
Public Service Pensions Board
Annual Report 2004

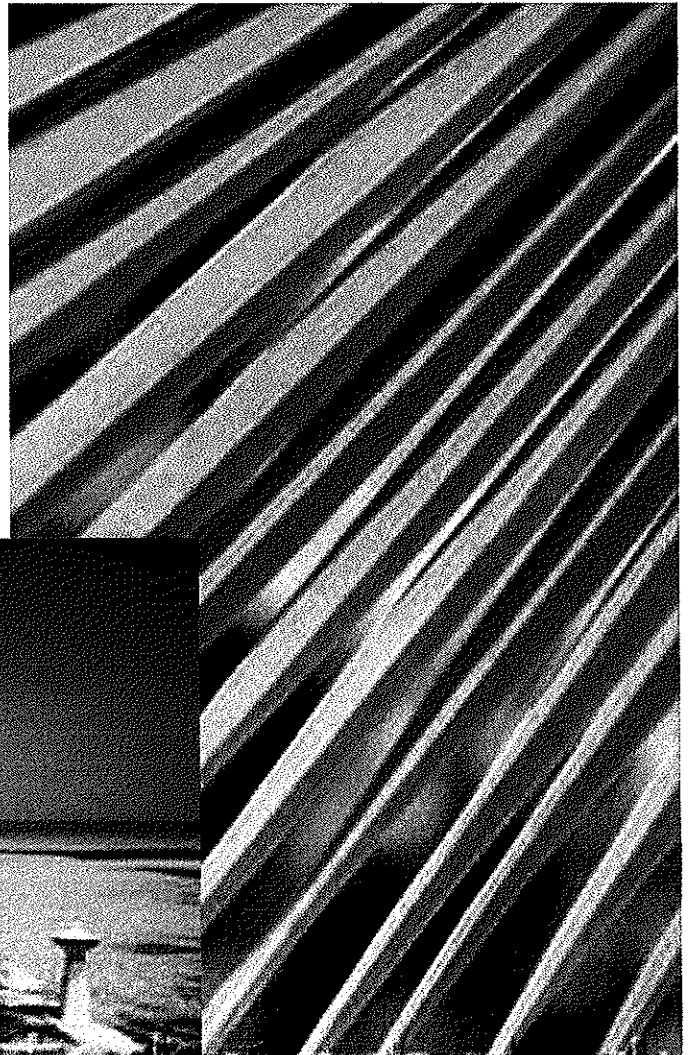


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**BOARD OF DIRECTORS
AND OFFICERS OF THE BOARD FOR 2004**

Hon. Kenneth Jefferson JP
Financial Secretary
Chairman

Mrs. Sonia McLaughlin
Deputy Financial Secretary
Deputy Chairman

Mrs. Jewel Evans Lindsey
Managing Director

Mr. A.C.E. Long CMB, CBE
Chairman, Public Service Commission

Mr. Donovan Ebanks MBE
Deputy Chief Secretary, Portfolio of Internal & External Affairs

Ms. Sheena Glasgow
President, Civil Service Association

Mr. Kirkland Nixon MBE, QFSM, JP
President, Public Managers Association

Mrs. Jacqueline Jefferson-Ziemniak
Crown Counsel, Legal Department

Mr. Leonard N. Ebanks JP
Private Sector Representative

Mr. Linburgh Martin
Private Sector Representative

Hon. Sybil McLaughlin MBE, JP
Pensioner's Representative

OFFICERS OF THE BOARD

Ms. Leisa Welcome
Executive Secretary to the Board

BOARD ADVISORS FOR 2004

Professional Services

Actuary

Watson Wyatt Worldwide
Chicago, Illinois
U.S.A.

Auditor

Cayman Islands Audit Office
Grand Cayman
Cayman Islands

Investment Managers

Scotia Cassels Investment Counsel Ltd.
Toronto, Ontario
Canada

CIBC Bank & Trust Co. (Cayman) Ltd.
Grand Cayman
Cayman Islands

Close Asset Management (Cayman) Ltd.
Grand Cayman
Cayman Islands

Attorney

Legal Department
Grand Cayman
Cayman Islands

Custodian

RBC Dexia
Toronto, Ontario
Canada

Investment Advisor

Watson Wyatt Worldwide
Chicago, Illinois
U.S.A.

