The Police Pensions Regulations 1991

Public Sector Pensions Authority
Annual Report and Accounts
for year ending 31 March 2013

Isle of Man
Government
Reiltys Ellan Vannin

Contents

1. Introduction

1.1. In accordance with the Public Sector Pensions Act 2011 (the 'Act'), the Public Sector Pensions Authority ('PSPA') was established as the Statutory Body responsible for the administration and management of the majority of public sector pension schemes (the 'schemes') as defined in the Act. The PSPA is a Statutory Board and thereby functions under the Statutory Boards Act 1987.

1.2. Prior to the establishment of the PSPA on the 17 January 2012, the Pensions Division of the Office of Human Resources was responsible for the administration of these schemes. The Civil Service Commission was responsible for the management of the majority of these schemes with the Department of Home Affairs being responsible for this Scheme.

1.3. In accordance with Section 5 (3) of the Act the PSPA's Members were appointed by the Council of Ministers. The Members comprise of a legally qualified Chairman, who is independent of employer and employee interests, two Members representing the interests of employers, one being the Chairman of the Civil Service Commission who is also the Vice-Chairman of the PSPA. Two further Members represent the interests of employees, one being nominated by the Isle of Man Trades Council and the other by any other Isle of Man trade union body representing the interests of public sector employees.

1.4. The PSPA operates in a similar way to a corporate trustee for a private sector pension scheme, with the PSPA Members representing the interests of all the schemes' beneficiaries and not solely the interests of the body or union that nominated them. However, the PSPA is not constituted as a trustee body.

1.5. Under the Act, the PSPA is responsible for ensuring that the schemes are properly maintained and administered. The PSPA Members meet on a regular basis to consider management and administrative matters, delegating the day to day management and administration to the officers of the PSPA.

1.6. Under the Act the functions of the PSPA include:

- Administering and managing the majority of the public sector pension schemes established in the Island;
- Acting as a policy adviser to the Council of Ministers on the superannuation of public sector employees;
- Making and amending public sector superannuation schemes, subject to Tynwald approval; and
- Preparing annual accounts hereafter referred to as financial statements, relating to those schemes it administers and manages.

1.7. The Isle of Man Treasury provides the PSPA with finance and payroll services. In practice, the PSPA coordinates and administers the calculation and set up of expenditure and monitors income, whilst the Treasury makes payments and receives funds from contributions and transfers to the Schemes.

PSPA's Mission Statement

1.8. To deliver high quality pension and other superannuation benefit services, which are customer focused and cost effective for all stakeholders.

PSPA's Management and Administration Costs

1.9. In accordance with Section 9 (3) (c) of the Act, the cost for the management and administration of the schemes must be paid by the PSPA out of moneys provided by Tynwald or from such other sources of funding as is approved by Tynwald. These costs are not reflected in the annual report and financial statements of the individual schemes.

2. Public Sector Pensions Authority and Advisers

Mr J Carter, LLB	Chairman (Independent)	17 January 2012 to present

PSPA Members representing the interests of Employers

Mr A Cannan, MHK	Vice Chairman	17 January 2012 to present
Mr J Turner, MLC		7 May 2013 to present

Members who served on the PSPA prior to Mr Turner

Mr D Butt, MLC	17 January 2012 to 16 July 2012
Mr L Singer, MHK	16 July 2012 to 7 May 2013

PSPA Members representing the interests of Employees

Mr A Shipley	17 January 2012 to present
Mr E Holmes	17 January 2012 to present

Scheme Management and Administration

Public Sector Pensions Authority
Goldie House
Goldie Terrace
Douglas
Isle of Man
IM1 1EB

Financial and Payroll Services

Treasury
Buck's Road
Douglas
Isle of Man
IM1 3PZ

Scheme Actuary

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Independent Auditor

PricewaterhouseCoopers LLC
Third Floor
Sixty Circular Road
Douglas
Isle of Man
IM1 1SA

Bankers (Via Treasury)

Isle of Man Bank Limited
2 Athol Street
Douglas
Isle of Man
IM99 1AN

3. Public Sector Pensions Authority's Report

3.1. The Police Pensions Regulations 1991 (the 'Scheme') is a public sector pension scheme which commenced on 15 October 1991.

