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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 on 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

Hon. R Harmer, MHK Vice Chair Appointed 3 June 2020 - Resigned 23

September 2021

Hon. K Lord-Brennan Vice Chair Appointed 24 September 2021

Mrs J Poole – Wilson MLC Appointed 22 March 2018 - Resigned

23 September 2021

Mr Rob Mercer MLC Appointed 24 September 2021

PSPA Members representing the interests of Employees

Mr I WrightAppointed 28 June 2018Mrs D HalsallAppointed 26 July 2018

# 3. Public Sector Pensions Authority Advisers

Scheme Management and Administration

Public Sector Pensions Authority

3<sup>rd</sup> 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

PricewaterhouseCoopers LLC

Sixty Circular Road

Douglas

Isle of Man IM1 1SA

Bankers (via Treasury)

Isle of Man Bank

2 Athol Street

Douglas

Isle of Man IM99 1AN

# 4. Public Sector Pensions Authority's Report

- 4.1 The Isle of Man Government Unified Scheme 2011 (the 'Scheme') is a public sector pension scheme which commenced on 1 April 2012. The Scheme amalgamated 20 separate public sector pension schemes and brought them together under one unified scheme.
- 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 came into operation on 1 April 2012. Various amendments to those Rules have subsequently been made and approved by Tynwald.

# **Sponsoring Employers**

- 4.4 On 31 March 2020, Scheme members were employed by the following sponsoring employers:-
  - Department of Education, Sports and Culture
  - Department for Enterprise
  - Department of Environment, Food and Agriculture
  - Department of Health and Social Care, including General Practitioners and Dental Practitioners
  - Department of Home Affairs
  - Department of Infrastructure
  - Financial Services Authority
  - Gambling Supervision Commission
  - Hospice Isle of Man
  - Industrial Relations Office
  - Manx Utilities Authority
  - Office of the Clerk of Tynwald
  - Public Sector Pensions Authority
  - Public Services Commission
  - Office of the Data Protection Supervisor
  - · Office of the Clerk of Tynwald
  - Radio Manx Limited
  - The Cabinet Office
  - The Treasury

#### Information about the Scheme

4.5 Information about the Scheme is provided in the Scheme Rules and Member Guide, copies of which are available on the Resources page of the PSPA website at <a href="http://www.pspa.im">http://www.pspa.im</a>

#### **Benefits of the Scheme**

- 4.6 Benefits under the Scheme, including pensions and lump sums, are calculated using final pensionable pay and length of pensionable service for most members. Some members however have benefits calculated on a Career Average Revalued Earnings (CARE) basis.
- 4.7 A number of factors determine the benefits under the Scheme payable to members, including which Section of the Scheme they belong to and whether members have chosen to make contributions at a rate that provides standard benefits or a higher rate that provides protected benefits. The protected benefits sections are now closed to new members.
- 4.8 Further information about the Scheme's benefits is contained in the Member Guide on the website, which addresses various issues such as early retirement, protection for members' family and lump sum benefits.

#### **Employer Contributions**

- 4.9 Employer contributions to the Scheme are covered by Rule 24 Employing Authorities' Contributions, which states "An Employing Authority must, in respect of each person who is an Active member of this Scheme and in employment with the Employing Authority, pay or arrange to have paid into the revenue of the Island the amount of contributions that the PSPA, having regard to the Scheme actuary, shall decide."
- 4.10 The PSPA approved the continuation of the current percentage rate of contributions from Employing Authorities into the Scheme on the inception of GUS at its meeting in March 2012. Employers continued to pay the same rate of contributions for new employees in like for like roles
- 4.11 Since 1 April 2012 employers have paid contribution rates into the Scheme at rates varying between 0% and 22.1% of superannuable pay, then from 1 April 2016 employers paid a minimum of 15% of superannuable pay (unless they were already contributing in excess of the minimum, in which case the higher contribution continued to be paid).