CHAIRMAN'S REPORT

In September 2004, the Cayman Islands was ravaged by Hurricane Ivan. The Category 5 hurricane destroyed many homes and much of the infrastructure of the Islands. No structure was completely immune to the hurricane's wrath, including the offices of Public Service Pensions Board (the "Board"). However, the Managing Director and staff remained unwavering in their efforts in attending to the needs of pensioners as well as that of the citizens of the Cayman Islands with their much needed and appreciated assistance at the Emergency Operations Centre.

It was business as usual for most of 2004, with the Public Service Pensions Fund (the "Fund") increasing 22.4% or some \$26.5 million from 2003. The Board continues with its successful investment policy and mix with equities and fixed income securities. A comprehensive review of the Board's Statement of Investment Policies and Procedures is currently underway and it is expected to conclude in early 2005. The Board is committed to ensuring that optimum returns are earned relative to risk and that returns are in line with key actuarial assumptions. As part of the Board's commitment to this process, the Fund continues to undergo periodic reviews of its investments by the Board's investment advisor, Watson Wyatt Worldwide.

The dedication of the Managing Director and staff of the Board showed no signs of abating as they rose to the exceptional challenges of 2004. This year also saw the passage of the revamped Parliamentary Pensions Law (the "PPL") in the Legislative Assembly. This process is a testament of the Board's continued commitment to improved services for all pensioners and participants. Improvements to the PPL include measures for proper funding and benefit payments.

The new year promises to be no different than that of previous years, with much work and dedication required by the Board, the Managing Director and staff to improve the quality of services to pensioners and participants. An actuarial valuation is scheduled for 2005 as well as the conclusion of the comprehensive review of the Board's investment policy.

On behalf of the Board, the management and staff of the Fund, I look forward to 2005 being even more prosperous than 2004.

(Signed)

Kenneth Jefferson JP
Chairman, Public Service Pensions Board

MANAGING DIRECTOR'S REPORT

Despite the extraordinary challenges of 2004, the Public Service Pensions Board (the "Board") continued to deliver excellent service to its pensioners and participants. This year the revamped and more equitable Parliamentary Pensions Law (the "PPL") was passed in the Legislative Assembly. The PPL puts the payment of parliamentarians' contributions and benefits more in line with that of the Public Service Pensions Plan. Also undertaken this year, was the review of the Board's Statement of Investment Policies and Procedures to ensure that the current investment strategy can continue to provide the necessary level of returns as identified by the actuarial valuation.

The Public Service Pensions Fund (the "Fund") has seen 22.4% or some \$26.5 million in growth from 2003 with a market value of over \$144 million as presented in the Statement of Net Assets Available for Benefits (Appendix 1) at the end of 2004. Such growth is primarily due to the contribution level as prescribed by the recent actuarial valuation as well as positive investment returns.

The offices of the Board at Cricket Square received extensive flood damage during the passage of Hurricane Ivan in September 2004. Unable to work in such conditions, the staff of the Board met outside the office the first day after the "all clear" was given and was reassigned to assist in the more essential area of hurricane relief. All staff initially reported to the Emergency Operations Centre (the "EOC") to assist with radio communications at the centre. Staff worked arduous hours, putting in more than 12 hours at a time, managing the flow of radio communications between the various essential relief agencies. The staff of the Board did a commendable job at the EOC and was asked by the Director of the EOC to volunteer every year during the hurricane season.

As an organisation committed to the service of our clients, we saw the opportunity to alleviate some of the hardships of our clients, especially, our pensioners. Essential supplies such as food and water were purchased from overseas and a distribution centre was set up outside the offices of the Board. Pensioners who were able to get out of their homes were asked to visit the Board for supplies and any assistance that they required. In addition to setting up a distribution centre at the Board, staff visited every pensioner and delivered care packages containing water and canned food. Staff also assessed the needs of clients, which included taking pictures of damaged homes and assisting pensioners with the application process for funds needed for repairs from the National Recovery Fund.

In mid-October 2004, after receiving settlement for all damages from our insurance providers, the Board's offices at Cricket Square were again open for regular business. We remain optimistic for the year 2005, which we are sure will bring its own challenges and obstacles to excellence. However, the management and staff of the Board remain resolute in its determination to provide the best possible service to our pensioners and participants, and to continually seek improvement of the administration of the Plans.

