Judicial Pension Scheme 2004

Public Sector Pensions Authority
Annual Report and Accounts
for year ended 31 March 2019

Isle of Man
Government
Reiltys Ellan Vannin

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1. Introduction

1.1 The Public Sector Pensions Authority (PSPA) was established in 2012, as the Statutory Board responsible for the administration and management of the majority of public sector pension schemes (the 'schemes') as defined in the Public Sector Pensions Act 2011 (the 'Act').

1.2 Board Members are appointed by the Council of Ministers and comprise of a legally qualified Chair, who is independent of employer and employee interests, two Members representing the interests of employers, one being the Chair of the Public Services Commission, who is also the Vice-Chair 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.

1.3 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 Board is not constituted as a Trustee Board and does not therefore have the same fiduciary responsibilities.

1.4 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.

1.5 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.

1.6 The Isle of Man Treasury and Cabinet Office provide 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

1.7 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

1.8 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 monies 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 Board

Mr J Carter, LLB Chair (Independent)	Re-appointed 12 January 2017

PSPA Members representing the interests of Employers

Hon. C C Thomas, MHK Vice Chair	Resigned 27 May 2020
Mrs J Poole – Wilson MLC	Appointed 22 March 2018
Hon. R Harmer, MHK Vice Chair	Appointed 3 June 2020

PSPA Members representing the interests of Employees

Mr E Holmes	Resigned July 2018
Ms A Moffatt	Resigned July 2018
Mr I Wright	Appointed July 2018
Mrs D Halsall	Appointed July 2018

3. Public Sector Pensions Authority Advisers

Scheme Management and Administration
Public Sector Pensions Authority
3rd Floor Prospect House
27-29 Prospect Hill
Douglas
Isle of Man IM1 1ET

Financial and Payroll Services
Office of Human Resources
Payroll Team
Cabinet Office
Illiam Dhone House
Circular Road
Douglas
Isle of Man IM1 3AG

Scheme Actuary
Hymans Robertson LLP
20 Waterloo Street
Glasgow G2 6DB

Independent Auditor
KPMG Audit LLC
Heritage Court
41 Athol Street
Douglas
Isle of Man IM1 1LA

Bankers (via Treasury)
Isle of Man Bank Limited
2 Athol Street
Douglas
Isle of Man IM99 1AN

4. Public Sector Pensions Authority's Report

4.1 The Judicial Pension Scheme 2004 (the 'Scheme') is a public sector pension scheme which commenced on 1 November 2004.

4.2 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

4.3 The Rules governing the management and administration of the Scheme were implemented under Section 12(1) of the Superannuation Act 1984.

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

4.5 The Scheme replaced the Judicial Pension Scheme 1992, which is now closed to new members.

Analogous to the UK Judicial Pension Scheme

4.6 The Scheme is consistent with the UK Judicial Pension Scheme, which was in place prior to the amendment to the UK Scheme on 1 April 2015, 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 a 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

4.7 Scheme members are Crown Appointments.

Information about the Scheme

4.8 Information about the Scheme is provided in the "Member Guide", available from the PSPA.

Benefits of the Scheme

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

4.10 Further information about the Scheme's benefits is contained in the "Member Guide".

Changes and forthcoming changes affecting the Scheme

4.11 On 1 April 2015 the UK Government introduced a new "stand alone" judicial pension scheme based upon the new (UK) Civil Service pension scheme. Following the Tynwald resolution upon the Public Sector Joint Working Group's Report – "Fairness and Sustainability" the PSPA determined that all Public Sector Pension Schemes would be reformed.

Employer Contributions

4.12 There were no employer contributions paid by the employer until 1 April 2016, where employers paid 15% of superannuable pay.

Member Contributions

4.13 The member contribution rate is currently 3%.

Member Contributions - Additional Voluntary Contributions

4.14 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 and Prudential Pensions Limited;
- Paying AVCs into with-profits contracts with Aviva Life UK; and
- Paying AVCs into the Scheme by purchasing added years.

Annual Pension Increase

4.15 Pension increases are made in accordance with the UK Pensions (Increase) Act 1974, by way of the Isle of Man Treasury's Pensions Increase (Annual Review) Order. The Order flows from 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.