#### **Member Contributions**

- 4.12 Member contributions to the Scheme are covered under Rule 26 Member Contributions.
- 4.13 Members are allocated to one of nine sections that operate within the Scheme. A member's contribution rate is dependent on the section they are in and whether they make contributions at the standard rate or protected rate for their section.
- 4.14 Members' contribution rates change by 1% per annum from April 2012 until they have reached the limit of their standard or protected contribution rate for their section.
- 4.15 The initial transition of contributions from the existing pre 1 April 2012 rates was agreed as part of the inception of the Scheme. At its February 2017 sitting, Tynwald approved a 7.5% contribution rate for new members appointed on or after 1 April 2017 and an additional 2.5%

- increase in contributions from 1 April 2018 for all current members in section 1-7 in 1% per annum increments.
- 4.16 Those increases have been applied in 1% per annum increments and section 1-7 members have reached their maximum limit for their section on 1 April 2020.
- 4.17 Tynwald Members who joined GUS section 8 from 23 September 2016 paid 10%, with those members in section 8a increasing by 1% per annum to 15% by 1 April 2021.
- 4.18 The maximum Standard contribution rate of 5% has increased to 7.5% from 1 April 2017, other than for those members within Section 7 of the Scheme whose rate has increased from 11% to 13.5% and Section 8, which had already increased from 5% to 10%. The new maximum "Protected" contribution rate varies between 9.1% and 15% dependent upon the member's section.
- 4.19 Members who were bulk transferred into the Scheme under the Miscellaneous Public Sector Pension Schemes Bulk Transfer Regulations 2012, and were due to retire within 7 years of 1 April 2012, had continued to pay the same contribution rate they were paying in their legacy scheme (provided this was not above the protected rate of contribution for their section), or 5% if they were contributing below 5% via the transitional 1% per annum increases. These members were included in the 2.5% contribution increases from 1 April 2018 and their contributions will also increase by 1% per annum over three years.

# **Member Contributions - Additional Voluntary Contributions**

- 4.20 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 to purchase added pension or additional pensionable service.
- 4.21 In February 2020 the management of the Additional Voluntary Contribution arrangements with Aviva Life and Prudential was outsourced to Mac Financial Ltd.
- 4.22 The purchase of additional pensionable service or additional pension is not now available to members of the Scheme. However, upon transfer from the former schemes, members with existing additional pensionable service or additional pension contracts were permitted to continue with these contracts, at the individually agreed contribution rate.

#### **Annual Pension Increase**

4.23 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.

- 4.24 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.
- 4.25 The pension increase on 8 April 2019 was in line with the UK's Consumer Prices Index for the 12 months to September 2018, and this was 2.4%.

# **Membership Information**

- 4.26 In accordance with Rule 15 Concurrent Employments, this Scheme records memberships (rather than members) and therefore an individual can have multiple memberships in this Scheme.
- 4.27 Following the Office of Human Resources' ('OHR') implementation of a new payroll system the PSPA has identified approximately 400 new membership profiles and 1000 deferred membership profiles where it has incomplete information and further updates are required to the PSPA records. These 1,400 membership profiles equate to approximately 11% of the total active and deferred memberships of the Scheme as at the year end. The PSPA is working with the Office of Human Resources to resolve these matters. With regards to the deferred members, OHR has committed to resolving 50 deferred membership profiles per month and hence, it is anticipated that this matter will not be resolved until the summer of 2022.
- 4.28 These 1,400 membership profiles are not reflected in this year's Membership Information. As soon as the completeness of the PSPA records is resolved, the Membership Information will be adjusted, with resolved membership profiles being recorded as 'Corrections' in subsequent years.
- 4.29 With regard to the Scheme's actuarial valuation dated 31 March 2019 and this year's financial statements, the PSPA has taken measures to ensure these 1,400 memberships have been accounted for on an appropriate basis.
- 4.30 Details of the membership of the Scheme are as follows:-

	31 March 2020	31 March 2019
Active members	10,287	9,744
Deferred members with preserved benefits	2,884	2,888
Pensioners	5,957	5,784
Total membership	19,128	18,416

# Movements within the Scheme's Active Membership during the Year

Active membership	2019/20	2018/19
Active membership on 1 April	9744	9,536
Late notifications/data alterations/misc. correction/changing status	252	(44)
Additions		
New active memberships	659	654
Reductions		
Retirements	(178)	(189)
Members leaving entitled to contribution refund or transfer out	(128)	(130)
Deaths in service	(3)	(6)
Leavers with deferred benefits	(52)	(59)
Full Commutation (No Ongoing Liability)	(7)	(18)
Active membership on 31 March	10,287	9,744