(Signed)

Mrs. Jewel Evans Lindsey
Managing Director

OVERVIEW OF THE PUBLIC SERVICE PENSIONS BOARD

Background Information

The Public Service Pensions Board (the "Board") was re-established as a Statutory Authority on 14 April 1999, by virtue of the Public Service Pensions Law, 1999. The Public Service Pensions Law, 1999 (the "Law") repealed the Pensions Law (1999 Revision) and governs the Public Service Pensions Plan (the "Plan"). The head office of the Board is located at Century Yard, Cricket Square, Elgin Avenue, in George Town. Responsibilities of the Board include but are not limited to, administering the Plans, investing the Public Service Pensions Fund (the "Fund"), communicating with the Plan employers and participants, prescribing contribution rates in accordance with the latest actuarial valuation, and recommending amendments to the Plans and quantifying their financial impact as needed. Main functions of the Fund are to receive prescribed contributions, invest and pay out pension benefits as they come due under the Law. The Fund is vested in the Board.

The Fund has a defined benefit and a defined contribution component. All employees who joined the Plan prior to 14 April 1999 were enrolled in the Defined Benefit Part of the Plan. Those employees joining after 14 April 1999 were enrolled in either one of the two components depending on their circumstances. The Public Service Pensions (Amendment and Validation) Law, 2000 which was passed on 20 June 2000 amended the date after which all new employees were to be enrolled in the Defined Contribution Part of the Plan to 1 January 2000.

Contribution Rates

Employees who participate in the Plan contribute at the rate of 6% of pensionable earnings and employers contribute a matching 6%. Contribution rates to cover additional defined benefit costs were prescribed by the Board based on the 1 January 2002 actuarial results ranged from 1% to 10% of pensionable earnings. This additional defined benefit cost reflects the eventual liability of benefits related to the past service at the valuation date. The full liability for additional defined benefit costs will be borne by each respective employer.

The Plan has experienced an increase in the number of employers joining the Plan as a result of the increasing number of Statutory Authorities being established by the Government. It was not possible to determine an appropriate additional defined benefit rate for the newer authorities as they have not been

subjected to an actuarial valuation. An interim rate of 1% was applied to all authorities during 2003 and 2004.

Payment of Benefits

The Law provides for payment of retirement benefits to eligible participants. The normal retirement age is 60 however, participants with more than 10 years of qualifying service may retire at age 55 with unreduced benefits. The maximum amount of pension payable shall not exceed two-thirds of highest pensionable earnings drawn by a participant at any time during the course of his/her service. The formula used to calculate retirement benefits varies depending on whether the participant joined the service before or after 10 July 1980, with a higher rate of benefit accrual to those who commenced service before that date.

OTHER PLANS UNDER ADMINISTRATION

***Ex-Gratia* Pensions**

The Board administers the payment of *Ex-Gratia* Pensions on behalf of the Cayman Islands Government under Section 66 of the Public Service Pensions Law (2004 Revision), which covers these transitional provisions. The *ex-gratia* recipients are former Caymanian civil servants over the age of 60, who were not in receipt of any pension, allowance, gratuity or other retirement or termination benefit. Those with an aggregate of four or more years but less than 10 years of service receive an *ex-gratia* pension of \$200 per month. Those with 10 or more years of service received an *ex-gratia* pension of \$300 per month. It should be noted that these payments are not subject to increase for cost of living nor augmented annually.

The Government makes a quarterly pre-payment into the Fund to cover the expected payments for *Ex-Gratia* Pensions for each quarter.

The Board does not charge any fee for the administration of the *Ex-Gratia* Pensions.

Parliamentary Pensions Plan

The Elected Members of the Legislative Assembly participate in the Parliamentary Pensions Plan (PPP) as governed by the Parliamentary Pensions Law, 2004 (the "PPL"). These members contribute at a rate of 6% of pensionable earnings and the Government contributes 16%. These contribution rates reflect the rates prescribed for the Public Service Pensions Plan, as a separate valuation was not carried out for the PPP. These contributions have been pooled for investment purposes with those of the Fund.

The Board began to administer the PPP with effect from 1 September 1999, and does not charge any fee for this administration.