3.2. The Scheme is an unfunded, contributory, voluntary membership, defined benefit scheme which provides retirement, death and dependants' benefits for qualifying members.

The Rules Affecting the Scheme

3.3. The rules governing the management and administration of the Scheme, the Police Pensions Regulations 1991, were implemented under Section 3, 12(2) and 12(3) of the Superannuation Act 1984.

3.4. The Scheme now operates under the Public Sector Pensions Act 2011, which has superseded the Superannuation Act 1984.

3.5. The Scheme was replaced with the Police Pensions Regulations 2010. The Scheme is closed to new members, but any Policeman who transfers from a United Kingdom Police Force, and is a member of the UK 1987 Police Pensions Regulations may join the Scheme.

Analogous to the UK Police Pensions Scheme

3.6. The Scheme is consistent with the UK Police Pensions Regulations 1987, subject to modifications. However, changes to the UK Scheme only apply in the Isle of Man if the PSPA agrees with the proposed change and consultation has taken place with affected members, their representatives, Treasury, relevant Departments and Boards prior to approval being sought in Tynwald for the Scheme amendment.

Sponsoring Employer

3.7. At 31 March 2013, Scheme members were appointed by the Department of Home Affairs.

Information about the Scheme

3.8. Information about the Scheme is provided in a "member guide", on the PSPA website at http://www.pspa.im

Benefits of the Scheme

3.9. Benefits under the Scheme, including pensions and lump sums, are calculated using final pensionable pay and length of pensionable service.

3.10. Further information about the Scheme's benefits are contained in the member guide on the website, which addresses matters such as injury benefits, early retirement, protection for member's families and lump sums.

Approved Changes to the Scheme since 1 April 2012

Police Pensions (Amendment) Regulations 2012

3.11. A consultation exercise was undertaken by the PSPA with members and interested parties prior to the introduction the Police Pensions (Amendment) Regulations 2012 (the 'Amendment').

3.12. The Amendment was to mirror changes made to the UK Police Pensions Scheme and included contribution increases in April 2012 ranging from 0.6% to 1.5% dependent on members salaries for 2012/13. The Amendment also included the proposed increases due to be applied from April 2013 to April 2015 once determined by the UK Government. Additionally, the Amendment confirmed the position with regard to civil partners in the Scheme.

3.13. The finalised amending legislation to the UK Police Pensions Scheme was not laid before the UK Parliament until March 2012 and therefore it was not possible for the PSPA to progress the Amendment in the Isle of Man until the latter part of 2012.

3.14. In order to maintain parity with the UK Police Pension Scheme, it was proposed that the changes be made retrospectively to the same date they were made in the United Kingdom being 1 April 2012. Backdating the contribution increases is permitted under Section 7 of the Public Sector Pensions Act 2011. However, having taken advice on this matter from the Council of Ministers, the contribution increases took effect from September 2012 onwards.

3.15. The Amendment was approved at the November 2012 sitting of Tynwald.

3.16. The Police Pensions (Amendment) Regulations 2012 included provision for any future contribution changes made in respect of the UK Police Pensions Scheme to the Scheme. The contribution increases in April 2013 and April 2014 are being applied at the same effective date as in the UK to avoid the need for backdated contributions.

Police Pensions (Amendment) Regulations 2013

3.17. A consultation exercise was undertaken by the PSPA with members and interested parties prior to the introduction the Police Pensions (Amendment) Regulations 2013 (the 'Amendment').

3.18. The Amendment was to mirror changes made to the UK Police Pensions Scheme in respect of dealing with additional voluntary contributions (AVCs), added years contributions and parts of the UK Police Pensions (Amendment) Regulations 2006, which cover voluntary retirement ages and the treatment of contributions whilst members are on maternity leave.