4.16 Pension increases are linked to those for additional state pension, such as the State Second Pension, and any uprating takes into account the rate of UK inflation over the previous year to September.

4.17 The pension increase on 9 April 2018 was in line with the UK's Consumer Prices Index for the 12 months to September 2017, and this was 3%.

Membership Information

4.18 Details of the membership of the Scheme are as follows:-

	31 March 2019	31 March 2018
Active members	8	8
Deferred members with preserved benefits	0	0
Pensioners	6	6
Total membership	**14**	**14**

Movements within the Scheme's Active Membership during the Year

Active membership	2018/19	2017/18
Active membership on 1 April	8	8
Additions		
New members joining	0	1
Reductions		
Retirements	0	(1)
Active membership on 31 March	**8**	**8**

Movements within the Scheme's Deferred Membership during the Year

Deferred membership	2018/19	2017/18
Deferred membership on 1 April	0	0
Additions		
Leavers with deferred benefits	0	0
Retirements	0	0
Deferred membership on 31 March	**0**	**0**

Movements within the Scheme's Pensioner Membership during the Year

Pensioner membership	2018/19	2017/18
Pensioner members on 1 April	6	5
Additions		
Retirements	0	1
Reductions		
Deaths in retirement	0	0
Pensioner membership on 31 March	**6**	**6**

Note: The figures include Pensioners, Child Pensions and Widow/Widower Pensions.

Tax Status

4.19 The Scheme 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.

4.20 The Income Tax (Approved Pensions Schemes)(Trivial Commutation Lump Sums)(Amendment) Regulations 2018 approved by Tynwald in February 2018, increased the trivial commutation limit from £50,000 to £100,000.

National Insurance Status

4.21 The Scheme is currently contracted-out of the State Second Pension Scheme ("S2P").

4.22 With the introduction of the new Manx State Pension from 6 April 2019, S2P and contracting-out will cease, which will increase National Insurance contributions for employers and employees who participate in the Scheme.

4.23 A Treasury consultation with stakeholders to end contracting-out was carried out in July and August 2017, Treasury confirmed that the additional National Insurance cost to Isle of Man Government (as an Employer) will be managed as part of the budget process and will not amend or impact on future benefit entitlements for members of Public Sector Pension Schemes.

Funding Status

4.24 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

4.25 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.

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

Statement of PSPA's Responsibilities for the financial statements

4.27 The audited financial statements, which are to be prepared in accordance with United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", as applicable to an Isle of Man entity, are the responsibility of the PSPA. The Public Sector Pensions Act requires the PSPA to make available to the Council of Ministers, audited financial statements for each Scheme year which 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 the

assets and liabilities. Other than liabilities to pay pensions and benefits after the end of the Scheme year.

4.28 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. The PSPA is also responsible for:

- Assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- Using the going concern basis of accounting unless they intend to close the Scheme, or have no realistic alternative but to do so; and
- Making available each year, commonly in the form of an annual report, information about the Scheme, which they should ensure is consistent with the financial statements it accompanies.

4.29 The PSPA also has certain responsibilities in respect of contributions which are set out in the statement of the PSPA's responsibilities accompanying the PSPA's summary of contributions.

4.30 The PSPA is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to prevent and detect fraud and other irregularities.

4.31 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

4.32 The Isle of Man Government Unified Scheme (Amendment) Scheme 2017, was approved with amending motion at February 2017 sitting of Tynwald, the following related to this Scheme:-

- that the PSPA and Treasury should further investigate options for managing the legacy position in the long term in order to report back to the Council of Ministers so that it can put forward full options and proposals to Tynwald by November 2017.