Benefits under the PPP were paid directly from the Government's General Revenue for the first eight months of 1999. For the remainder of 1999, the Government made quarterly pre-payments to the Fund to cover the payment of PPP pensions. This arrangement continued until the passage of the amendment to the PPL in August 2004, which mandated that the payment of parliamentary pensions be made from the PPP.

Judicial Pensions Plan

Judges of the Grand Court of the Cayman Islands participate in the Judicial Pensions Plan (JPP). Judges' pensions fall under the remit of His Excellency the Governor as set out in The Judges' Emoluments and Allowances Law, 1997. Members of the JPP contribute at a rate of 10% of pensionable earnings; the Government contributes a matching 10% and an additional 21% of pensionable earnings in accordance with the 1 January 2005 actuarial valuation. The assets duly belonging to the Judges of the Grand Court are under the administration of the Board and pooled with the assets of the other Plans for investment purposes.

The JPP started in 1997 notwithstanding the absence of the requisite order setting out Plan details and specifics relating to administration to the Plan. The Managing Director continues to work with the Legislative Drafting department, the Judges of the Grand Court and His Excellency the Governor to develop the appropriate draft Order.

FINANCIAL OVERVIEW

Growth of the Fund

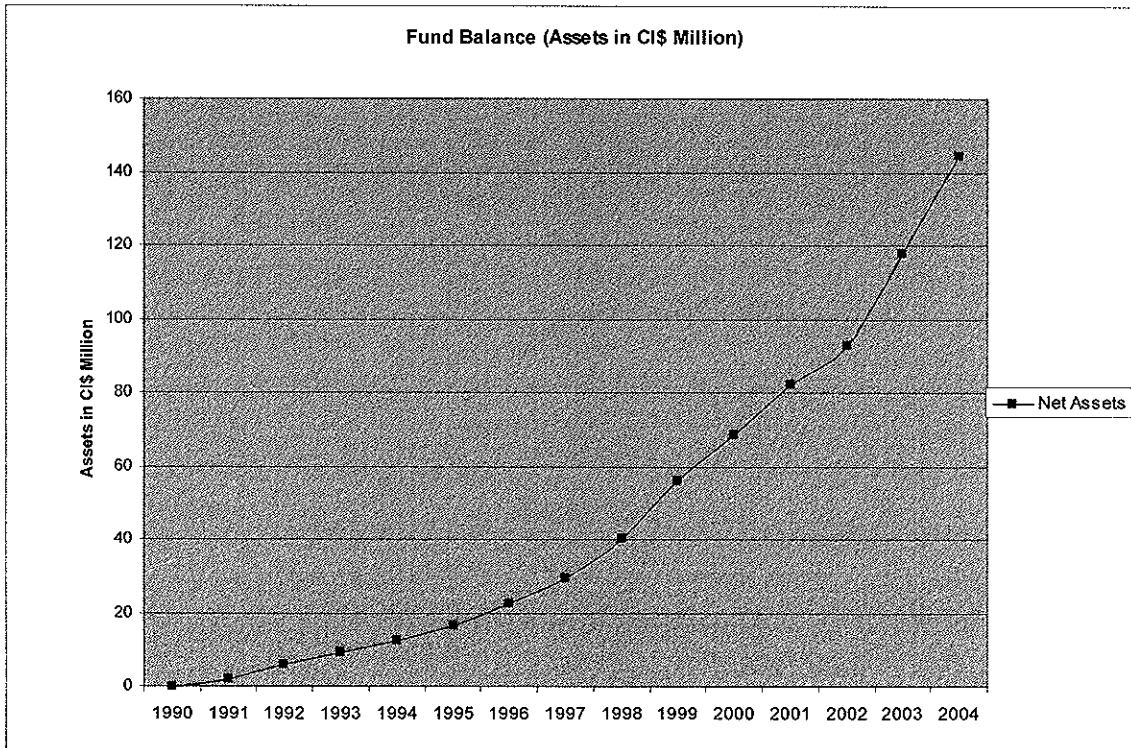
The Public Service Pensions Fund (the "Fund") continues to be in good financial health. The Fund holds a diversified portfolio of debt and equity securities that, over the long term, offers optimum return with minimized risk.

