



**Isle of Man**  
**Government**

*Reiltys Ellan Vannin*



# Manx National Insurance Fund Account

For the Year Ended 31 March 2016

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)

December 2016

# Contents

1.	Foreword	3
1.1.	Statutory Background	3
1.2.	Financial Performance	3
1.3.	Risks to the Fund	3
1.4.	Non-Matching Contribution Items	4
2.	Statement of Responsibilities for the Statement of Account	5
2.1.	Treasury's Responsibilities	5
2.2.	Certificate	5
3.	National Insurance Operating Account Receipts and Payments	6
3.1.	National Insurance Contributions	7
3.2.	State Scheme Premiums	7
3.3.	Investment Income	7
3.4.	Other Income	7
3.5.	Benefit Payments	8
3.6.	NHS Contribution	9
3.7.	Contracted-Out Rebates	9
3.8.	Administrative Costs	10
3.9.	Refunds	10
3.10.	Bad Debt	10
3.11.	Transfer to United Kingdom National Insurance Fund	10
3.12.	Excess of Payments over Receipts	10



# 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 Treasury. From April 2014 the control and management of the fund has come under the Social Security Division ("SSD") as a sub-division of Treasury
- 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 £727,387,000 at 31 March 2016 compared with £681,294,079 at 31 March 2015: an increase of £46,092,921.
- 1.2.2. The Fund operates essentially on a 'pay-as-you-go' basis with NICs and investment 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  $\frac{1}{6}$ <sup>th</sup> 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 the annual benefit expenditure, although no formal policy was put in place as a result. At April 2016, the overall value of the Fund was 4.9 times annual benefit expenditure.

## 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. Prior to April 2012 the combination of income from NICs and the Agency Payment from the United Kingdom Department of Work and Pensions (DWP) (see 3.4 below) exceeded expenditure on benefits and other associated items. However, expenditure in the year to 31 March 2016 exceeded income by £9,159,449, and this shortfall was financed from the Fund's investment income.

- 1.3.3. The United Kingdom has reformed the state retirement pension by introducing, in April 2016, a single tier flat rate pension (the 'new state pension') for all, Tynwald determined that this change would not be introduced in the Island. A sustainable single tier pension suited to the requirements of the Isle of Man has been proposed and will be developed with expected introduction in April 2019.
- 1.3.4. Following Tynwald decision not to apply the new state pension to the Isle of Man the reciprocal agreement with the UK was amended from 6<sup>th</sup> April 2016. This will affect the future amounts that are paid to the Isle of Man under the Agency Settlement by the UK.
- 1.3.5. In June 2016 the UK voted to exit the European Union commonly known as "Brexit". The uncertainty that this has created could affect financial markets which could in turn affect future investment returns for the fund.
- 1.3.6. Treasury are seeking to progress reform of state pension and benefits. The recommendations focus on five key areas – the future of state pensions, National Insurance, working age benefits, workplace pensions and the Island's relationship with the United Kingdom.
- 1.3.7. The Income Tax Division are updating the National Insurance Information Technology (IT) infrastructure via migration of data to the Income Tax system and reviewing current processes. Specialist IT support is still required for the outgoing system and this is becoming increasingly difficult to source.

#### **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 2015-16 tax year, the Income Tax Division posted NIC paid in respect of the previous tax year to employee records. In relation to NIC paid in respect of the 2014-15 tax year, £11,018 of Class 1 NICs could not be matched, representing 0.01% (2013-14: £42,879, 0.03%) of the total NICs paid during that year.
- 1.4.2. 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.



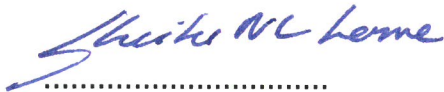
## 2. Statement of Responsibilities for the Statement of Account

### 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. Certificate

- 2.2.1. 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 2016.
- 2.2.2. The information in this Statement of Account has been extracted from the audited Annual Government Accounts and the unaudited detailed Government Accounts.



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**Sheila Lowe**  
Chief Financial Officer  
Treasury Department  
December 2016

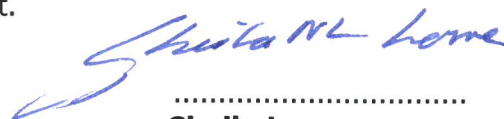
### 3. National Insurance Operating Account Receipts and Payments

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

	Notes	2015-16	2014-15
<b>Receipts</b>			
National Insurance Contributions (Gross)	3.1	£178,281,951	£170,730,501
State Scheme Premiums	3.2	£94,178	£2,694
Income from Investment Account	3.3	£14,000,000	£20,500,000
Other Income	3.4	£46,861,664	£42,679,825
Contracted-Out Rebates	3.7	£582	
<b>Total</b>		<b>£239,238,375</b>	<b>£233,913,020</b>
<b>Less</b>			
<b>Payments</b>			
Benefit Payments	3.5	£194,353,220	£193,643,607
National Health Service Contribution	3.6	£37,093,988	£36,453,000
Contracted-Out Rebates	3.7		£1,648
Administrative Costs	3.8	£2,383,344	£3,277,267
Refunds	3.9	£555,760	£593,791
Bad Debts	3.10	£11,512	£412,320
Transfer to United Kingdom National Insurance Fund	3.11		£1,425,706
<b>Total</b>		<b>£234,397,824</b>	<b>£235,807,339</b>
<b>Excess of Receipts over Payments</b>	3.12	<b>£4,840,551</b>	<b>£(1,894,319)</b>

#### Notes

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



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**Sheila Lowe**  
Chief Financial Officer  
December 2016



## Notes to the Account

### 3.1. National Insurance Contributions

	Note	2015-16	2014-15
Class 1 (employed earner)	i	£172,874,524	£165,604,569
Class 2 (self-employed flat rate)	ii	£1,171,856	£765,049
Class 3 (voluntary contribution)	iii	£120,889	£155,650
Class 4 (self-employed earnings related)	iv	£4,114,682	£4,205,233
<b>Total</b>		<b>£178,281,951</b>	<b>£170,730,501</b>

Different groups of people pay different classes of contributions.