4.33 The PSPA had supported the work of Treasury and the Cabinet Office to develop options for managing the legacy funding position. Detailed work on the legacy funding gap, the historic difference between contribution income and expenditure, which commenced after the 2016 valuation of schemes was completed with the assistance of the PSPA actuaries. Although the scope of possible options had been developed beforehand, this extremely technical piece of work required detailed actuarial input in order to be as precise as possible on the implications of the options being explored. A report was submitted to Tynwald in July 2018, with a further report being submitted in March 2019 and Tynwald approved the introduction, in the future, of a voluntary defined contribution scheme once further cost assessments have been undertaken with Treasury and a design and communication budget plan has been put in place and its take up should be monitored

over a 3-5 year period. In addition, Tynwald approved that the PSPA continues to manage future costs via regular actuarial valuation assessments and the introduction of a Cost Sharing mechanism across all unfunded public sector schemes.

4.34 Cost sharing is the process by which future cost increases under unfunded public sector schemes based on agreed actuarial assumptions will be shared between Government and scheme members. The basis of how cost sharing will work for the Government Unified Scheme has been consulted upon, with legislation being finalised in the 2020/21 financial year for submission to Tynwald for approval.

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

Scheme Administrator
Public Sector Pensions Authority
3rd Floor Prospect House
27-29 Prospect Hill
Douglas
Isle of Man
IM1 1ET

Mr J Carter, LLB
Chair, PSPA
15 June 2020

Hon. R Harmer, MHK
Vice Chair, PSPA
15 June 2020

5. Actuarial Statement

Addressee and Purpose

5.1 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 2018/19 Annual Report and Accounts of the Judicial Pension Scheme 2004 ("the Scheme").

Description of the Scheme

5.2 The Scheme is one of a number of unfunded defined benefit schemes with relatively small numbers of members in the Isle of Man that are governed by the PSPA.

5.3 The Scheme replaced the Judicial Pension Scheme 1992 on 1 November 2004. Over the 2018/19 year there were only active and pensioner members in the scheme.

Principal Actuarial Assumptions and Method used to Value the Liabilities

5.4 The financial and demographic assumptions adopted are consistent with those used for the actuarial valuation of the PSPA pension schemes as at 31 March 2016. Details are set out below.

5.5 Data provided by the PSPA for the purpose of the 2016 actuarial valuation was used in the preparation of this statement.

Method

5.6 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.

5.7 The calculation of the estimated cost of benefits earned (or 'accrued') by existing members as determined at the 31 March 2016 valuation allows for all expected future pay and pension increases, and is based on the Projected Unit Method of calculation. This amount is expressed as a percentage of the members' pensionable pay over the year.

Assumptions

5.8 The same financial and demographic assumptions were adopted for all PSPA pension schemes at the 2016 valuation.

5.9 The key financial assumptions adopted are set out below.

Financial assumptions	31 March 2016	
	% p.a. Nominal	% p.a. Real
Discount rate	4.5%	2.5%
Pay increases	4.0%	2.0%
Price inflation/pension increases	2.0%	-

5.10 The key demographic assumption is the allowance made for longevity. The life expectancy assumptions are based on Club Vita tables used for the 2016 PSPA valuations, with improvements in line with the CMI 2013 projections model, assuming that the recent rate of improvements will start to tail off immediately before reaching a long term rate of improvement of 1.25% p.a.

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

	Males	Females
Current pensioners	22.7 years	24.3 years
Future pensioners*	24.9 years	27.1 years

**Future pensioners are assumed to be 45 at the 2016 valuation.*

Other Demographic Assumptions

5.12 The tables below show details of the demographic assumptions adopted for the 2016 valuation at specimen ages.

5.13 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).

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

5.15 Tier 1

Age	Incidence for 1,000 active members p.a.	
	Male	Female
	Ill Health	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

5.16 Tier 2

Age	Incidence for 1,000 active members p.a.	
	Male	Female
	Ill Health	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

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

Age	Incidence for 1,000 active members p.a.	
	Male	Female
	Withdrawals	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

5.18 Death in Service – Allowance has been made for members dying in active service (see table below).

Age	Incidence for 1,000 active members p.a.	
	Male	Female
	Death in Services	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

5.19 Promotional salary scale – The promotional pay scale is in addition to the allowance for general pay inflation described above.

Age	Promotional Salary Scales	
	Male	Female
	Salary Scale	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

5.20 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.

5.21 Cash commutation – Future pensioners are assumed to elect to exchange pension for additional tax-free cash up to 90% of the maximum permissible amount.

