



Teachers' Superannuation Order 2011

Public Sector Pensions Authority
Annual Report and Accounts
for year ended 31 March 2020



Isle of Man
Government

Reilrys 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 service 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 Wright

Appointed 28 June 2018

Mrs D Halsall

Appointed 26 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
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 Teachers' Superannuation Order 2011 (the 'Scheme') is a public sector pension scheme which commenced on 1 January 2011.
- 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 are the Teachers' Superannuation Order 2011 which replaced the Teachers' Superannuation Order 2007. The Scheme makes provision for the applied regulations to have retrospective effect in accordance with 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 is based upon the England and Wales Teachers' Pension Regulations 2010 (S.I. 2010/990), prior to it being amended in 2014. Any changes to the Scheme in the Isle of Man only apply if consultation has taken place with affected members, their representatives, Treasury, relevant Departments and Boards prior to approval being sought from Tynwald for the Scheme amendment. Following such consultation, the Teachers' Superannuation (Amendment) Scheme 2018 brought in changes to the rate at which retirement benefits accrued for members in respect of service on or after 1 November 2018. It also brought into effect an increase to the "permitted maximum" retirement lump sum. Following the introduction of those reforms the link to the UK scheme has been broken.

Sponsoring Employers

- 4.6 On 31 March 2020, Scheme members were employed by the following sponsoring employers:-
- Autism Initiatives;
 - Department of Education, Sport and Culture
 - King William's College.

Information about the Scheme

- 4.7 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 <http://www.pspa.im>

Benefits of the Scheme

- 4.8 Benefits under the Scheme, including pensions and lump sums are calculated using final pensionable pay and length of pensionable service.
- 4.9 Further information about the Scheme's benefits are contained in the Member Guide on the website, which addresses matters such as early retirement, protection for members' family and lump sums.

Employer Contributions

- 4.10 In 2019/20 contributions paid by Employers were 15% of pensionable pay.

Member Contributions

- 4.11 The Member contribution rates are shown in the table below:-

Annual Contributable Salary	Contribution Rate
below £15,000	6.4%
£15,000 to £25,999	7.2%
£26,000 to £31,999	8.3%
£32,000 to £39,999	9.5%
£40,000 to £44,999	9.9%
£45,000 to £74,999	11%
£75,000 to £99,999	11.6%
above £99,999	12.4%

Member Contributions - Additional Voluntary Contributions

- 4.12 Scheme members may increase their retirement benefits by the payment of Additional Voluntary Contributions ('AVC') in the following ways:
- Paying AVCs into a Group Personal Pension arrangement with Aviva Life UK Services Limited;
 - Paying AVCs into with-profits contracts with Aviva Life UK Services Limited and Prudential Pensions Limited; and
 - Paying AVCs into the Scheme by purchasing added pension.
- 4.13 In February 2020 the management of the Additional Voluntary Contribution arrangements with Aviva Life and Prudential was outsourced to Mac Financial Ltd.
- 4.14 The purchase of added years is no longer available to members of the Scheme. Members with existing added years contracts continue with these contracts at the individually agreed contribution rates.

Annual Pension Increase

- 4.15 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.
- 4.16 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 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

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

	31 March 2020	31 March 2019
Active members	1,452	1,371
Deferred members with preserved benefits	361	368
Pensioners	1,116	1,098
Total membership	2,929	2,837

Movements within the Scheme's Active Membership during the Year

Active membership	2019/20	2018/19
Active membership on 1 April	1,371	1,308
Late notification/data alteration/misc. correction	38	62
Additions		
New members joining	81	59
Reductions		
Retirements	(20)	(31)
Members leaving entitled to contribution refund	(16)	(10)
Deaths in service	(0)	(1)
Leavers with deferred benefits	(2)	(16)
Active membership on 31 March	1,452	1,371

Movements within the Scheme's Deferred Membership during the Year

Deferred membership	2019/20	2018/19
Deferred membership on 1 April	368	359
Late notification/data alteration/misc. correction	(4)	10
Additions		
Leavers with deferred benefits	2	16
New Deferred Pension Credit Members	0	0
Reductions		
Deferred Pension Credit Member to Pension Credit Member	0	(4)
Retirements	(5)	(11)
Transfers out	0	(2)
Deaths in deferment	0	0
	361	368

