and in the interests of clarity, I have issued a separate letter summarising the various pieces of advice that I have issued during this valuation process which have allowed you to make the necessary decisions on funding strategy and contribution rates.

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. Alternative methods include best of last three years salary or Certificates of Protection where appropriate.
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.
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.

Provision	Benefit Structure
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, either a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 7.5%, or a cash equivalent of the pension benefits can be transferred.
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.

Discretionary benefits

In the UK, the Regulations give employers a number of discretionary powers, including:

- the awards of periods of augmentation under Regulation 52;
- 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 of 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: Data

This section contains a summary of the membership, investment and accounting data provided to me by the Administering Authority for the purposes of this valuation (the corresponding membership and investment data from the previous valuation is also shown for reference).

Membership data – whole fund

Employee members

Employee membership	31 March 2010		31 March 2007	
	Number	Pensionable Pay* (£000)	Number	Pensionable Pay* (£000)
Full-time employee members				
Male officers	31	1,217	36	1,301
Female officers	23	714	24	648
Male manuals	58	1,308	76	1,553
Female manuals	7	131	10	161
Post-April 1998 males	208	4,903	167	3,735
Post-April 1998 females	64	1,575	49	1,053
Total full-time employee members	**391**	**9,849**	**362**	**8,451**
Part-time employee members				
Male officers	0	0	0	0
Female officers	5	103	8	147
Male manuals	0	0	0	0
Female manuals	3	32	4	39
Post-April 1998 males	8	91	13	228
Post-April 1998 females	36	419	23	222
Total part-time employee members	**52**	**644**	**48**	**636**
Total employee membership	**443**	**10,493**	**410**	**9,087**

*actual pay (not full-time equivalent)

The average age of employee members at 31 March 2010 was 51.3 and the average expected future working lifetime of employee members is 8.2 years. Both of these figures are weighted by liability.

Deferred pensioners

Deferred pensioner membership	31 March 2010		31 March 2007	
	Number	Deferred pension (£000)	Number	Deferred pension (£000)
Male officers	85	193	63	103
Female officers	49	110	44	83
Male manuals	42	63	45	61
Female manuals	7	5	9	5
Total deferred pensioner members	**183**	**372**	**161**	**252**

The deferred pension shown includes revaluation up to and including that granted by the 2010 Pension Increase Order. The average age of deferred pensioners at 31 March 2010 was 49.5 (this figure is weighted by liability).

Current pensioners, spouses and children

Pensioner membership	31 March 2010		31 March 2007	
	Number	Pension (£000)	Number	Pension (£000)
Normal / early retirement				
Male officers	48	455	45	390
Female officers	22	79	19	64
Male manuals	44	90	35	54
Female manuals	11	17	6	7
Ill health retirement				
Male officers	13	156	13	160
Female officers	4	6	3	12
Male manuals	20	66	17	49
Female manuals	5	16	4	11
Dependants				
Widows	42	126	37	107
Widowers	1	1	1	1
Male children	0	0	0	0
Female children	2	2	2	1
Total pensioner members	**212**	**1,015**	**182**	**856**

The average age of current pensioner members at 31 March 2010 (weighted by liability and excluding spouses' and children's pensions in payment) was 68.3.

Note that the membership numbers in the table above refer to the number of records provided to us and so will include an element of double-counting in respect of any members who are in receipt (or potentially in receipt of) more than one benefit.

The chart below summarises the membership at this valuation and at the previous one.