3.19. The Amendment was approved at the July 2013 sitting of Tynwald.

Forthcoming Changes

3.20. The UK Government announced on the 29 August 2012, that following extensive negotiations with trade unions, there is sufficient support to proceed with implementation of the Proposed Final Agreements covering reform of public service pension schemes, including the UK Police Pension Scheme. It is likely that the PSPA will continue to mirror the UK Police Pension Scheme by applying these reforms, once introduced in the UK, to the Scheme. Details of the proposed reform, announcements and final agreement can be found on the UK Government Police Pension Reform website.

See https://www.gov.uk/police-pension-reform

Employer Contributions

3.21. There are no employer contributions paid by the Department of Home Affairs.

Member Contributions

3.22. The member contribution rates and increases are shown in table below:-

Annual Contributable Salary	Prior to 1 September 2012	1 September 2012	1 April 2013
Tier 1 - Below £27,000	11%	11%	11%
Tier 2 - £27,000 to £59,999	11%	12.25%	13.5%
Tier 3 - £60,000 and above	11%	12.5%	14%

Member Contributions - Additional Voluntary Contributions

3.23. Scheme members may increase their retirement benefits by the payment of Additional Voluntary Contributions (AVC) in the following ways;

- Paying AVCs into a Group Personal Pension arrangement with Aviva Life UK Services Limited;
- Paying AVCs into with-profits contracts with Aviva Life UK Services Limited and Prudential Pensions Limited; and
- Paying AVCs into the Scheme by purchasing added years.

Annual Pension Increase

3.24. Pension increases are made in accordance with the Pensions (Increase) Act 1974, by way of the Isle of Man Treasury's Pensions Increase (Annual Review) Order. The Order is made under Section 59 of The Social Security Pensions Act 1975, as it has effect in the Isle of Man, which requires the Isle of Man Treasury to increase the annual rate of an "official pension" by the same percentage as it is raised by the Secretary of State for Work and Pensions in the United Kingdom.

3.25. Pension increases are linked to those for additional state pension, such as the State Second Pension, and any up rating takes into account the rate of UK inflation over the previous year to September. The pension increase at 9 April 2012 was in line with the UK's Consumer Prices Index for the 12 months to September 2011 at

5.2% (September 2010 - 3.1%). The Scheme's pension members have received this increase.

Membership Information

3.26. Details of the membership of the Scheme are as follows:-

	31 March 2013	31 March 2012
Active members	206	217
Deferred Members with Preserved Benefits	32	32
Pensioners	231	218
Total membership	**469**	**467**

Movements within the Scheme's Active Membership during the Year

Active membership	**2012/13**	**2011/12**
Active membership at 1 April	217	233
Additions		
Late notifications/data alteration/Misc correction	4	0
Reductions		
Retirements	(13)	(15)
Members leaving entitled to contribution refund or transfer out	0	0
Deaths in service	0	0
Leavers with deferred benefits	(2)	(1)
Active membership at 31 March	**206**	**217**

Movements within the Scheme's Deferred Membership during the Year

Deferred membership	**2012/13**	**2011/12**
Deferred membership at 1 April	32	34
Additions		
Leavers with deferred benefits	2	1
Reductions		
Retirements	(1)	(2)
Transfers Out	(1)	(1)
Deaths in deferment	0	0
Deferred membership at 31 March	**32**	**32**

Movements within the Scheme's Pensioner Membership during the Year

Pensioner membership	2012/13	2011/12
Pensioner members at 1 April	218	204
Additions		
Retirements	14	17
Reductions		
Deaths in retirement	(1)	(3)
Pensioner membership at 31 March	**231**	**218**

Note: The figures include Pensioners, Child Pensions, Widow/Widower Pensions, Injury Pensions/Awards and Additional Pension beneficiaries.

Tax and National Insurance Status

3.27. The Scheme is contracted-out of the State Second Pension Scheme ("S2P") and is exempt approved for the purposes of the Income Tax (Retirement Benefit Schemes) Act 1978 and Part I of the Income Tax Act 1989 (Acts of Tynwald). Full tax relief is granted on members' contributions paid to the Scheme.