Value of Past Service Liabilities as at 31 March 2016

5.22 The PSPA commissioned an actuarial valuation of the Scheme as at 31 March 2016. This valuation revealed the past service liabilities of the Scheme as at 31 March 2016 to be £8.37 million. A breakdown of this is provided in the table below.

	Past Service Liabilities £000
Active members	4,752
Pensioner members	3,621
Total	**8,373**

Cost of Accruing Benefits as at 31 March 2016

5.23 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 employer, the Isle of Man Government.

5.24 The employer's share of the cost of accruing benefit as determined at the 31 March 2016 valuation on the assumptions set out above is 42.4% and the employees' cost is 3.0%. These rates do not reflect the actual contribution rates payable by the employer.

5.25 Technical Actuarial Standard (TAS)[1] 100 is applicable in relation to this report.

Robert Bilton FFA

For and on behalf of Hymans Robertson LLP

Scheme Actuary

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this report.

6. Report of the Independent Auditors, KPMG Audit LLC, to the Public Sector Pensions Authority, Judicial Pension Scheme 2004

We have audited the financial statements of the Public Sector Pensions Authority, Judicial Pension Scheme 2004 ("the Scheme") for the year ended 31 March 2019 which comprise the Fund Account for the year ended 31 March 2019 and the Statement of Net Assets Available for Benefits as at 31 March 2019 and related notes, including the accounting policies in note 10.

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 2019 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 Scheme year;
- Have been properly prepared in accordance with UK Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, as applicable to an Isle of Man entity.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law.

Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Public Sector Pensions Authority has prepared the financial statements on the going concern basis as they do not intend to close the Scheme or to cease its operations, and as they have concluded that the Scheme's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Public Sector Pensions Authority's conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Scheme will continue in operation.

Other information

The Public Sector Pensions Authority is responsible for the other information presented with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Public Sector Pensions Authority's responsibilities

As explained more fully in their statement set out on pages 10 and 11, the Public Sector Pensions Authority is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to close the Scheme, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Public Sector Pensions Authority, as a body, in accordance with the Public Sector Pensions Act 2011. Our audit work has been undertaken so that we might state to the Public Sector Pensions Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Public Sector Pensions Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man IM1 1LA

15 June 2020

7. Independent Auditor's Statement about Contributions to the Public Sector Pensions Authority in respect of the Judicial Pension Scheme 2004

Statement about contributions

We have examined the contributions payable to the Judicial Pension Scheme 2004 in respect of the Scheme year ended 31 March 2019 which is set out on page 26.

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion section of our report, contributions for the scheme year ended 31 March 2019 have been paid in accordance with the Scheme Rules and with regard to the cost of accruing benefits as advised by the Scheme's actuary.

Basis for qualified opinion

The contributions paid to the Judicial Pension Scheme 2004 for the year ended 31 March 2019 were at a lower percentage of pensionable pay than the cost of accruing benefits as advised by the Scheme actuary in the latest actuarial valuation as at 31 March 2016.

As explained in note 10.14 to the financial statements, as per the actuarial valuation dated 31 March 2016, the recommended contributions to be made by the employer have been calculated as 42.4% of pensionable pay by the Scheme actuary, while the employers' normal contributions received equate to 15% of pensionable pay.

This resulted in a contribution surplus of £203,000.

We qualified our statement about contributions included within the financial statements for the year ended 31 March 2018 with regard to this same matter.

Scope of work

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions have in all material respects been paid at least in accordance with the Scheme Rules and the cost of accruing benefits as advised by the Scheme actuary. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments.

Our work did not constitute an audit of the financial transactions and net assets of the Scheme and was performed solely for the purposes of making this statement about contributions.

Respective responsibilities of Public Sector Pensions Authority and auditor

As explained more fully in the Statement of Public Sector Pensions Authority Responsibilities set out on page 10, the Public Sector Pensions Authority is responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the Employer in accordance with the Scheme Rules and the cost of accruing benefits as advised by the Scheme actuary.