The Fund is subject to an actuarial valuation every three years which assesses the financial viability of the Fund, and the adequacy of the contribution rates for funding of the Plan. The Fund deficit of \$115 million was established using the results of the actuarial valuation as at 1 January 2002 which determined the past service liability to be \$260 million. Past service liability is based on pensionable earnings as of the valuation date, and reflects the liability in respect of benefits actually earned up to 31 December 2001. Although the Fund remains underfunded, the actuaries determined that the liability for inactive members (existing pensioners and beneficiaries, and those with deferred pensions) is sufficiently covered by available assets. It should be noted that the full liability for additional defined benefit costs will be borne by each respective employer.

It was recommended by the actuaries that the current contribution rates should remain, as a minimum, to maintain the Fund's viability.

As at 31 December 2004, the Fund stood at \$144.5 million, which represents a 22.4% or \$ 26.5 million increase in net assets from 2003. Graph 1 depicts the growth of the Fund from 1990 through to 2004. The growth of the Fund was gradual up to 1997, when a financing plan was implemented based on the results of an actuarial approach.

Graph 1



Investment Policy

The stated investment objective of the Board is "To Preserve Capital while Adding Value." The Board is committed to the investment objective, and has actively managed investment portfolios which are diversified, within the constraints of the Law as well as the Board's investment policy, to ensure that risk is not unduly concentrated in any one type of investment or area of currency. The Board adheres to internationally recognized benchmarks, and has established an asset mix policy, in collaboration with its investment advisors, for the purpose of achieving long-term returns of 3-4% above inflation. The asset mix policy establishes the percentage holdings by asset class and permissible ranges within the broad classes of investments. Within this framework, each investment manager is not limited by sector or country restrictions and is able to make discretionary decisions to capitalize on market opportunities. The Fund is biased to equities over the long term in order to achieve optimum returns. Equities, when compared to other classes of investments over the long term, have historically proven to generally out perform other forms of investments.

Market Summary

In 2004, financial markets posted solid returns and saw a decrease in volatility as compared to previous years. Such returns, although unspectacular, were mostly attributable to a strong fourth quarter in the stock market. Global equities performed quite well in November, despite the situation in Iraq and the threat of terrorism. The S&P 500 was up 10.9% for the year, its second year of positive returns, with the Dow Jones Wilshire 5000 rising to 12.6% in 2004. The NASDAQ Composite showing signs of slowing growth was up only 8.6% in 2004 as compared to 50% in 2003.

Small cap stocks outperformed large cap stocks for the sixth consecutive year. The Russell 2000 Index (small cap stocks) posted a five-year cumulative gain of 37.7%; a five-year annualized 8.9% over large cap stocks. The MSCI EAFE Index rose 20.3% driven by strong performing international equities. The global equity market was led by New Zealand, Australia, Spain and Hong Kong, all posting returns of over 25%.

Fixed income investments also saw steady earnings in 2004. The Citigroup World Government Bond Index grew by 10.4% for the year. However, the Lehman Aggregate Index only returned 4.3%, performing well below its 10.1% compound annualized return for the three years from 2000 to 2002.

Fund Performance

Although the Fund achieved positive growth in 2004, the Fund underperformed by 1.8% relative to its benchmark, due to the weaker performance of both US equities and bonds throughout most of the year.

The foreign equity segment of the Fund earned double digit earnings; however these returns came in well under the MSCI World Index by 1.3%. The Fund has underperformed its benchmark over the last four years. The Board is reviewing the investment manager's appointment.

The fixed income segment returned just over 4% in 2004, outperforming its index by 0.1% for the year and 0.7% over the long term. Fixed income represents less than 40% of the Fund's total assets. However, the Board is committed to optimum returns of the Fund and is, therefore, reviewing the investment manager's appointment.

Credited Rate of Return

The Credited Rate of Return (CRR) on contributions, is based on a three-year geometric average of actual returns, and amounted to a positive 2.32% in 2004. All participant contribution accounts would have been credited at year end with an interest base of 2.32%. The benefit to participants of a three year averaging or smoothing is most evident in the positive 1.86% CRR awarded in years 2000 and 2001 as compared to the actual shortfall of the Fund's returns during these years. Table 1 indicates the CRR trends for 1999 to 2004 expressed in percentages.

