



Isle of Man
Government

Reilys Ellan Vannin



Manx National Insurance Fund Account

For the Year Ended 31 March 2013

Treasury, Income Tax Division

Presented to Tynwald pursuant to Section 161(2) of the Social Security Administration Act 1992
(as applied to the Isle of Man)

November 2013

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1. Foreword

1.1. Statutory Background

- 1.1.1. The National Insurance Scheme ("the Scheme") was established in 1948 to provide unemployment benefit, sickness benefit, retirement pensions and other benefits in cases where individuals meet contribution and other qualifying conditions. The Manx Pension Supplement has also been provided under the Scheme since 1993. The Social Security Contributions and Benefits Act 1992 (as applied to the Isle of Man) sets out the conditions for entitlement to most benefits and the basis for assessing liability to pay National Insurance contributions ("NICs").
- 1.1.2. The Social Security Administration Act 1992 (as applied to the Isle of Man) provides that benefits due under the Scheme are payable out of the Manx National Insurance Fund ("the Fund"). The principal source of income for the Fund is NICs payable by employees, employers and others.
- 1.1.3. Section 161(1) of the Social Security Administration Act 1992 (as applied to the Isle of Man) places the control and management of the Fund with the Department of Social Care.
- 1.1.4. Section 161(2) of the Social Security Administration Act 1992 (as applied to the Isle of Man) requires Treasury to lay the accounts of the Fund before Tynwald.

1.2. Financial Performance

- 1.2.1. The balance of the Fund was £646,321,647 at 31 March 2013, compared with £634,238,408 at 31 March 2012: an increase of £12,083,239.
- 1.2.2. The Fund operates essentially on a 'pay-as-you-go' basis with NICs income in each year matching or exceeding benefit expenditure. For a number of reasons it is prudent to have a surplus in the Fund. In the United Kingdom, the Government Actuary's Department ("GAD") recommended a minimum surplus amounting to $\frac{1}{6}$ th of annual benefit expenditure. A GAD report for the Isle of Man Government in 2002 recommended that the Fund should have a surplus of twice annual expenditure, although no formal policy was put in place as a result. At April 2013, the overall value of the Fund was 4.8 times annual benefit expenditure down from 4.9 at the end of the previous tax year.

1.3. Risks to the Fund

- 1.3.1. Expenditure from the Fund is in large part determined by United Kingdom Government policy, which sets most contributory benefits and their rates. By virtue of a long-standing reciprocal arrangement, the Scheme in the Isle of Man mirrors that in the United Kingdom. The exception is the Manx Pension Supplement which is set by Tynwald. Thus, changes in United Kingdom policy have an impact on the Fund.
- 1.3.2. Since April 2007 the combination of income from NIC contributions and the Agency Payment from the UK Department of Work and Pensions (DWP) (see 3.4 below) have exceeded expenditure on benefits and other associated items. However expenditure for 2012/13 exceeded income by £14,096,486, if investment income was not taken into account. Should benefit expenditure continue to increase as forecast then this shortfall will only increase: which will make the fund unsustainable.
- 1.3.3. The United Kingdom has published plans to reform the state retirement pension by introducing a single tier flat rate pension for all set at a rate expected to be approximately £140 per week. This will be introduced from April 2016. The Department of Social Care ("DSC") has yet to determine whether or not this change will be introduced to the Island. The effect of such a change on the Fund will need to be determined.

- 1.3.4. Global economic uncertainty continues to affecting the Fund in two ways: firstly, unemployment remains high and pay awards have remained low reducing Fund income and increased expenditure on benefits; and secondly, the income from the investments of the Fund has reduced from the levels seen in previous years.

1.4. Non-Matching Contribution Items

- 1.4.1. The annual returns made by employers occasionally include NICs which cannot be matched to employee records for a number of reasons. During the 2012-13 tax year the Income Tax Division ("ITD") posted NIC paid in respect of the previous tax year to employee records. In relation to NIC paid in respect of the 2011-12 tax year, £133,522 of Class 1 NICs could not be matched, representing 0.08% (2010-11: £221,922, 0.14%) of the total NICs paid during that year: compared to 1.7% in the United Kingdom.
- 1.4.2. Government aims to reduce this figure further, which will be achieved largely by the increased accuracy produced by the introduction of online submission for employer returns.
- 1.4.3. Non-matched NICs are kept 'on file' until such time as new information becomes available (for example when a person claims a benefit), which enables the Income Tax Division to match the contributions to an individual's National Insurance record.

2. Statement of Responsibilities for the Statement of Account

2.1. Treasury's Responsibilities

- 2.1.1. The Chief Financial Officer is responsible for the preparation of the Manx National Insurance Fund Account.
- 2.1.2. In preparing the Account, the Chief Financial Officer observes relevant accounting and disclosure requirements, and applies appropriate accounting policies on a consistent basis.
- 2.1.3. In preparing this Statement of Account, the Chief Financial Officer has:
 - selected suitable accounting policies and then applied them consistently; and
 - made judgements and estimates which were reasonable and prudent.
- 2.1.4. The Chief Financial Officer has also:
 - kept proper accounting records which are up to date; and
 - taken reasonable steps for the prevention and detection of fraud and other irregularities.