Funding Status

3.28. The PSPA has undertaken an assessment of the future funding of all the schemes it manages and administers on a collective basis. The PSPA expects the schemes, including this Scheme to continue operating on an unfunded basis for the foreseeable future, with any shortfall between income and expenditure being funded by the Treasury.

Accounting Records

3.29. Prior to 1 April 2012, there was no requirement to prepare an annual report and audited financial statements for this Scheme. As a consequence, the Scheme's accounting records prior to this date were maintained on a cash receipts and payments basis rather than an accruals basis. For further information on this matter, please refer to the basis of preparation in the notes to the financial statements.

Statement of PSPA Responsibilities

3.30. The financial statements, which are prepared in accordance with United Kingdom Accounting Standards, are the responsibility of the PSPA. The Act requires the PSPA to make available to the Council of Ministers audited financial statements for each scheme year which means that it should:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than the liabilities to pay relevant benefits after the end of the Scheme year; and

- contain the information specified by United Kingdom Accounting Standards, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice "Financial Reports of Pension Schemes" (revised May 2007).

3.31. The PSPA has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis.

3.32. The PSPA is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

3.33. The PSPA is also responsible for keeping records in respect of contributions received by Treasury in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employers in accordance with the Scheme rules and the recommendation of the Scheme actuary.

3.34. The PSPA also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

3.35. The PSPA is also responsible for the maintenance and integrity of the PSPA website. Legislation in the Isle of Man governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Further Information

3.36. Enquiries about the Scheme generally, or about an individual member's entitlements to benefit, should be addressed to:-

Scheme Administrator
Public Sector Pensions Authority
Goldie House
Goldie Terrace
Douglas
Isle of Man
IM1 1EB

Mr J Carter, LLB
Chairman, PSPA
13 December 2013

Mr A Cannan, MHK
Vice Chairman, PSPA
13 December 2013

4. Actuarial Statement

Addressee and Purpose

4.1. This statement has been prepared for the Public Sector Pensions Authority ("PSPA"). The purpose of this statement is to set out the disclosures required for the 2012/13 Annual Report and Accounts of the Police Pensions Regulations 1991 (the 'Scheme').

Description of the Scheme

4.2. The Scheme is an unfunded defined benefit scheme, the rules of which are set out in Police Pensions Regulations 1991 and subsequently amended by the Police Pensions (Old Scheme) (Amendment) 2010.

Background to the Scheme

4.3. The present arrangements apply to all officers who joined the Isle of Man Constabulary whether as new recruits, officers who had formerly worked for the Constabulary who wish to return, having previously resigned, and any officers recruited from a police force in the United Kingdom.

Principal Actuarial Assumptions and Method used to Value the Liabilities

4.4. The financial and demographic assumptions adopted in this analysis are consistent with those used in the previous analysis carried out by Hymans Robertson LLP to assist the Isle of Man in the reform of their Public Service Pension Schemes.

4.5. Separate assumptions have been adopted in the preparation of the Actuarial Statements as at 1 April 2012. Each set of assumptions have been documented below.

4.6. Data provided by the PSPA for the purpose of the cash flow analysis was used in the preparation of this statement.

Method

4.7. The Projected Unit funding method has been adopted in the calculations.

4.8. The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

4.9. The calculation of the estimated cost of benefits earned (or 'accrued') by existing members over the year from 1 April 2012 allows for all expected future pay and pension increases. This amount is expressed as a percentage of the members' pensionable pay over the year.

Assumptions

4.10. A market-related approach was taken to valuing the liabilities. The key assumptions adopted are set out below. The assumptions reflect a typical accounting basis as at 1 April 2012, i.e. the discount rate is based on the Gross Redemption Yield on high quality corporate bonds.

Financial Assumptions	Normal % p.a.	Real % p.a.
Discount Rate	4.8%	2.3%
Pay Increases	4.8%	2.3%
Price Inflation/Pension Increases	2.5%	-

4.11. The key demographic assumption is the allowance made for longevity. The baseline longevity assumption is based on the standard "SAPS" tables, published by the Continuous Mortality Investigation ("CMI"). Allowance for future improvements are in line with the CMI projections model, and assume that the recent rate of improvements have reached a peak with a long term rate of improvement of 1% p.a.