Membership data – individual employers

Employer code	Employer name	Employees		Deferreds		Pensioners	
		Number	Actual Pay (£000)	Number	Pension (£000)	Number	Pension (£000)
1	Braddan Parish Commissioners	6	220	0	0	0	0
2	Braddan Church, Vicar and Wardens	2	39	1	1	0	0
3	Bride Parish Commissioners	1	4	0	0	0	0
4	Castletown Commissioners	11	243	4	17	9	63
5	Crossroad Caring for Carers	0	0	3	9	1	1
6	Douglas Corporation	241	6,061	101	183	121	587
7	Leonard Cheshire Foundation	1	13	1	1	2	4
8	Malew Parish Commissioners	5	132	4	20	1	3
9	Manx Foundation for Physically Disabled	1	32	2	7	0	0
10	Marashen Crescent Housing Committee	4	80	0	0	1	5
11	Manx Churches Adoption and Welfare Society	6	204	3	4	4	46
12	Michael Commissioners	2	19	0	0	0	0
13	Northern Local Authorities Swimming Pool Board	7	113	2	6	1	5
14	Onchan District Commissioners	43	1,004	18	44	26	96
15	Peel Town Commissioners	19	481	7	20	8	37
16	Port Erin Commissioners	17	328	6	5	4	11
17	Port St Mary Commisioners	8	184	10	22	5	9
18	Ramsey Town Commissioners	41	939	13	22	17	112
19	Ramsey and Northern District Housing Committee	8	109	0	0	3	4
20	Southern Civic Amenity Site Board	3	66	2	2	1	1
21	Southern Local Authorities Swimming Pool Board	13	158	4	5	6	28
22	St Peters Church Vicar and Wardens	1	17	0	0	0	0
23	Manx Blind	0	0	1	2	0	0
24	Peel and Western District Housing Committee	0	0	0	0	1	1
25	Department of Tourism and Leisure (Villa Marina)	0	0	1	2	1	1
66	Laxey Village Commissioners	2	39	0	0	0	0
77	Marown Parish Commissioners	1	8	0	0	0	0

Assets at 31 March 2010

A summary of the Fund's assets (excluding members' money-purchase Additional Voluntary Contributions) as at 31 March 2010 is as follows:

Asset class	Market Value at 31 March 2010 (£000)	Allocation %
UK equities	25,452	70%
UK fixed interest gilts	5,333	15%
UK corporate bonds	0	0%
UK index-linked gilts	1,709	5%
Overseas equities	0	0%
Overseas bonds	0	0%
Property	3,019	8%
Cash and net current assets	1,067	3%
Total	**36,580**	**100%**

A brief comparison of the asset allocation of the Fund at this and the previous valuation is shown below:

Asset class	Asset Allocation	
	31 March 2010	31 March 2007
Equities	70%	66%
Bonds	19%	21%
Property	8%	12%
Cash & other assets	3%	1%
Total	**100%**	**100%**

Accounting data – revenue account for the three years to 31 March 2010

Consolidated accounts (£000)	Year to			Total
	31 March 2008	31 March 2009	31 March 2010	
Income				
Employer - normal contributions	2,165	2,343	2,451	6,959
Employer - additional contributions	26	33	8	67
Employer - early retirement and augmentation strain contributions				
Employee - normal contributions	552	593	622	1,768
Employee - additional contributions	16	25	20	60
Transfers In Received (including group and individual)	547	429	93	1,069
Other Income				
Total Income	**3,305**	**3,423**	**3,194**	**9,922**
Expenditure				
Gross Retirement Pensions	836	923	1,006	2,765
Lump Sum Retirement Benefits	164	165	194	523
Death in Service Lump sum				
Death in Deferment Lump Sum				
Death in Retirement Lump Sum	42	112	1	155
Gross Refund of Contributions	8	24	7	39
Transfers out (including bulk and individual)	121		61	183
Fees and Expenses	229	212	222	663
Total Expenditure	**1,400**	**1,436**	**1,491**	**4,327**
Net Cashflow	**1,905**	**1,987**	**1,703**	**5,595**
Assets at start of year	**28,437**	**29,245**	**25,947**	
Net cashflow	1,905	1,987	1,703	
Change in value	-1,097	-5,285	8,930	
Assets at end of year	**29,245**	**25,947**	**36,580**	
Approximate rate of return on assets	**-3.7%**	**-17.4%**	**33.4%**	**6.0%**

Note that the figures above are based on the Fund accounts provided to me for the purposes of this valuation, which were fully audited at the time of my valuation calculations.