2.2. Department of Social Care Responsibilities

- 2.2.1. The DSC is responsible for the awarding and payment of benefits payable from the Fund. Entitlement to benefit is determined by the claimant satisfying qualifying conditions.
- 2.2.2. The DSC is also responsible for making statutory redundancy payments and contracted-out rebate payments.

2.3. Certificate

- 2.3.1. I certify that the Statement of Account properly present the receipts and payments relating to the Manx National Insurance Fund for the year ended 31 March 2013.
- 2.3.2. The information in this Statement of Account has been extracted from the audited Annual Government Accounts.

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Malcolm Couch
Chief Financial Officer
Treasury Department
November 2013

3. National Insurance Operating Account Receipts and Payments

Prepared in accordance with Section 161 of the Social Security Administration Act 1992

	Notes	2012-13	2011-12
Receipts			
National Insurance Contributions (Gross)	3.1	£165,887,394	£166,495,230
State Scheme Premiums	3.2	£5,101	£53,450
Income from Investment Account	3.3	£14,006,486	£12,116,570
Other Income	3.4	£41,252,749	£42,965,200
Total		£221,151,730	£221,630,450
Less			
Payments			
Benefit Payments	3.5	£174,805,470	£162,288,401
National Health Service Contribution	3.6	£34,778,797	£34,893,477
Contracted-Out Rebates	3.7	£4,793,001	£5,022,662
Administrative Costs	3.8	£3,877,420	£3,825,985
Refunds	3.9	£482,192	£468,441
Bad Debts	3.10	£447,295	£6,482
Transfer to United Kingdom National Insurance Fund	3.11	£1,967,554	£2,666,535
Total		£221,151,729	£209,171,983
Excess of Receipts over Payments	3.12	£0	£12,458,467

Notes

The Notes from Page 7 onwards form part of this Account.

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Malcolm Couch
Chief Financial Officer
November 2013

Notes to the Account

3.1. National Insurance Contributions

	Note	2012-13	2011-12
Class 1 (employed earner)	i	£159,524,146	£160,656,727
Class 2 (self-employed flat rate)	ii	£734,061	£706,929
Class 3 (voluntary contribution)	iii	£216,558	£211,153
Class 4 (self-employed earnings related)	iv	£5,412,629	£4,920,061
Total		£165,887,394	£166,495,230

Different groups of people pay different classes of contributions.

- i. Class 1 contributions are divided into: primary contributions payable by employees and secondary contributions payable by employers.
- ii. Self-employed people pay flat rate weekly Class 2 contributions.
- iii. Class 3 voluntary flat rate contributions are paid to maintain a contributor's National Insurance record for certain benefit and/or pension purposes.
- iv. Self-employed people also pay earnings related Class 4 contributions. This figure includes interest charged on the late payment of Class 4 contributions.

3.2. State Scheme Premiums

	2012-13	2011-12
State Scheme premiums	£5,101	£53,450

State Scheme Premiums are payable to the Fund in respect of employed people who cease to be covered by a contracted-out pension scheme. The premiums buy back the person's additional pension entitlement in the state additional pension scheme.

3.3. Investment Income

The National Insurance Fund Investment Account is invested by external investment managers on behalf of the Treasury. During the 2012-13 fiscal year the investment account received £27,696,589 in investment income of which £14,006,485 was transferred from the investment account to the Operating Account.

3.4. Other Income

	Note	2012-13	2011-12
Agency Payment from the United Kingdom	i	£41,181,069	£42,892,965
Rental Income	ii	£71,680	£72,245
Total		£41,252,749	£42,965,200

- i. The agency payment from the United Kingdom relates to the net settlement in respect of individuals who have paid NICs into one fund, but have received benefit from the other fund.
- ii. The Fund owns Nivison House, Prospect Hill, Douglas, and receives rent from its tenants.

3.5. Benefit Payments

	Notes	2012-13	2011-12
State Pension	i	£120,020,961	£111,024,605
Manx Pension Supplement	ii	£34,265,149	£32,041,321
Incapacity Benefit	iii	£9,971,240	£9,727,770
Contributory Jobseeker's Allowance	iv	£545,093	£500,777
Christmas Bonus	v	£1,923,259	£1,893,643
Nursing Care Contribution Scheme	vi	£1,877,306	£1,102,133
Maternity Benefit	vii	£4,095,178	£4,102,223
Bereavement Benefits	viii	£893,739	£882,376
Disablement Benefit	ix	£447,750	£493,025
Other Benefits	x	£765,795	£520,527
Total		£174,805,470	£162,288,401