4.12. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.0 years	24.4 years
Future Pensioners*	23.3 years	26.0 years

*Future pensioners are assumed to be 45 at 1 April 2012.

Other Demographic Assumptions

4.13. Age retirements - Members are assumed to retire on reaching the Normal Retirement Age applicable to their membership of the Scheme. No allowance is made for early retirements (other than on grounds of ill-health).

4.14. Retirements in ill health - Allowance has been made for ill-health retirements before Normal Pension Age (see table below).

4.15. Tier 1

Incidence for 1,000 active members p.a. Age	Male Ill Health	Female Ill Health
20	0.00	0.00
25	0.00	0.19
30	0.24	0.32
35	0.32	0.64
40	0.56	0.83
45	1.28	1.34
50	3.52	2.62
55	7.20	6.91
60	14.40	0.00

4.16. Tier 2

Incidence for 1,000 active members p.a. Age	Male Ill Health	Female Ill Health
20	0.00	0.00
25	0.00	0.36
30	0.45	0.60
35	0.60	1.20
40	1.05	1.56
45	2.40	2.52
50	6.60	4.92
55	13.50	12.96
60	27.00	0.00

4.17. Withdrawals - Allowance has been made for withdrawals from service (see table below).

Incidence for 1,000 active members p.a. Age	Male Withdrawals	Female Withdrawals
20	122.40	116.10
25	80.85	78.10
30	57.35	65.45
35	44.80	56.45
40	36.05	46.95
45	29.50	38.65
50	22.85	29.45
55	19.80	22.70
60	12.00	10.55

4.18. Family details - A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. Husbands are assumed to be 3 years older than wives.

Incidence for 1,000 active members p.a. Age	Male Death in Services	Female Death in Services
20	0.30	0.16
25	0.30	0.16
30	0.36	0.24
35	0.42	0.40
40	0.72	0.64
45	1.20	1.04
50	1.92	1.52
55	3.00	2.00
60	5.40	2.56

4.19. Cash commutation - Future pensioners are assumed to elect to exchange pension for additional tax-free cash up to 50% of the amount.

4.20. The tables below show details of the assumptions actually used for specimen ages. The promotional pay scale is in addition to the allowance for general pay inflation described above. For membership movements, the figures represent the number of members per 1,000 at each age that are assumed to leave service within the following twelve months.

4.21. The tables below reflect the recommendation from the experience analysis carried out by Hymans Robertson in 2010. Further details are available on request.

Promotional Salary Scales Age	Male Salary Scale	Female Salary Scale
20	100	100
25	100	100
30	123	123
35	138	138
40	148	148
45	158	158
50	168	168
55	168	168
60	168	168

Value of Past Service Liabilities as at 1 April 2012

4.22. The PSPA commissioned a cash flow analysis with an effective date of 1 April 2012. This analysis revealed the past service liabilities of the Scheme as at 1 April 2012 to be £146.2m. A breakdown of this is provided in the table below:

	Past Service Liabilities (£000)
Active Members	59,888
Deferred Members	2,495
Pensioner Members	83,787
Total	**146,170**

Cost of Accruing Benefits as at 1 April 2012

4.23. The Scheme is an unfunded arrangement. Active members pay contributions based on their pensionable pay, with the balance of the cost being met by the sponsoring employers (principally, the Isle of Man Government).

4.24. The employer's share of the cost of accruing benefit as at 1 April 2012 on the assumptions set out above is 45% and the employee cost is 12.25%. These rates do not reflect the actual contribution rate payable by the employer, which is zero.

Experience over the Period 1 April 2012 to 31 March 2013

4.25. Experience has been poorer than expected since 1 April 2012 (excluding the effect of any membership movements). The liabilities and pensions costs are likely to have increased over the period since 1 April 2012 due to falling real bond yields.

4.26. The first actuarial valuation of the Scheme will be carried out at a future agreed date once the impact of future reforms has been assessed.