Appendix D: Funding method

Using the actuarial assumptions described earlier (and summarised in Appendix E) I have estimated the payments which will be made from the Fund throughout the future lifetimes of existing employee members, deferred pensioners, pensioners and their dependants. I have then calculated the amount of money which, if invested now, should be sufficient to meet all of these payments in future, assuming that future investment returns are in line with the discount rate. This amount is the estimated cost of members' benefits. I have calculated separately the estimated cost of benefits arising from scheme membership accrued by members before the valuation date ('past service') and from scheme membership after the valuation date ('future service').

Past service funding position

I have compared the value of the assets with the estimated cost of members' past service benefits (i.e. the past service liabilities) at 31 March 2010. My calculation of the liabilities allows for all expected future pay and pension increases. The ratio of the asset value to the past service liabilities 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 have calculated the estimated cost of benefits that will be earned by existing employee members over the year following 31 March 2010, 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's 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.

Employers not admitting new entrants

I have calculated the estimated cost of benefits that will be earned by existing employee members over their expected future working lifetime, 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's 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 estimated cost of any lump sum death in service benefits 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 the 'Projected Unit Method' rate or the 'Attained Age Method' rate (whichever is appropriate to the employer) plus the lump sum death benefit cost. It is the rate at which the Fund's 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. Employee members will be contributing at fixed rates (albeit with various tiers). Therefore the employer future service contribution rate is the total future service contribution rate less the member contribution rate. An addition is then made to cover the expected future expenses of administering the Fund.

Appendix E: Assumptions

Financial assumptions

Financial assumptions	31 March 2007 Funding basis (%pa)	31 March 2010 Funding basis (%pa)	31 March 2010 Gilts basis (%pa)
Discount rate	6.1%	6.1%	4.5%
Price inflation	3.2%	3.8%	3.8%
Pay increases*	4.7%	5.3%	5.3%
Pension increases:			
pension in excess of GMP	3.2%	3.3%	3.3%
post-88 GMP	2.8%	2.8%	2.8%
pre-88 GMP	0.0%	0.0%	0.0%
Revaluation of deferred pension	3.2%	3.3%	3.3%
Expenses	1.9%	2.2%	2.2%

*An allowance is also made for promotional pay increases (see table below). Note that the assumption at 31 March 2010 is actually 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

Mortality assumptions

Longevity assumptions	31 March 2010
Longevity - baseline	S1NMA / S1NFA
Longevity - improvements	Medium Cohort with 1% minimum improvements

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.

Withdrawals for members with less than 2 years service

Age	Incidence for 1000 active members per annum											
	Male Officers		Male Manuals		Female Officers		Female Manuals		Post 98 Males		Post 98 Females	
	Withdrawals		Withdrawals		Withdrawals		Withdrawals		Withdrawals		Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	202.69	337.82	202.69	337.82	192.26	267.03	192.26	267.03	371.61	743.21	256.35	427.25
25	133.89	223.15	133.89	223.15	129.33	179.63	129.33	179.63	245.46	490.92	172.44	287.41
30	94.97	158.29	94.97	158.29	108.39	150.54	108.39	150.54	174.11	348.23	144.51	240.86
35	74.19	123.65	74.19	123.65	93.48	129.84	93.48	129.84	136.01	272.03	124.64	207.74
40	59.70	99.50	59.70	99.50	77.75	107.99	77.75	107.99	109.45	218.90	103.67	172.78
45	48.85	81.42	48.85	81.42	64.00	88.90	64.00	88.90	89.56	179.12	85.34	142.23
50	37.84	63.07	37.84	63.07	48.77	67.74	48.77	67.74	69.37	138.75	65.03	108.38
55	32.79	54.65	32.79	54.65	37.59	52.21	37.59	52.21	60.11	120.23	50.12	83.54
60	19.87	33.12	19.87	33.12	17.47	24.27	17.47	24.27	36.43	72.86	23.29	38.82