It is our responsibility to provide a statement about contributions to the Scheme and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the Public Sector Pensions Authority, as a body, in accordance with Public Sector Pensions Act 2011. Our work has been undertaken so that we might state to the Public Sector Pensions Authority those matters we are required to state to them in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Public Sector Pensions Authority, for our work, for this statement, or for the opinions we have formed.

KPMG Audit LLC
Chartered Accountants
Heritage Court
41 Athol Street
Douglas
Isle of Man IM1 1LA

8. Fund Account for the Year Ended 31 March 2019

	Notes	2019 £000	2018 £000
Contributions and other income			
Contributions	10.12 to 10.14	528	556
Transfers In	10.10	0	0
Benefits and other outgoings			
Benefits	10.17	(325)	(361)
Net additions from dealings with members		203	195
Net assets of the Scheme at 1 April		0	0
Cancellation of current assets and current liabilities	10.4 to 10.7 10.18	(203)	(195)
Net assets of the Scheme on 31 March		**0**	**0**

8.1 The notes on pages 25 to 29 form part of these financial statements.

9. Statement of Net Assets Available for Benefits as at 31 March 2019

	Notes	2019 £000	2018 £000
Current assets	10.4 to 10.7 10.18	0	0
Current liabilities	10.4 to 10.7 10.18	0	0
Net assets available for benefits		**0**	**0**

9.1 The notes on pages 25 to 29 form part of these financial statements.

9.2 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 13 to 17, and these financial statements should be read in conjunction with them.

9.3 These financial statements were approved by the PSPA on 15 June 2020.

Mr J Carter, LLB
Chair, PSPA
15 June 2020

Hon. R Harmer, MHK
Vice Chair, PSPA
15 June 2020

10. Notes to the Financial Statements for the Year Ended 31 March 2019

Statement of Compliance and Transition to FRS102

10.1 The financial statements have been prepared in accordance with applicable Isle of Man law, United Kingdom Accounting Standards ('UKAS'), including the Financial Reporting Standard (FRS) 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council ("FRS 102") and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (Revised November 2014)(the "SORP"), and comply with UKAS to the extent that it is considered to be appropriate for an unfunded pension scheme.

Basis of Accounting

10.2 Prior to 1 April 2012, the legacy schemes' accounting records were maintained on a cash receipts and payments basis and there was no requirement to prepare financial statements. The PSPA and Treasury agreed that historic debtor and creditor balances between the legacy schemes, the sponsoring employers and the Treasury would be cancelled as the legacy schemes' accounting records contain insufficient information on these balances at the date these schemes closed, being 31 March 2012.

10.3 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 – Cancellation of Current Assets and Current Liabilities

10.4 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.

10.5 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.

10.6 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.

10.7 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. The PSPA has concluded that this accounting treatment presents fairly the Scheme's position and financial performance.

Accounting Policies

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

Currency

10.9 The Scheme's functional currency and presentational currency is pound sterling (GBP).

Transfers To and From Other Schemes

10.10 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 the scheme. They are accounted for on an accruals basis on the date that the PSPA or the receiving scheme accepts the liability. The liability normally transfers when a payment is made.

Other Payments

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

Statement of Public Sector Pensions Authority's Responsibilities in respect of Contributions

10.12 The Public Sector Pensions Authority is responsible for keeping records of contributions received in respect of any active member of the Scheme and for procuring that contributions are made to the Scheme in accordance with the Scheme rules and having regard to the cost of accruing benefits as advised by the Scheme actuary.

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

10.14 Using the actuarial valuation dated 31 March 2016, the employer's normal contributions receivable have been calculated as 42.4% of pensionable pay (39.5% in 2013 valuation). Employers' normal contributions paid by the sponsoring employers equate to 15% of pensionable pay (2017: 15%).

	2019 £000	2018 £000
Employer's Contributions		
Normal	493	519
Members' Contributions		
Normal	35	37
Contributions Total	**528**	**556**

Additional Voluntary Contributions

10.15 Amounts paid in respect of money purchase AVCs to secure additional defined contribution benefits with Aviva Life UK Services Limited and Prudential Pensions Limited are not reflected in these financial statements.