4.27. The following Technical Actuarial Standards are applicable in relation to this report:

- Pensions TAS;
- TAS R – Reporting;
- TAS M – Modelling; and
- TAS D – Data.

PAV

Peter Summers FFA
For and on behalf of Hymans Robertson LLP
Scheme Actuary
29 November 2013

5. Independent Auditor's Report to the PSPA in respect of The Police Pensions Regulations 1991

We have audited the financial statements of The Police Pensions Regulations 1991 ('Scheme') for the year ended 31 March 2013 which comprise the fund account, the net assets statement, the accounting policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable Isle of Man law and United Kingdom Accounting Standards.

Respective Responsibilities of the PSPA and the Auditor

As explained more fully in the Statement of PSPA Responsibilities, the PSPA is responsible for the preparation of the financial statements and being satisfied that they show a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable Isle of Man law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the PSPA as a body in accordance with the Public Sector Pensions Act 2011 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the PSPA; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the Financial Statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2013, and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the year; and
- have been properly prepared in accordance with United Kingdom Accounting Standards.

Other Matter

The comparative information, which includes the corresponding figures and comparative financial statements of The Police Pensions Regulations 1991 for the year ended 31 March 2012 are unaudited.

PricewaterhouseCoopers LLC

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
13 December 2013

6. Independent Auditor's Statement about Contributions to the PSPA in respect of The Police Pensions Regulations 1991

We have examined the contributions paid to The Police Pensions Regulations 1991 ('Scheme') for the year ended 31 March 2013.

Respective Responsibilities of the PSPA and the Auditor

As explained more fully in the Statement of PSPA Responsibilities, the PSPA is responsible for monitoring whether contributions are made to the Scheme by the employer in accordance with relevant requirements.

It is our responsibility to provide a Statement about Contributions and to report our opinion to you.

This report, including the opinion, has been prepared for and only for the PSPA as a body in accordance with the Public Sector Pensions Act 2011 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of Work on the Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions have been paid in accordance with the relevant requirements. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme under the Scheme rules and the recommendation of the Scheme Actuary and the timing of those payments.

Basis for Disclaimer Statement about Contributions

An actuarial valuation has not been prepared for this Scheme and hence, a recommendation has not been made by the Scheme Actuary with regards to the future contribution rates payable by the sponsoring employer and members.

Disclaimer Statement about Contributions

In our opinion, the contributions payable to the Scheme for the year ended 31 March 2013 have in all material respects been paid in accordance with the Scheme rules.

Because of the significance of the matter described in the Basis for the Disclaimer Statement about contributions, we have not been able to obtain sufficient appropriate audit evidence to provide the basis for an opinion about whether contributions payable to the Scheme for the year ended 31 March 2013 have in all material respects been paid in accordance with the recommendation of the Scheme Actuary. Accordingly, we do not express an opinion.

PricewaterhouseCoopers LLC

PricewaterhouseCoopers LLC
Chartered Accountants
Douglas, Isle of Man
13 December 2013

7. Fund Account for the Year Ended 31 March 2013

	Notes	2013 £000	2012 Unaudited £000
Contributions and other income			
Contributions	9.17	4,571	3,913
Transfers from other schemes	9.15	0	98
Benefits and other outgoings			
Benefits	9.19	(6,173)	(6,076)
Payments to and on account of leavers	9.15, 9.20	0	(95)
Net withdrawals from dealings with members		(1,602)	(2,160)
Net assets of the Scheme at 1 April		0	0
Cancellation of current assets and current liabilities	9.5 to 9.8, 9.21	1,602	2,160
Net assets of the Scheme at 31 March		0	0

7.1. The notes on pages 22 to 26 form part of these financial statements.

8. Net Assets Statement as at 31 March 2013

	Notes	2013 £000	2012 Unaudited £000
Current assets	9.5 to 9.8	0	0
Current liabilities	9.5 to 9.8	0	0
Net assets of the Scheme at 31 March		**0**	**0**

8.1. The notes on pages 22 to 26 form part of these financial statements.

8.2. The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the PSPA. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in the actuarial statements on pages 12 to 16, and these financial statements should be read in conjunction with them.

