



Isle of Man
Government

Reilltys Ellan Vannin



Manx National Insurance Fund Account

For the Year Ended 31 March 2017

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)

January 2018

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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 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, for the previous year it was with the Department of Social Care ("DSC").
- 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 £756,446,000 at 31 March 2017 compared with £727,387,000 at 31 March 2016: an increase of £29,059,000.
- 1.2.2. The Fund operates essentially on a 'pay-as-you-go' basis with NICs income in each year, prior to the year ending 31 March 2015, 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 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 5.4 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. 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. The Treasury 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.
- 1.3.3. In June 2016 the UK voted to exit the European Union commonly known as Brexit. The financial markets were affected which may affect investment returns in the short to medium term.

- 1.3.4. 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.
- 1.3.5. Class 2 National Insurance is scheduled to be abolished from April 2019. If the rate of Class 4 National Insurance remains at its current rate there could be a loss of income to the Fund.
- 1.3.6. 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.

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 2016-17 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 2015-16 tax year, £16,162 of Class 1 NICs could not be matched, representing 0.01% (2014-15: £11,018, 0.01%) 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 2017.
- 2.2.2. The information in this Statement of Account has been extracted from the audited Annual Government Accounts.



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Sheila Lowe
Chief Financial Officer
Treasury Department
January 2018

3. National Insurance Operating Account Receipts and Payments

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

	Notes	2016-17	2015-16
Receipts			
National Insurance Contributions (Gross)	3.1	£186,874,642	£178,281,951
State Scheme Premiums	3.2	£46,073	£94,178
Income from Investment Account	3.3	£5,250,000	£14,000,000
Other Income	3.4	£56,304,243	£46,861,664
Contracted-Out Rebates	3.7	£405	£582
Total		£248,475,363	£239,238,375
Less			
Payments			
Benefit Payments	3.5	£197,466,401	£194,353,220
National Health Service Contribution	3.6	£39,191,000	£37,093,988
Contracted-Out Rebates	3.7		
Administrative Costs	3.8	£2,647,568	£2,383,344
Refunds	3.9	£645,054	£555,760
Bad Debts	3.10		£11,512
Transfer to United Kingdom National Insurance Fund	3.11		
Total		£239,950,023	£234,397,824
Excess of Receipts over Payments	3.12	£8,525,340	£4,840,551

Notes

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


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Sheila Lowe
Chief Financial Officer
January 2018

Notes to the Account

3.1. National Insurance Contributions

	Note	2016-17	2015-16
Class 1 (employed earner)	i	£181,959,620	£172,874,524
Class 2 (self-employed flat rate)	ii	£1,233,570	£1,171,856
Class 3 (voluntary contribution)	iii	£322,264	£120,889
Class 4 (self-employed earnings related)	iv	£3,359,188	£4,114,682
Total		£186,874,642	£178,281,951

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 benefits 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

	2016-17	2015-16
State Scheme premiums	£46,073	£94,178

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 2016/17 fiscal year, the investment account received £27,371,000 in investment income: of which £5,250,000 was transferred from the investment account to the operating account.

3.4. Other Income

	Note	2016-17	2015-16
Agency Payment from the United Kingdom (UK)	i	£53,234,036	£46,601,933
Transfer from UK National Insurance Fund	ii	£2,998,079	£187,536
Rental Income	iii	£72,000	£72,000
Other Services		£128	£195
Total		£56,304,243	£46,861,664

- 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. The payment for 2016/17 was significantly higher than previous years as during the period of these accounts a reconciliation exercise was

undertaken with the Department for Work and Pensions which identified that further payments were due to the Manx National Insurance Fund relating to a number of previous tax years.