# Movements within the Scheme's Deferred Membership during the Year

Deferred membership	2019/20	2018/19
Deferred membership on 1 April	2,888	2,847
Late notifications/data alterations/misc. correction	37	128
Additions		
Leavers with deferred benefits	52	59
New Deferred Pension Credit Members	0	1
Reductions		
Retirements	(60)	(94)
Transfers out	(3)	(5)
Full Commutation- (No Ongoing Liability)	(28)	(46)
Deaths in deferment	(2)	(2)
Deferred membership on 31 March	2,884	2,888

# Movements within the Scheme's Pensioner Membership during the Year

Pensioner membership	2019/20	2018/19
Pensioner members on 1 April	5,784	5,629
Late notifications/data alterations/misc. correction	30	(33)
Additions		
Retirements	238	283
Widows/widowers/dependents	62	51
Reductions		
Deaths in retirement and pensions ceasing	(152)	(143)
Pension Stopped	(5)	(3)
Pensioner membership on 31 March	5,957	5,784

Note: The figures include Pensioners, Child Allowances, Surviving Adult Dependent Pensions, Injury Pensions/Awards and Additional Pension beneficiaries.

# Movements within the Public Sector Injury Benefit Scheme 2015 during the Year

4.31 The following scheme members are in receipt of an additional pension from The Public Sector Injury Benefit Scheme 2015.

Public Sector Injury Benefit Scheme 2015	2019/20	2018/19
Injury Benefit Pensioners on 1 April	24	24
Additions – New Injury Benefit Pensioners	0	0
Reductions - Injury Benefit Ceased	(2)	0
Injury Benefit Pensioners on 31 March	22	24

#### Tax Status

- 4.32 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.
- 4.33 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**

- 4.34 With the introduction of the new Manx State Pension from 6 April 2019, S2P and contractingout has ceased, which increased National Insurance contributions for employers and employees who participate in the Scheme.
- 4.35 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**

4.36 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**

- 4.37 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 contained insufficient information on these balances at the date these schemes closed, being 31 March 2012.
- 4.38 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

- 4.39 The financial statements, which are prepared in accordance with United Kingdom Accounting Standards, comprising Financial Reporting Standard 102 "The Financial Reporting Standard Applicable in the UK and Republic of Ireland" ("FRS 102"), are the responsibility of the PSPA. The Public Sector Pensions Act 2011 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 its assets and
    liabilities, other than the liabilities to pay relevant benefits after the end of the scheme
    year:
  - state whether applicable United Kingdom Accounting Standards, comprising FRS 102, have been followed, subject to any material departures disclosed and explained in the financial statements; and
  - contain the information specified in the Public Sector Pensions Act 2011.
- 4.40 The PSPA has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making any estimates and judgements 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 relating to going concern;
  - Using the going concern basis of accounting unless they either 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.
- 4.41 The PSPA is responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the schemes rules or contracts under which they are payable, and with the recommendation of the scheme actuary.
- 4.42 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 it 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.
- 4.43 The PSPA is 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**

4.44 The Isle of Man Government Unified Scheme (Amendment) Scheme 2017, was approved with an 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.
- The PSPA had supported the work of Treasury and Cabinet Office to develop options for managing the legacy funding position. Detailed work on 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 of a voluntary defined contribution scheme, once further cost assessments have been undertaken with the 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.
- 4.46 Cost sharing is the process by which future cost changes under unfunded public sector schemes based on agreed actuarial assumptions will be shared between Government and scheme members. The broad basis of how cost sharing will work has been consulted upon and the Public Sector Pensions (Cost Sharing) Scheme 2020 (the 'Cost Sharing Scheme') was approved by Tynwald at its sitting in June 2020. The Cost Sharing Scheme applies cost sharing to both this Scheme and Teachers Superannuation Order 2011, with the first cost sharing valuations due as at 31 March 2022.
- 4.47 The Isle of Man Government Unified Scheme (Amendment) Scheme 2020 (the 'Amendment Scheme') was approved by Tynwald at its February 2020 sitting. The Amendment Scheme introduced a new Section 9 to the Scheme to make pension provision for future new members of the judiciary once appointed. From 18th February 2020 the Judicial Pension Scheme 2004 was closed to future new members.
- 4.48 Enquiries about the Scheme generally, or about an individual member's entitlements to benefit, should be addressed to:

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

Mr J Carter, LLB Chair, PSPA

22 December 2021

Hon. K Lord Brennan, MHK

Vice Chair, PSPA 22 December 2021

#### 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 2019/20 Annual Report and Accounts of the Isle of Man Government Unified Scheme 2011 ("the Scheme").