Withdrawals for members with more than 2 years service

Age	Incidence for 1000 active members per annum											
	Male Officers		Male Manuals		Female Officers		Female Manuals		Post 98 Males		Post 98 Females	
	Withdrawals		Withdrawals		Withdrawals		Withdrawals		Withdrawals		Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	149.82	249.70	149.82	249.70	142.11	197.37	142.11	197.37	274.67	549.33	189.48	315.79
25	98.96	164.93	98.96	164.93	95.59	132.77	95.59	132.77	181.43	362.85	127.46	212.43
30	70.20	116.99	70.20	116.99	80.11	111.27	80.11	111.27	128.69	257.39	106.81	178.02
35	54.84	91.39	54.84	91.39	69.09	95.97	69.09	95.97	100.53	201.06	92.13	153.54
40	44.13	73.54	44.13	73.54	57.47	79.82	57.47	79.82	80.90	161.79	76.62	127.70
45	36.11	60.18	36.11	60.18	47.31	65.71	47.31	65.71	66.20	132.40	63.08	105.13
50	27.97	46.61	27.97	46.61	36.05	50.07	36.05	50.07	51.28	102.55	48.06	80.10
55	24.24	40.39	24.24	40.39	27.78	38.59	27.78	38.59	44.43	88.86	37.05	61.74
60	14.69	24.48	14.69	24.48	12.91	17.94	12.91	17.94	26.93	53.86	17.22	28.70

Ill health retirements

Age	Incidence per 1000 active members per annum							
	Male Officers & Post 98		Male Manuals		Female Officers & Post 98		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	0.34	0.27	0.06	0.05	0.39	0.31
30	0.06	0.05	0.55	0.44	0.11	0.08	0.54	0.43
35	0.08	0.07	0.82	0.66	0.21	0.17	0.78	0.62
40	0.15	0.12	1.13	0.91	0.27	0.22	1.08	0.86
45	0.34	0.27	1.64	1.31	0.44	0.35	1.38	1.10
50	0.92	0.74	2.39	1.92	0.86	0.69	2.04	1.63
55	5.10	4.08	10.43	8.35	6.12	4.90	10.37	8.29
60	20.92	16.73	40.67	32.54	24.18	19.35	40.67	32.54

Death in service

Age	Incidence per 1000 active members per annum			
	Male Officers & Post 98	Male Manuals	Female Officers & Post 98	Female Manuals
	Death	Death	Death	Death
20	0.30	0.38	0.16	0.20
25	0.30	0.38	0.16	0.20
30	0.36	0.45	0.24	0.30
35	0.42	0.53	0.40	0.50
40	0.72	0.90	0.64	0.80
45	1.20	1.50	1.04	1.30
50	1.92	2.40	1.52	1.90
55	3.00	3.75	2.00	2.50
60	5.40	6.75	2.56	3.20

Promotional salary scale

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	135	116	100	100	118	105	100	100
30	169	134	100	100	137	111	100	100
35	192	146	100	100	151	116	100	100
40	208	153	100	100	163	121	100	100
45	222	154	100	100	166	122	100	100
50	236	154	100	100	166	122	100	100
55	239	154	100	100	166	122	100	100
60	239	154	100	100	166	122	100	100

Appendix F: Comparison of valuation results with 2007

The tables below summarise the valuation results for the Fund as a whole at this valuation and at the previous valuation.