- ii. Prior to April 2016, where an individual was employed in the Isle of Man but their National Insurance record was held in the United Kingdom, the NICs paid in the Isle of Man were transferred to the United Kingdom after a deduction was made for the Isle of Man National Health Service allocation. HM Revenue and Customs (HMRC) made 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 the Isle of Man made a balancing payment each year. This settlement is made 20 months after the end of the fiscal year it relates to. From April 2016 a reciprocal agreement removed reciprocity with regard to future state pensions, meaning contributions paid to the respective country count towards that country's state pension entitlement. This removes the need to transfer contributions between countries. A tidy up exercise of contributions for previous years is underway. During the 2016/17 tax year a payment was received from HMRC due to contributions from previous tax years (2013/14 & 2014/15) being paid.
- iii. The Fund owns Nivison House, Prospect Hill, Douglas, and receives rent from its tenants.

3.5. Benefit Payments

	Notes	2016-17	2015-16
State Pension	i	£137,890,540	£135,325,085
Manx Pension Supplement	ii	£36,742,274	£36,862,306
Incapacity Benefit	iii	£10,988,787	£10,513,572
Contributory Jobseeker's Allowance	iv	£328,980	£388,428
Christmas Bonus	v	£953,080	£943,400
Nursing Care Contribution Scheme	vi	£2,213,366	£2,277,708
Maternity Benefit	vii	£3,668,966	£3,943,355
Bereavement Benefits	viii	£824,859	£860,790
Disablement Benefit	ix	£744,629	£320,844
Carers Allowance	x	£2,284,738	£2,026,730
Other Benefits	xi	£826,182	£891,002
Total		£197,466,401	£194,353,220

- 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 and Social Care 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 2016-17 fiscal year the NHS allocation was £37,908,146 (2015/16: £36,452,988).

There was also a payment made to the Healthcare Transformation Fund (formally known as the Health Inspection Fund), the fund provides finance for the implementation of healthcare project initiatives that are of a transformational nature.

	2016-17	2015-16
Class 1	£36,450,146	£35,031,000
Class 2	£251,000	£244,992
Class 3	£25,000	£24,000
Class 4	£1,182,000	£1,152,996
Transfer to Health Inspection Fund	£1,282,854	£641,000
Total	£39,191,000	£37,093,988

3.7.Contracting-Out Rebates

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

This contribution was 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 were 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 had been paid. These schemes ceased with effect from 6th April 2012, and therefore the last year on which payments were calculated was 2011/12. Further payments continued until April 2015 where contribution information was received late or had been adjusted, after which time no further payments were made.

Occasionally payments are identified that should not have been paid and these are returned by the pension scheme, during the 2016/17 tax year £582 was received from pension schemes.

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 2016/17 fiscal year, the SSD received £2,268,332 (2015/16: £2,123,404) to cover costs relating to the awarding and payment of contributory benefits. £379,236 was paid for maintenance of the computer systems. It should be noted that although not included in this account a further £1,802,000 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

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 2017, the balance of unpaid NICs owed to Treasury was £4,042,197: with this debt relating to tax years from 2004/05 to 2017/18. This figure covers Class 1, Class 2 and Class 4 debt.

There were no write offs during 2016/17 due to processes and resources being reviewed.

3.11. Transfer to United Kingdom National Insurance Fund

Previously where an individual was employed in the Isle of Man but their National Insurance record was held in the United Kingdom; the NICs paid in the Isle of Man were transferred to the United Kingdom after a deduction was made for the Isle of Man National Health Service allocation. HM Revenue and Customs (HMRC) made 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 would need to make a balancing payment each year. This settlement is made 20 months after the end of the fiscal year it relates to.

With effect from 6th April 2016 the Isle of Man and United Kingdom no longer operate the same state pension schemes and therefore NICs will remain in the country they are paid in. Transfers regarding contributions for tax years prior to 6th April 2016 continue to be made along with the relevant settlement amount. See 3.4 (ii) above as income was received from HMRC for the 2016/17 tax year.

3.12. Excess of Receipts over Payments

The 2016/17 tax year sees a return to a surplus in the operating account. From 2012/13 to 2015/16 Fund income, excluding investments was insufficient to meet benefit payments

made during the years. During the year 2016/17 £5,250,000 was transferred into the operating account from investment income, leaving a closing balance of £8,525,340.

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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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