# **Description of the Scheme**

5.2 The Scheme is an unfunded defined benefit scheme, the Rules of which are set out in The Isle of Man Government Unified Scheme Regulations 2011 and any subsequent amendments.

# **Background to the Scheme**

- 5.3 The Scheme came into effect on 1 April 2012. The terms of the Scheme apply to active members from most of the existing public service pension schemes in the Isle of Man at 31 March 2012, as well as employees who joined this Scheme following this date.
- 5.4 Service in the Scheme is based on a "Standard" set of terms applicable to all members. However, members in service at 31 March 2012 had a one-off option to pay additional contributions to receive a higher level of "Protected" benefits. This enabled members to continue accruing benefits broadly in line with their existing scheme at 31 March 2012.
- 5.5 All benefits accrued prior to 1 April 2012 in predecessor arrangements have been converted to benefits in the Scheme.

#### Principal Actuarial Assumptions and Method used to value the liabilities

- 5.6 The financial and demographic assumptions adopted are consistent with those used for the actuarial valuation of the PSPA pension schemes as at 31 March 2019. Details are set out below.
- 5.7 Data provided by the PSPA for the purpose of the actuarial valuation as at 31 March 2019 was used in the preparation of this statement.

# Method

- 5.8 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.
- 5.9 The calculation of the estimated cost of benefits earned (or 'accrued') by existing members as determined at the 31 March 2019 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**

5.10 The same financial and demographic assumptions were adopted for all PSPA pension schemes at the 2019 valuation.

The key financial assumptions adopted are set out below:

Financial	31 March 2019		
assumptions	% p.a. Nominal	% p.a. Real	
Discount rate	4.5%	2.5%	
Pay increases	4.0%	2.0%	
Price inflation/pension increases	2.0%	-	

- 5.11 The key demographic assumption is the allowance made for longevity. The life expectancy assumptions are based on the Club Vita tables used for the 2019 valuations, with future improvements based on the CMI 2019 projections model with an allowance for smoothing of recent mortality experience and a long term rate of improvement of 1.5% p.a..
- 5.12 Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.2 years	23.5 years
Future pensioners*	24.1 years	26.0 years

<sup>\*</sup>Future pensioners are assumed to be 45 at the 2019 valuation.

### **Other Demographic Assumptions**

- 5.13 The tables below show details of the demographic assumptions adopted for the 2019 valuation at specimen ages.
- 5.14 <u>Age retirements</u> All existing members of sections 1 to 6 and 8a of the Scheme, and current deferred members, are assumed to retire at age 60. Section 7 members are assumed to retire at age 55. Section 8 members are assumed to retire at age 65. No allowance is made for early retirements (other than on grounds of ill health).
- 5.15 The following pre-retirement assumptions have been made and their assumed occurrence per 1,000 active members is shown in the tables below:
  - <u>Retirements in ill health</u> Allowance has been made for ill health retirements before Normal Pension Age for both Upper and Lower Tier ill heath retirements.
  - Withdrawals Allowance has been made for withdrawals from service.
  - <u>Death in Service</u> Allowance has been made for members dying in active service.
  - <u>Promotional salary scale</u> The promotional pay scale is in addition to the allowance for general pay inflation described below.

### **Males**

		Incidence f	or 1,000 active	members p.a	
Age	Salary Scale	Death Before Retirement	Withdrawals	Ill Health Upper Tier	Ill Health Lower Tier
20	107	0.60	91.80	0.00	0.00
25	142	0.60	60.64	0.00	0.00
30	175	0.72	43.01	0.24	0.23
35	196	0.84	33.60	0.32	0.30
40	210	1.44	27.04	0.56	0.53
45	225	2.40	22.13	1.28	1.20
50	239	3.84	17.14	3.52	3.30
55	239	6.00	14.85	7.20	6.75
60	239	10.80	9.00	14.40	13.50

# **Females**

		Incidence f	or 1,000 active	members p.a	
Age	Salary Scale	Death Before Retirement	Withdrawals	Ill Health Upper Tier	Ill Health Lower Tier
20	107	0.32	87.08	0.00	0.00
25	142	0.32	58.58	0.19	0.18
30	175	0.48	49.09	0.32	0.30
35	196	0.80	42.34	0.64	0.60
40	210	1.28	35.21	0.83	0.78
45	225	2.08	28.99	1.34	1.26
50	239	3.04	22.09	2.62	2.46
55	239	4.00	17.03	6.91	6.48
60	239	5.12	7.91	0.00	0.00