8.3. These financial statements were approved by the PSPA on 13 December 2013.

Mr J Carter, LLB
Chairman, PSPA
13 December 2013

Mr A Cannan, MHK
Vice Chairman, PSPA
13 December 2013

9. Notes to the Financial Statements for the Year Ended 31 March 2013

Basis of Preparation

9.1. The financial statements have been prepared in accordance with applicable Isle of Man law, United Kingdom Accounting Standards ('UKAS') and, with the guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (revised May 2007), to the extent that it is considered to be appropriate for an unfunded pension scheme.

Basis of Accounting

9.2. Prior to 1 April 2012, the Scheme's accounting records were maintained on a cash receipts and payments basis and there was no requirement to prepare financial statements.

9.3. Since 1 April 2012, the PSPA has been responsible for the preparation of the Scheme's financial statements in accordance with the Public Sector Pension Act 2011 (the 'Act'). The PSPA has concluded that this Scheme's accounting records should be prepared on an accruals basis.

Accounting Treatment - Opening Balances

9.4. With respect to opening balances at 1 April 2011, the PSPA has concluded that the scheme accounting records contain insufficient information regarding the historic debtor and creditor balances between the scheme, the sponsoring employers and the Treasury. The PSPA and the Treasury have agreed that these historic balances will be cancelled subject to the Isle of Man Government continuing to provide sufficient additional funding to meet the Schemes' obligations to pay pensions and benefits which fall due after the end of the Scheme year. The financial statements reflect this accounting treatment of opening balances.

Accounting Treatment – Cancellation of Current Assets and Current Liabilities

9.5. The Scheme operates on an unfunded basis and as such a separate fund has not been established from which the Scheme can pay the members' benefits and other out-goings.

9.6. As a consequence, the PSPA and Treasury have agreed that with effect from 1 April 2011 that neither party will seek the payment of the amounts due from the other party being:

- Amounts due from the sponsoring employers to the PSPA, mostly contributions which have been collected by the Treasury and paid into the Isle of Man Government's General Reserves; and

- Amounts due from the PSPA to the Treasury, mostly members' benefits and other out-goings paid by the Treasury.

9.7. This agreement is subject to the Treasury continuing to provide sufficient additional funding to meet the Scheme's financial obligations to pay pensions and benefits as they fall due after the end of the Scheme year.

9.8. The financial statements and the notes to the financial statements have been prepared on this basis. The cancellation of these balances occurs annually, as reflected in the fund account.

Accounting treatment - Comparative information

9.9. Prior to 1 April 2012 no scheme specific actuarial statements or certificates were prepared for the Scheme.

9.10. In respect of contributions receivable from sponsoring employers for the year ended 31 March 2012, the comparative information has been prepared using actuarial information extracted from the Isle of Man Government's actuarial statements dated 31 March 2011 and 31 March 2012. The PSPA has concluded that this actuarial information, which has been prepared by the Government Actuary's Department, provides a reasonable basis for calculating contributions receivable in the absence of equivalent information having been prepared by the Scheme's actuary.

Accounting Policies

9.11. The following principal accounting policies, which have been applied consistently, have been adopted in the preparation of the financial statements.

Contributions

9.12. Normal contributions from the sponsoring employer and members are accounted for on an accruals basis.

9.13. Additional Voluntary Contributions ('AVCs') including augmentations are accounted for on an accruals basis. Amounts paid in respect of money purchase AVCs to secure additional defined contribution benefits under arrangements made by the PSPA are not reflected in these financial statements.

Benefits

9.14. Where members take their benefits as a full pension or as a lump sum, with reduced pension, retirement benefits are recognised in the fund account on the later date of retirement and the date the option is exercised. Other benefits are recognised on a similar basis being on the date of retirement, death or leaving the Scheme as appropriate.