Table 1

Year	1999	2000	2001	2002	2003	2004
Return	14.84	-2.11	-6.00	-5.08	8.10	4.40
CRR	6.31	5.16	1.86	-4.41	-1.20	2.32

ORGANIZATIONAL ACTIVITIES

Annual Managing Director's Employee Recognition Award

The Annual Managing Director's Employee Recognition Award was created in 2000 by the Managing Director, Mrs. Jewel Evans Lindsey, to formally recognize and encourage exceptional staff contributions to the ongoing development of the organization.

The recipient for the year 2004 was Kimberley Davis, Head of Finance and Investments. Ms. Davis proved herself a dedicated member of the staff assuming much responsibility by taking the lead on many projects at the Public Service Pensions Board (PSPB), and completing initiatives successfully. She continues to demonstrate her leadership skills and is committed to the success of the PSPB.

The award was presented by the Managing Director at a staff luncheon where Ms Davis' achievement was acknowledged amongst her peers. She was given a standardized hand-crafted sculpture and a monetary award.

Hurricane Ivan Relief

In the immediate aftermath of Hurricane Ivan, PSPB staff returned to the Board's offices at Cricket Square to find extensive flood damage to the building. Unable to work in such conditions, the staff of the PSPB was redeployed to assist in the critical areas of the hurricane recovery. The PSPB staff assisted with radio communications at the Emergency Operations Centre, Central Fire Station, as well as assisting the pensioners of the PSPB with many of their needs.

Essential relief items such as water and canned food were purchased by the Board for its pensioners. A shipping container was placed on the Cricket Square property, where PSPB staff members handed out care packages consisting of water and canned food to those pensioners who were able to make it out of their homes to the PSPB offices. The Managing Director further decided that every pensioner should be visited and have their needs assessed in the aftermath of the hurricane. PSPB staff visited and delivered care packages to every pensioner. Needs assessment included taking photographs of damage to pensioners' homes, as well as assisting them with the application process to obtain repair funds from the National Recovery Fund.

RETIREES FOR 2004
(1 January - 31 December 2004)

Joan Campbell-Forbes	Lyliss Thompson
Rosita Gourzong-Henry	Heidi Bush
Lomax Rankin	Wayne Hydes
Ella DaCosta	Deryck Parsons
Elsa Robinson	Michael Myrie
James Ryan	Louise Ebanks
Maureen Jervis-Brooks	Anestine Dilbert
Lewie Hydes	Roy Melody
Marlene Bodden	Sonia Linwood
Linda Walton	Carolyn Brumbaugh
Ana Bodden	Cardiff Minzett
Joseph Williams	Quellon Rankine
Marcella Manderson	Converse Carter
Erbin Tibbetts	Erine McFarlane
Floyd Banks	Norrean Dilbert
Marcie Chittenden	Errol Scott
Sonia Davis	Ethel Smith
Ann Elliott	Lewiston Ebanks
Anthony Eastman	Eleanor Buckley
Richard Tresidder	Carl Bush
Catherine Moore	Rudolph Ross
Mary Banks	Ernest Powell
Elbert Carter	Anna Hurlston
Mary Malcolm	Stephen Seymour
Mavelyn Curtis	King Grant
Kenneth Rivers	George Chollette
Peter Multon	Carlie Manderson
Connie Redden	Grace Scott
Enid Bernard	Ruth McField
Ruby West	Thelma Range
Karl Lopez	Leebert Forbes
Rachel Ebanks	Cordonald Morrison
Mary Ebanks	Seford Ebanks
Albertha Christian	Alfred Hydes
Raymond Welds	Winnifred Sykes
Isobel Taylor	Barbara Edwards
Ann Elliott	Dorothy Jackson
Alva Suckoo	Merilda Messias
Christabel McCoy	Dawn Rankine
Cynthia Chukwueze	Errol Scott
Shem Powery	Irving Williams

Franklin Connor
Wilma McFarlane
Margaret Garcia
Ethel Smith
Elgin James
Eva Whittaker

Franscene Conolly
Leonora Hibbert
Evon Livingston
Minnette Fennell
Edgar Case
Desiree Charles-Christie

*Congratulations on your retirement and thank you for your many years of
service to the Government of the Cayman Islands.*

MEMORIALS



*In Memory of our Pensioners and
Participants who passed on during 2004.*