- 5.16 <u>Family details</u> A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. Males are assumed to be 3 years older than females.
- 5.17 <u>Cash commutation</u> 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 2019

5.18 The PSPA commissioned an actuarial valuation of the Scheme as at 31 March 2019. This valuation revealed the past service liabilities of the Scheme as at 31 March 2019 to be £1,740.6m. A breakdown of this is provided in the tables below:

	Past Service Liabilities £000
Active members	796,068
Deferred members	128,673
Pensioner members	815,892
Total	1,740,633

#### Cost of accruing benefits as at 31 March 2019

- 5.19 The scheme is an unfunded arrangement. Active members pay contributions based on their pensionable pay, with the balance of cost being met by employers (principally, the Isle of Man Government).
- 5.20 The employer's share of the cost of accruing benefit across the whole Scheme as determined at the 31 March 2019 valuation on the assumptions set out above is 17.5% of pay and the employees' cost is 9.2% of pay. These rates do not reflect the actual contribution rates payable by employers.
- 5.21 Technical Actuarial Standard (TAS)¹ 100 is applicable in relation to this report.

# Robert Bilton FFA

Robert Bilton FFA
For and on behalf of Hymans Robertson LLP
Scheme Actuary

Signature: 🤇	Volast	1
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Email:

<sup>&</sup>lt;sup>1</sup> 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.

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# 6. Independent Auditor's Report to the Public Sector Pensions Authority, in respect of the Isle of Man Government Unified Scheme 2011

# Report on the audit of the financial statements

#### **Our opinion**

In our opinion, the Isle of Man Government Unified Scheme 2011 financial statements:

- give a true and fair view of the amount and disposition of the assets and liabilities of the Scheme at 31 March 2020, other than liabilities to pay relevant benefits after the end of the year, and of the financial transactions of the Scheme during the year then ended in accordance with United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- contain the information specified in the Public Sector Pensions Act 2011.

#### What we have audited

The Isle of Man Government Unified Scheme 2011 financial statements comprise:

- the statement of net assets available for benefits as at 31 March 2020;
- the fund account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We are independent of the Scheme in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

#### Other information

The other information comprises all of the information in the Annual Report and Accounts other than the financial statements and our auditor's report thereon and our statement on contributions. The Public Sector Pension Authority is responsible for the other information.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and in doing so, consider whether the other information is

materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, other than with respect to the Membership Information section within the Public Sector Pensions Authority's Report.

The Membership Information has been prepared using incomplete data provided by sponsoring employers to the Public Sector Pension Authority up to 31 March 2020. The Public Sector Pension Authority, using data extracts prepared in late June and early July 2021, informed us that the Membership Information excludes 514 new membership records (2019: 383) and 1,260 potential leavers records (2019: 848).

The actuarial valuation dated 31 March 2019 has been prepared using data extracts prepared in August 2020. The actuarial valuation reports on the cost of accruing future benefits, which underpins the basis for calculating contributions receivable in the audited financial statements. With regards to potential leavers, the actuarial valuation contains an adjustment between active and deferred memberships of 1,343 memberships that is not reflected in the Membership Information. The Public Sector Pension Authority has been unable to reconcile the difference between the 1,343 deferred memberships identified by the scheme's actuary and the 848 potential leavers identified by the Authority at 31 March 2019.

As a consequence of the Public Sector Pensions Authority not having access to complete, accurate and up-to-date information from all sponsoring employers, we have concluded that the Membership Information section within the Public Sector Pensions Authority's Report is materially inconsistent with the audited financial statements.

### Responsibilities of the Public Sector Pension Authority for the financial statements

The Public Sector Pension Authority is responsible for the preparation of the financial statements that give a true and fair view in accordance with United Kingdom Accounting Standards and Isle of Man law, and for such internal control as the Public Sector Pension Authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Public Sector Pension Authority is responsible for 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 the Public Sector Pension Authority either intends to close the Scheme or to cease operations, or has no realistic alternative but to do so.

The Public Sector Pension Authority is responsible for overseeing the Scheme's financial reporting process.