Movements within the Scheme's Pensioner Membership during the Year

Pensioner membership	2019/20	2018/19
Pensioner members on 1 April	1,098	1,078
Late notification/data alteration/misc. correction/pension stopped	2	(4)
Additions		
Retirements	25	42
Widow/widower/dependent	7	11
Reductions		
Deaths in retirement	(15)	(29)
Pension Stopped	(1)	0
Pensioner membership on 31 March	1,116	1,098

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

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

- 4.23 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

- 4.24 Prior to 1 April 2012, the scheme accounting records were maintained on a cash receipts and payments basis and there was no requirement to prepare financial statements.

- 4.25 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.

Statement of PSPA's Responsibilities for the financial statements

- 4.26 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.
- 4.27 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.
- 4.28 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.
- 4.29 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.
- 4.30 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

- 4.31 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.
- 4.32 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.
- 4.33 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 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 the Unified Scheme and Teachers Superannuation Order 2011, with the first cost sharing valuations due as at 31 March 2022.
- 4.34 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
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 Teachers' Superannuation Order 2011 Scheme ("the Scheme").

Description of the Scheme

- 5.2 The Scheme is an unfunded defined benefit scheme, the Rules of which are set out in Teachers' Superannuation Order 2011 and any subsequent amendments.

Background to the Scheme

- 5.3 Membership of the Scheme is open to anyone employed full or part time, between the ages of 18 and 75 employed in pensionable employment, and
- Employed by the Department of Education, Sports and Culture as a teacher/lecturer; and/or
 - Employed in an independent school or further and higher education establishment that has been accepted into 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 2019. Details are set out below.
- 5.5 Data provided by the PSPA for the purpose of the 2019 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 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

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

5.9 The key financial assumptions adopted are set out below.

Financial assumptions	31 March 2019	
	% 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 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..

5.11 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

**Future pensioners are assumed to be 45 at the 2019 valuation.*

Other Demographic Assumptions

5.12 The tables below show details of the demographic assumptions adopted for the 2019 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 The following pre-retirement assumptions have been made and their assumed occurrence per 1,000 active members is shown in the tables below:

- Retirements in ill health – Allowance has been made for ill health retirements before Normal Pension Age for both Upper and Lower Tier ill health retirements.
- Withdrawals - Allowance has been made for withdrawals from service.
- Death in Service – Allowance has been made for members dying in active service.
- Promotional salary scale – The promotional pay scale is in addition to the allowance for general pay inflation described below.

Males

Age	Incidence for 1,000 active members p.a.				
	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

Age	Incidence for 1,000 active members p.a.				
	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

- 5.15 Family details – 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.
- 5.16 Cash commutation – Future pensioners are assumed to elect to exchange pension for additional tax-free cash up to 90% of the maximum amount permitted.

Value of Past Service Liabilities as at 31 March 2019

- 5.17 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 £387.8m. A breakdown of this is provided in the tables below.

Active Members	Past Service Liabilities £000
Pre 2007 joiners	116,433
Post 2007 joiners	40,987
Total	157,420

Deferred Members	Past Service Liabilities £000
Pre 2007 joiners	23,177
Post 2007 joiners	1,681
Total	24,858

Pensioner Members	Past Service Liabilities £000
Pre 2007 joiners	203,952
Post 2007 joiners	1,618
Total	205,570

Cost of Accruing Benefits as at 31 March 2019

- 5.18 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).
- 5.19 The employer's share of the cost of accruing benefit as determined at the 31 March 2019 valuation on the assumptions set out above is 17.8% of pay for joiners before 1 April 2007 and 15.7% of pay for joiners from 1 April 2007 onwards. These rates do not reflect the actual contribution rates payable by employers. The employees' cost is 9.5% of pay.
- 5.20 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: 

Email: 

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. Independent auditor's report to the Public Sector Pensions Authority, in respect of the Teachers' Superannuation Order 2011

Report on the audit of the financial statements

Our opinion

In our opinion, the Teachers' Superannuation Order 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 Teachers' Superannuation Order 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 47 new membership records (2019: 31) and 123 potential leavers records (2019: 77).