Transfers To and From Other Schemes

9.15. Transfer values represent the capital sums either receivable in respect of members from other schemes of previous employers or, payable to the scheme of new employers for members who have left this Scheme. They are recognised in the fund account on the date that the PSPA or the receiving scheme accepts the liability. The liability normally transfers when a payment is made.

Other Payments

9.16. Administrative expenses are borne by the PSPA and have not been reflected in these financial statements.

Contributions

9.17. Using the actuarial statement dated 1 April 2012, Employer's normal contributions receivable have been calculated as 45% of pensionable pay (2012 unaudited PSPA estimate of 39%). No contributions are paid into the Scheme by the Employers.

	2013 £000	2012 Unaudited £000
Employer's Contributions		
Normal	3,638	2,976
Members' Contributions		
Normal	933	937
Contributions Total	**4,571**	**3,913**

Funding of Current Year Benefits and other Outgoings

9.18. Benefits and other out-goings are funded on a 'pay as you go' basis, primarily through a combination of:

- Contributions paid by members to the Treasury;
- Transfers from other schemes in respect of new members, paid to the Treasury; and
- Additional funding provided by the Treasury, including transfers from the Public Sector Employees Pension Reserve ('PSEPR'), a non-ring fenced reserve of the Isle of Man Government.

9.19. Benefits

	2013 £000	2012 Unaudited £000
Pensions	(4,207)	(3,727)
Commutations and lump sums	(1,966)	(2,349)
Benefits Total	**(6,173)**	**(6,076)**

9.20. Payments to and on account of leavers

	2013 £000	2012 Unaudited £000
Transfers to other schemes	0	(95)
Payments to and on account of leavers Total	**0**	**(95)**

9.21. Cancellation of Current Assets and Current Liabilities

	2013 £000	2012 Unaudited £000
Amounts due from the sponsoring employer to the scheme	4,571	4,011
Amounts due from the scheme to the Treasury in respect of benefits and other payments	(6,173)	(6,171)
Cancellation of current assets and current liabilities Total	**(1,602)**	**(2,160)**

Related Party Transactions

9.22. Other than those items disclosed elsewhere in the financial statements, there were no other related party transactions.

Contingent Liabilities and Commitments

9.23. In the opinion of the PSPA the Scheme has no contingent liabilities and commitments other than those items disclosed elsewhere in the financial statements.

Future funding

9.24. The PSPA has performed an assessment of when the contractual obligations to pay pensions and benefits will fall due after the balance sheet date and, how these contractual obligations will be funded. This assessment has been performed on a combined basis for all public sector pension schemes (the 'schemes') as defined under the Public Sector Pensions Act 2011 (the 'Act').

9.25. There is a funding gap between the schemes' cash payments and cash receipts (hereafter the 'funding gap'), which is met by the Treasury through a combination of transfers from the Isle of Man Government's General Reserves and the non–ring fenced Public Sector Employees Pension Reserve ('PSEPR').

9.26. This year's funding gap was £35 million (2012 unaudited: £24 million), with £22 million (2012 unaudited: £20 million) being funded from General Reserves and £13 million (2012 unaudited: £4 million), being funded from the PSEPR.

9.27. The PSEPR represented 10.9% of the Isle of Man Government's pension scheme liabilities at 31 March 2013 (2012: 12.5%). The deterioration in its value relative to the Government's pension scheme liabilities can be attributed primarily to a change in actuarial assumptions used to calculate those liabilities, which increased by £344 million for all schemes to £2,296 million at 31 March 2013 (2012: £1,952 million).

9.28. It is anticipated that the annual funding gap will continue to increase as a larger proportion of the schemes' membership reaches retirement and that additional funding will be required from the Treasury.

9.29. The PSPA has concluded that the schemes can continue to meet their contractual obligations, subject to the Treasury being able to fund the schemes' annual funding gap and the High Court of Tynwald continuing to provide monies to meet the payment of pension benefits in accordance with Section 9(3)(b) of the Act.

9.30. To ensure that the schemes can continue to meet their contractual obligations in the future, the funding gap will remain under review on an ongoing basis by the PSPA and Treasury.