### Auditor's responsibilities for the audit of the financial statements

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 an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements,
  whether due to fraud or error, design and perform audit procedures responsive to those
  risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for
  our opinion. The risk of not detecting a material misstatement resulting from fraud is
  higher than for one resulting from error, as fraud may involve collusion, forgery,
  intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Public Sector Pension Authority.
- Conclude on the appropriateness of the Public Sector Pension Authority's use of the
  going concern basis of accounting and based on the audit evidence obtained, whether
  a material uncertainty exists related to events or conditions that may cast significant
  doubt on the Scheme's ability to continue as a going concern. If we conclude that a
  material uncertainty exists, we are required to draw attention in our auditor's report to
  the related disclosures in the financial statements or, if such disclosures are inadequate,
  to modify our opinion. Our conclusions are based on the audit evidence obtained up to
  the date of our auditor's report. However, future events or conditions may cause the
  Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Public Sector Pension Authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

This report, including the opinion, has been prepared for and only for the Public Sector Pension Authority 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.

PricewaterhouseCoopers LLC

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**Chartered Accountants** 

Douglas, Isle of Man

22 December 2021

# 7. Independent Auditor's Statement about Contributions to the Public Sector Pensions Authority in respect of the Isle of Man Government Unified Scheme 2011

# **Our Qualified statement about contributions**

In our opinion, except for the matter described in the 'Basis for qualified statement about contributions' section, the contributions payable to the Scheme for the scheme year ended 31 March 2020 have been paid in accordance with the scheme rules and the recommendation of the scheme actuary.

#### What we have examined

We have examined the contributions paid to the Isle of Man Government Unified Scheme 2011 (the 'Scheme') for the scheme year ended 31 March 2020.

# **Basis for qualified statement about contributions**

As explained in note 10.17 to the financial statements, the contributions paid to the Isle of Man Government Unified Scheme 2011 for the year ended 31 March 2020 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 2019.

This opinion is to be read in the context of what we say in the remainder of this statement.

Our examination involves performing procedures to obtain 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 recommendation of the scheme actuary and the timing of those payments.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our statement about contributions.

#### Public Sector Pension Authority's responsibilities in respect of contributions

As explained more fully in the Statement of Public Sector Pensions Authority's Responsibilities set out on page 13 the Public Sector Pension Authority is also 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 employers in accordance with relevant requirements.

# Auditor's responsibility in respect of the statement about contributions

Our responsibility is to provide a statement about contributions based on our examination.

This report, including the statement about contributions, has been prepared for and only for the Public Sector Pension Authority in accordance with the Public Sector Pensions Act 2011 and for no other purpose. We do not, in giving this statement, 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.

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PricewaterhouseCoopers LLC

**Chartered Accountants** 

Douglas, Isle of Man

22 December 2021

# 8. Fund Account for the Year Ended 31 March 2020

	Notes	2020 £000	2019 £000
Contributions and other income			
Contributions	10.15 to 10.17	61,488	62,921
Transfers from other schemes	10.10 to 10.11	154	1,562
Other income	10.12	0	87
Benefits and other outgoings			
Benefits	<u>10.20</u>	(77,427)	(73,589)
Payments to and on account of leavers	10.10 to 10.11	(873)	(1,179)
Other payments	<u>10.13</u>	(216)	(154)
Net withdrawals from dealings with members		(16,874)	(10,352)
Net assets of the Scheme at 1 April		0	0
Cancellation of current assets and current liabilities	10.4 to 10.7 10.22	16,874	10,352
Net assets of the Scheme at 31 March		0	0

8.1 The notes on pages 26 to 30 form part of these financial statements.

### 9. Statement of Net Assets Available for Benefits as at 31 March 2020

<b>国际出版的</b>	Notes	2020 £000	2019 £000
Current assets	10.4 to 10.7 10.22	0	0
Current liabilities	10.4 to 10.7 10.22	0	0
Net assets available for benefits		0	0

- 9.1 The notes on pages 26 to 30 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 15 to 18, and these financial statements should be read in conjunction with them.
- 9.3 These financial statements were approved by the PSPA on 22 December 2021.