- Class 1 contributions are divided into: primary contributions payable by employees and secondary contributions payable by employers.
- Self-employed people pay flat rate weekly Class 2 contributions.
- Class 3 voluntary flat-rate contributions are paid to maintain a contributor's National Insurance record for certain benefit and/or pension purposes.
- 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

	2015-16	2014-15
State Scheme premiums	£94,178	£2,694

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.

This figure has increased due to the ending of UK Contracting Out schemes in April 2016.

### 3.3. Investment Income

The National Insurance Fund Investment Account is invested by external investment managers on behalf of the Treasury. During the 2015-16 fiscal year, the investment account received £56,897,000 in investment income: of which £14,000,000 was transferred from the investment account to the operating account.

### 3.4. Other Income

	Note	2015-16	2014-15
Agency Payment from the United Kingdom (UK)	i	£46,601,933	£42,609,825
Transfer from UK National Insurance Fund	ii	£187,536	
Rental Income	iii	£72,000	£70,000
Other Services		£195	
<b>Total</b>		<b>£46,861,664</b>	<b>£42,679,825</b>

- 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. 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 ("HMRC") 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 makes a balancing payment each year. This settlement is made 20 months after the end of the fiscal year it relates to. Normally the Isle of Man makes a payment to HMRC however during the 2015-16 tax year a small payment was received from HMRC due to arrears of contributions from previous tax years being paid.
- iii. The Fund owns Nivison House, Prospect Hill, Douglas, and receives rent from its tenants.

### 3.5. Benefit Payments

	Notes	2015-16	2014-15
State Pension	i	£135,325,084	£134,839,225
Manx Pension Supplement	ii	£36,862,307	£37,481,383
Incapacity Benefit	iii	£10,513,572	£10,602,386
Contributory Jobseeker's Allowance	iv	£388,428	£458,181
Christmas Bonus	v	£943,400	£953,235
Nursing Care Contribution Scheme	vi	£2,277,708	£2,369,278
Maternity Benefit	vii	£3,943,355	£3,817,644
Bereavement Benefits	viii	£860,790	£866,150
Disablement Benefit	ix	£320,844	£342,707
Carers Allowance	x	£2,026,730	£1,009,092
Other Benefits	xi	£891,002	£904,119
<b>Total</b>		<b>£194,353,220</b>	<b>£193,643,400</b>

- 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 SSD 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 £40 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. Carers Allowance is paid to persons not in full-time work caring for someone in receipt of a disability benefit. Prior to 6 April 2013 this benefit was funded from general revenue.
- xi. 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 estimated amount of NICs that will be received during the tax year. During the 2015-16 fiscal year the NHS allocation was £36,452,988 (2014-15: £36,453,000).

Under Section 162 (6ZA) of the Social Security Administration Act 1992 (as applied to the Isle of Man) Treasury may revise the estimate if it appears that it was significantly inaccurate and make such adjustments to the NHS Contribution as appear appropriate.

During the 2015-16 tax year NIC receipts were deemed by Treasury to be significantly above budget estimates to justify an adjustment to the NHS Contribution. The sum of £641,000 was therefore allocated to the Health Inspection Fund.

	<b>2015-16</b>	<b>2014-15</b>
Class 1	£35,031,000	£34,786,000
Class 2	£244,992	£116,000
Class 3	£24,000	£35,000
Class 4	£1,152,996	£1,516,000
Transfer to Health Inspection Fund	£641,000	
<b>Total</b>	<b>£37,093,988</b>	<b>£36,453,000</b>

### 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 2015-16, £582 was received from pension schemes (2014-15: £1,648 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 continued 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, division or organisation providing those services. During the 2015-16 fiscal year, the SSD received £2,123,404 (2014-15: £2,562,680 to SSD) to cover costs relating to the awarding and payment of contributory benefits. £259,940 was paid for maintenance of the computer systems. It should be noted that although not included in this amount a further £1,645,000 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.

As at August 2016, the balance of unpaid NICs owed to Treasury was £1,693,839: with this debt relating to tax years from 2004/05 to 2016/17. This is excluding any Class 4 debt which is held with income tax debt.

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 ("HMRC") 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. See 3.4 (ii) above for the reason why this figure is include as income for the 2015-16 tax year.

### **3.12. Excess of Payments over Receipts**

The year to 31 March 2016 is the fourth during which Fund income, excluding investments, was insufficient to meet benefit payments made during the year: with the deficit being £9,159,449. During the year £14,000,000 was transferred into the operating account from investment income, leaving a closing balance of £4,840,551.



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**Isle of Man**  
**Government**

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

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