Valuation Date	*31 March 2007*	31 March 2010
Past Service Position	***(£m)***	**(£m)**
Past Service Liabilities		
Employees	*21.8*	29.1
Deferred Pensioners	*3.3*	6.0
Pensioners	*10.7*	14.3
Total Liabilities	*35.8*	49.4
Market Value of Assets	*28.5*	36.6
Surplus / (Deficit)	***(7.3)***	**(12.8)**
Funding Level	*79.6%*	74.0%

Valuation Date	*31 March 2007*	31 March 2010
Future service rate	***% of pay***	**% of pay**
Cost of new benefits earned in future	*20.5%*	23.1%
Expenses	*1.9%*	2.2%
Total	*22.4%*	25.3%
Employee contribution rate	*5.8%*	6.0%
Future service rate	***16.6%***	**19.3%**
Past service adjustment *	*6.4%*	7.1%
Total contribution rate	*23.0%*	**26.4%**

*Please note that the past service adjustment figure at 2010 has been calculated using a 20 year spread period as opposed to the 14 year spread period used at the 2007 valuation.

Appendix G: Post-valuation events

Post-valuation events

These valuation results are effectively a snapshot of the Fund as at 31 March 2010. Since that date, various events have had an effect on the financial position of the Fund. Whilst we have not explicitly altered the valuation results to allow for these events (other than for the switch from RPI to CPI-based pension increases) a short discussion of these "post-valuation events" can still be beneficial in understanding likelihood of meeting the various funding objectives.

Investment conditions since 31 March 2010

In the period since the valuation date, investment markets moved in the following manner:

- equity markets have risen slightly
- bond yields have fallen
- price inflation has fallen

The table below compares the initial valuation results presented in this report with those that would have applied if our assumptions had been based on current market conditions (i.e. assumptions as at 31 December 2010).

Assumptions as at:	*31 March 2010*	*31 December 2010*
Past Service Position	***(£m)***	**(£m)**
Total Liabilities	*49.4*	*53.9*
Market Value of Assets	*36.6*	*40.3*
Surplus / (Deficit)	***(12.8)***	***(13.6)***
Funding Level	*74.0%*	*74.8%*
Contribution rates	***% of pay***	***% of pay***
Future service rate	*19.3%*	*19.8%*
Past service adjustment (20 year spread)	*7.1%*	*7.0%*
Total contribution rate	*26.4%*	*26.8%*

Lord Hutton review of public sector pensions

The UK Government has set up an independent review of public sector pensions including the LGPS, chaired by Lord Hutton. This review will look at issues such as affordability, fairness, impact on mobility and plurality of current public service provision. The Isle of Man LGPS was not part of this review.

Isle of Man Public Sector Review

The Isle of Man recently underwent a review to design and implement a new pension scheme for its public servants. This new public sector pension scheme is expected to be implemented in 2012 . This has no effect on the Isle of Man LGPS and thus no allowance has been made for these changes in this formal valuation.

Appendix H: Rates and adjustments certificate

In accordance with the regulations I have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2011 to 31 March 2014 in order to maintain the solvency of the Fund.

The required minimum contribution rates are set out in the statement overleaf.

Signature: 

Date: 28 March 2011

Name: Peter Summers

Qualification: Fellow of the Institute and Faculty of Actuaries

Firm: Hymans Robertson LLP

20 Waterloo Street

Glasgow

G2 6DB

Statement to the rates and adjustments certificate

The theoretical Rate of Contribution payable by each employing authority under regulation 36(4)(a) of the Administration Regulations for the period 1 April 2011 to 31 March 2014 is 26.4% of pensionable pay (as defined in Appendix B).

Individual Adjustments are required under regulation 36(4)(b) of the Administration Regulations for the period 1 April 2011 to 31 March 2014 resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

Employer code	Employer name	Minimum Contributions for the Year Ending		
		31 March 2012	31 March 2013	31 March 2014
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%
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%
66	Laxey Village Commissioners	23.0%	23.0%	23.0%
77	Marown Parish Commissioners	23.0%	23.0%	23.0%
	Non Contributing Members			
5	Crossroad Caring for Carers			
23	Manx Blind			
24	Peel and Western District Housing Committee			
25	Department of Tourism and Leisure (Villa Marina)			