- i. State pension is made up of different elements. The largest is the basic state retirement pension, followed by the additional state pension, the graduated pension scheme retirement premium and the age addition. This figure includes pensions which the DSC pays on behalf of the United Kingdom (see Note 3.4 above).
- ii. The Manx Pension Supplement is primarily paid to those pensioners who have paid sufficient contributions into the Scheme and are resident in the Isle of Man. The supplement is also paid to those in receipt of either Widow's or Bereavement Benefit and to individuals who claimed Incapacity Benefit before 6 April 2008 (the supplement has not been paid since then in respect of new claims).
- iii. Incapacity Benefit is paid at different rates, dependent on age and the length of incapacity, to persons who have paid either Class 1 or Class 2 NICs.
- iv. Contributory Jobseeker's Allowance is payable to individuals who are capable of working, available for work and actively seeking work, who have paid or are treated as having paid NICs: and is payable for 26 weeks.
- v. The Christmas Bonus is a tax-free payment of £82.50 to individuals in receipt of a qualifying benefit. In the United Kingdom the amount is £10 and is paid only to pensioners.
- vi. Nursing Care Contribution is paid to qualifying individuals who reside in a nursing home.
- vii. Maternity Benefit is paid for up to 39 weeks at a standard weekly rate, depending upon a woman's level of earnings and whether they are employed or self-employed.
- viii. Bereavement Benefits consist of Bereavement Allowance, which is a regular payment for 52 weeks; and Bereavement Payment, which is a lump-sum. This figure includes Widowed Parent's Allowance; which is a regular payment whilst the individual has dependent children in respect of whom they receive Child Benefit. These benefits are all based on the NICs of the deceased spouse. Also included in this figure are Widow's Benefit payments.
- ix. Industrial Injuries Disablement Benefit is payable to an individual who was employed and suffered a loss of faculty due to an accident at work or from a prescribed disease.
- x. Other Benefits include the Old Person's Pension, Funeral Payments, Paternity Allowance, Insolvency Payments, Redundancy Rebates, Adoption Allowance and Guardian's Allowance.

3.6.NHS Contribution

The Social Security Administration Act 1992 (as applied to the Isle of Man) provides for a proportion of NICs collected each year to be transferred directly to the Department of Health to contribute to the costs of the National Health Service.

The National Health Service allocation is paid monthly and is based on the NICs which have been received. During the 2012-13 fiscal year the NHS allocation was £34,778,797 (2011-12: £34,893,477) made up as follows:

	2012-13	2011-12
Class 1	£33,042,886	£33,295,169
Class 2	£108,957	£106,806
Class 3	£32,131	£30,409
Class 4	£1,594,823	£1,461,093
Total	£34,778,797	£34,893,477

3.7.Contracting-Out Rebates

The Pension Schemes Act 1993 entitles employed earners with an 'Appropriate Personal Pension Scheme' to a minimum contribution from the Fund.

This contribution is based on earnings between the lower and upper earnings level and the age of the member. From 1997, members of Contracted- Out Money Purchase ("COMP") Schemes are entitled to a payment of age-related rebate based on the age of the member and calculated using the earnings on which the contracted out rate of NICs has been paid. During 2012-13, £4,793,001 (2011-12: £5,022,662) in contracted-out rebates was paid to pension schemes.

These schemes ceased with effect from 6th April 2012, and therefore the last year on which payments are calculated will be 2011-12. Further payments will continue until April 2015 where contribution information is received late or has been adjusted, after which time no further payments will be made.

3.8.Administrative Costs

Administrative costs relate to services directly attributable to the Fund and are reimbursed to the department providing those services. During the 2012-13 fiscal year, the DSC received £3,877,420 (2011-12: £3,825,985) to cover costs relating to the awarding and payment of contributory benefits. It should be noted that although not included in this account a further £1,606,864 is charged against the investment account for Investment Management and Custodian Fees.

3.9.Refunds

There is a maximum amount of NICs that an individual can pay in any given tax year, and any amount paid which exceeds this limit is refunded to the individual.

3.10.Bad Debt

Robust enforcement procedures, which include the Courts of Justice and the Coroners, aim to ensure that individuals and employers pay the correct amount of NICs. Occasionally, it is not possible to recover unpaid NICs, and this leads to amounts being written off.

Due to an oversight, the Income Tax Division did not notify correctly the amount of NICs written off during the 2011/12 tax year. This sum has therefore been carried over to the 2012/13 tax year. The total debt write-off comprises £175,759 for 2011/12 and £271,526 for 2012/13.

As at August 2013, the balance of unpaid NICs owed to Treasury was £2,412,544: with this debt relating to tax years from 2004/05 to 2013/14. Treasury are currently working with the Courts of Justice to identify debt that the Coroners have not been able to recover from companies so that where practicable action can be taken against the individual directors of these companies for the outstanding debt.

3.11. Transfer to United Kingdom National Insurance Fund

Where an individual is employed in the Isle of Man but their National Insurance record is held in the United Kingdom, the NICs paid in the Isle of Man are transferred to the United Kingdom after a deduction is made for the Isle of Man National Health Service allocation. HM Revenue and Customs make a similar deduction from contributions sent to the Isle of Man from the United Kingdom. Depending on the amounts involved, either the United Kingdom or Isle of Man will need to make a balancing payment each year. This settlement is made 20 months after the end of the fiscal year it relates to.

3.12. Excess of Receipts over Payments

In all previous years there has been a surplus in the operating account. The 2012/13 tax year was the first in which a deficit occurred. For details of the amount transferred from the Investment Account to cover this deficit, see **3.3** above.

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The information in this booklet can be provided in large print or audio tape on request

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