Mr J Carter, LLB Chair, PSPA

22 December 2021

Hon. K Lord-Brennan, MHK

Vice Chair, PSPA 22 December 2021

# 10. Notes to the Financial Statements for the Year End 31 March 2020

#### **Statement of Compliance with 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 United Kingdom and Republic of Ireland issued by the Financial Reporting Council ("FRS 102"), as applicable to an Isle of Man entity, and the guidance set out in the Statement of Recommended Practice "Financial Reports of Pension Schemes" (Revised May 2018)(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. 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')
- 10.3 The PSPA has concluded that this Scheme's accounting records should be prepared on an accruals basis. Compensation for redundancy is provided via the Public Sector Compensation Scheme 2013. However, it should be noted that aside from the option to purchase added service in the Unified Scheme, there is no link between the Unified Scheme and the Compensation Scheme, as any redundancy payments are made by the employer and not through the pension scheme. Injury Benefit payments are made through the Public Sector Injury Benefit Scheme 2015 which came into operation on 1 April 2015, with those payments being recorded on an accrual basis in these financial statements. The previous scheme, the Interim Injury Benefit Scheme 2012, was accounted for on the same basis and was revoked when the 2015 Scheme came into operation.

#### 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 2012 that neither party will seek the payment of the amounts due from the other party being:
  - Amounts due 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 outgoings 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 a true and fair view of the Scheme's financial 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 this 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.
- 10.11 All transfers to and from other schemes relate to individual transfers.

# Other Income - Early Retirement

10.12 Where sponsoring employers choose to terminate a member's employment in the interests of efficiency or on the grounds of redundancy, the additional cost of providing early retirement benefits is borne by the sponsoring employer and paid to the Scheme, with the early retirement benefits paid to the member by the Scheme. The cost to the sponsoring employer is calculated by the Scheme actuary or by the administrators or staff of the PSPA, dependent upon the type of benefits provided and the calculations required.

# **Other Payments**

- 10.13 Other payments include the refund of contributions.
- 10.14 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

- 10.15 The PSPA is responsible for monitoring whether contributions are made to the Scheme by the employers in accordance with relevant requirements.
- 10.16 Normal contributions, from the sponsoring employers and members, are accounted for on an accruals basis.
- 10.17 Using the actuarial valuation dated 31 March 2019, employers' normal contributions receivable have been calculated as 17.5% of pensionable pay (20.3% in 2016 valuation). Employers' normal contributions received equate to 15.03% of pensionable pay (2019: 15.05%).

	2020	2019
	£000	£000
Employers' Contributions		
Normal	41,451	45,637
Members' Contributions		
Normal	19,796	17,011
Additional voluntary	241	273
Contributions Total	61,488	62,921

# **Additional Voluntary Contributions**

- 10.18 Additional Voluntary Contributions ('AVCs') relate to the purchase of added pension or additional pensionable services within the Scheme, including augmentations, are accounted for on an accruals basis.
- 10.19 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**

- 10.20 Benefits and other out-goings are funded on a 'pay as you go' basis, primarily through a combination of:-
  - Contributions paid by the sponsoring employers and 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**

10.21 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.

	2020	2019
	£000	£000
Pensions	(53,543)	(50,689)
Commutations and lump sums	(23,627)	(22,625)
Public Sector Injury Benefit Scheme 2015	(257)	(275)
Benefits Total	(77,427)	(73,589)

#### **Cancellation of Current Assets and Current Liabilities**

10.22

	2020 £000	2019 £000
Amounts due from the sponsoring employers to the Scheme	61,642	64,571
Amounts due from the Scheme to the Treasury in respect of benefits and other payments	(78,516)	(74,922)
Cancellation of current assets and current liabilities in Total	(16,874)	(10,351)

# **Related Party Transactions**

- 10.23 Related party transactions and balances comprise:
  - During the financial year there were three serving PSPA members who had an active membership and two PSPA members who had a deferred pension and one pensioner in this scheme (2018/2019: 1 deferred, 3 active & 1 Related to Pensioner(Mother));
  - The provision of administrative services by the PSPA and Treasury without recharge to the Scheme (see note <u>10.14</u>); and
  - Fees and expenses of £7,200 (2019: £7,200) 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**

10.24 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**

10.25 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

- 10.26 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').
- 10.27 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.
- 10.28 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 2022/23 (based on current budget projections). The PSEPR's market value at 31 March 2020 was £81 million (2019: £110 million).
- 10.29 The PSPA had supported the work of Treasury and Cabinet Office to develop options for managing the legacy funding position. Detailed work on 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 of a voluntary defined contribution scheme, once further cost assessments have been undertaken with the 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.
- 10.30 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.