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 101 memberships that is not reflected in the Membership Information. The Public Sector Pension Authority has been unable to reconcile the difference between the 101 deferred memberships identified by the scheme's actuary and the 77 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

PricewaterhouseCoopers LLC

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 Teachers' Superannuation Order 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 Teachers' Superannuation Order 2011 (the 'Scheme') for the scheme year ended 31 March 2020.

Basis for qualified statement about contributions

As explained in note 10.16 to the financial statements, the contributions paid to the Teachers' Superannuation Order 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 11 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.

PricewaterhouseCoopers LLC

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	<u>10.14 to 10.16</u>	10,798	10,895
Transfers from other schemes	<u>10.10</u>	0	1,051
Other income	<u>10.11</u>	0	0
Benefits and other outgoings			
Benefits	<u>10.20</u>	(15,303)	(15,893)
Payments to and on account of leavers	<u>10.10</u>	0	(373)
Other payments	<u>10.12 to 10.13</u>	(26)	(10)
Net withdrawals from dealings with members		(4,531)	(4,330)
Net assets of the Scheme at 1 April		0	0
Cancellation of current assets and current liabilities	<u>10.4 to 10.7, 10.21</u>	4,531	4,330
Net assets of the Scheme at 31 March		0	0

5.21 The notes on page 24 to 28 form part of these financial statements.

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

	Notes	2020 £000	2019 £000
Current assets	<u>10.4 to 10.7</u> <u>10.21</u>	0	0
Current liabilities	<u>10.4 to 10.7</u> <u>10.21</u>	0	0
Net assets available for benefits		0	0

- 9.1 The notes on page 24 to 28 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 16, 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 Ended 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 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 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 for via the Public Sector Compensation Scheme 2013. However, it should be noted that aside from the option to purchase added service in the Teachers' Pension Scheme, there is no link between the Teachers Scheme and the Compensation Scheme, as any redundancy payments are made by the employer and not through the pension scheme. Previous arrangements were provided through the Teachers Superannuation Order 2007.

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 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 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.

Other Income – Early Retirement

- 10.11 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

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

- 10.14 The PSPA is responsible for monitoring whether contributions are made to the Scheme by the employers in accordance with relevant requirements.
- 10.15 Normal contributions, from the sponsoring employers and members, are accounted for on an accruals basis.
- 10.16 Using the actuarial valuation dated 31 March 2019, employer's normal contributions receivable have been calculated as 16.8% of pensionable pay (17.1% in 2016 valuation). Employers' normal contributions paid by the sponsoring employers equate to 15.28% of pensionable pay (2019: 15%).

	2020 £000	2019 £000
Employers' Contributions		
Normal	6,655	6,770
Members' Contributions		
Normal	4,064	4,105
Additional Voluntary	79	20
Contributions Total	10,798	10,895

Additional Voluntary Contributions

- 10.17 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.
- 10.18 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

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

Benefits

- 10.20 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 £000	2019 £000
Pensions	(13,872)	(13,429)
Commutations and lump sums	(1,431)	(2,464)
Benefits Total	(15,303)	(15,893)

Cancellation of Current Assets and Current Liabilities

10.21

	2020 £000	2019 £000
Contributions due from sponsoring employers to the Scheme	10,798	11,946
Amounts due from the Scheme to the Treasury in respect of benefits and other payments	(15,329)	(16,276)
Cancellation of current assets and current liabilities in Total	(4,531)	(4,330)

Related Party Transactions

10.22 Related party transactions and balances comprise:

- During the financial year there were no serving PSPA members, or their close family, who were active, deferred or pensioner members of this scheme. (2019/20: no active, deferred or pensioner members);
- The provision of administrative services by the PSPA and Treasury without recharge to the Scheme (see note 10.13); 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

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

Investment Risk

10.24 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

- 10.25 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').
- 10.26 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.

- 10.27 There continues to be a legacy 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).
- 10.28 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.
- 10.29 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.