Funding of Current Year Benefits and Other Outgoings

10.16 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 Service Employees Pension Reserve ('PSEPR'), a non ring-fenced reserve of the Isle of Man Government.

Benefits

10.17 Pensions in payment are accounted for in the period to which they relate. Other benefits are recognised on a similar basis being on the date of retirement, death or leaving the Scheme as appropriate. The objective is to ensure that all benefits that fall due for payment in the accounting period are recognised in the financial statements.

	2019 £000	2018 £000
Pensions	(325)	(310)
Commutations and lump sums	(0)	(51)
Benefits Total	**(325)**	**(361)**

Cancellation of current assets and current liabilities

10.18

	2019 £000	2018 £000
Amounts due from the sponsoring employer to the Scheme	528	556
Amounts due from the Scheme to the Treasury in respect of benefits and other payments	(325)	(361)
Cancellation of current assets and current liabilities Total	**203**	**195**

Related Party Transactions

10.19 Related party transactions and balances comprise:

- During the financial year there was no serving PSPA members, or their close family, who were active, deferred or pensioner members of this scheme. (2017/18: no active, deferred or pensioner members);
- The provision of administrative services by the PSPA and Treasury was without recharge to the Scheme (see note 10.11); and
- Fees and expenses of £7,200 (2018: £4,200) paid by the PSPA, on behalf of all the Schemes that it administers to certain PSPA members that were not in the current employment of any of the sponsoring employers.

Contingent Liabilities and Commitments

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

Investment Risk

10.21 The Scheme holds no financial assets in its own right and, as stated in the "Accounting treatment – Cancellation of current assets and current liabilities" section amounts due to and from the Treasury are cancelled on an annual basis, as reflected in the fund account. As a consequence, no disclosure of information is required by FRS 102.

Future funding

10.22 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').

10.23 The policy adopted in the 2017 Isle of Man Government Budget and Five Year Financial Plan is to cover the 'funding gap' between the overall cost of pensions and the contributions to the schemes through utilisation of the Public Service Employees Pensions Reserve. Once that reserve is depleted, there is an anticipated additional £45m pressure on the general revenue position, which the Five Year Financial Plan will allow to be accommodated within the revenue targets through a combination of income growth, expenditure restraint and cost savings over that period.

10.24 There continues to be a funding gap between the schemes' cash payments and cash receipts as described in the Cabinet Office paper called 'Public Sector Pensions – Addressing the Legacy Funding Gap', which was informally discussed with Tynwald Members and alluded to in the pensions debate and Motion in June 2016 Tynwald. The work undertaken by the Cabinet Office indicated that:

- Government funding will need to increase annually, reaching a forecast £155.6m by 2034/35; and that

- Government funding will continue to be met through a combination of transfers from General Reserves and the non ring-fenced Public Service Employees Pension Reserve ('PSEPR') until the PSEPR is exhausted in 2021/22 (based on current budget projections). The PSEPR's market value at 31 March 2019 was £110 million (2018: £145 million).

10.25 The PSPA had supported the work of Treasury and Cabinet Office to develop options for managing the legacy funding position. Detailed work on the legacy funding gap, the historic difference between contribution income and expenditure, which commenced after the 2016 valuation of schemes was completed with the assistance of the PSPA actuaries. Although the scope of possible options had been developed beforehand, this extremely technical piece of work required detailed actuarial input in order to be as precise as possible on the implications of the options being explored. A report was submitted to Tynwald in July 2018, with a further report being submitted in March 2019 and Tynwald approved the introduction, in the future, of a voluntary defined contribution scheme once further cost assessments have been undertaken with Treasury and a design and communication budget plan has been put in place and that its take up should be monitored over a 3-5 year period. In addition, Tynwald approved that the PSPA continues to manage future costs via regular actuarial valuation assessments and the introduction of a Cost Sharing mechanism across all unfunded public sector schemes.

10.26 Irrespective of any uncertainties over the future funding arrangements for the Schemes based on the Isle of Man Government's future financial projections, the PSPA has concluded that the schemes can continue to meet their contractual obligations as they fall due with any shortfall between income and expenditure being funded by the Treasury.