

# Legal Services Commission Staff Pension and Assurance Scheme No4

Actuarial valuation as at 31 March 2019 compliance report  
12 November 2019

Section

<b>Past service</b>	Assets	£431m	<b>1</b>
	Technical Provisions	£451m	
	Surplus/(deficit)	(£20m)	
	Funding Level	96%	

<b>Contributions</b>	Contributions from the Ministry of Justice ('MoJ')	Nil	<b>1</b>
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<b>Changes since previous valuation</b>	The deficit has increased by c£5m since the previous valuation. This is mainly due to changes made to the valuation assumptions.	<b>2</b>
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<b>Risks</b>	Employer covenant	<b>3</b>
	Investment and economic	
	Longevity	
	Other	

# 1 Results of the valuation

## Summary of results

I carried out an actuarial valuation of the Legal Services Commission Staff Pension and Assurance Scheme No4 ('the Scheme') as at 31 March 2019 ('the valuation date') and this is my report on the results of the valuation.

## Trustees' funding objective

The Trustees' aim is to maintain and invest sufficient funds to pay all members' and beneficiaries' benefits in full.

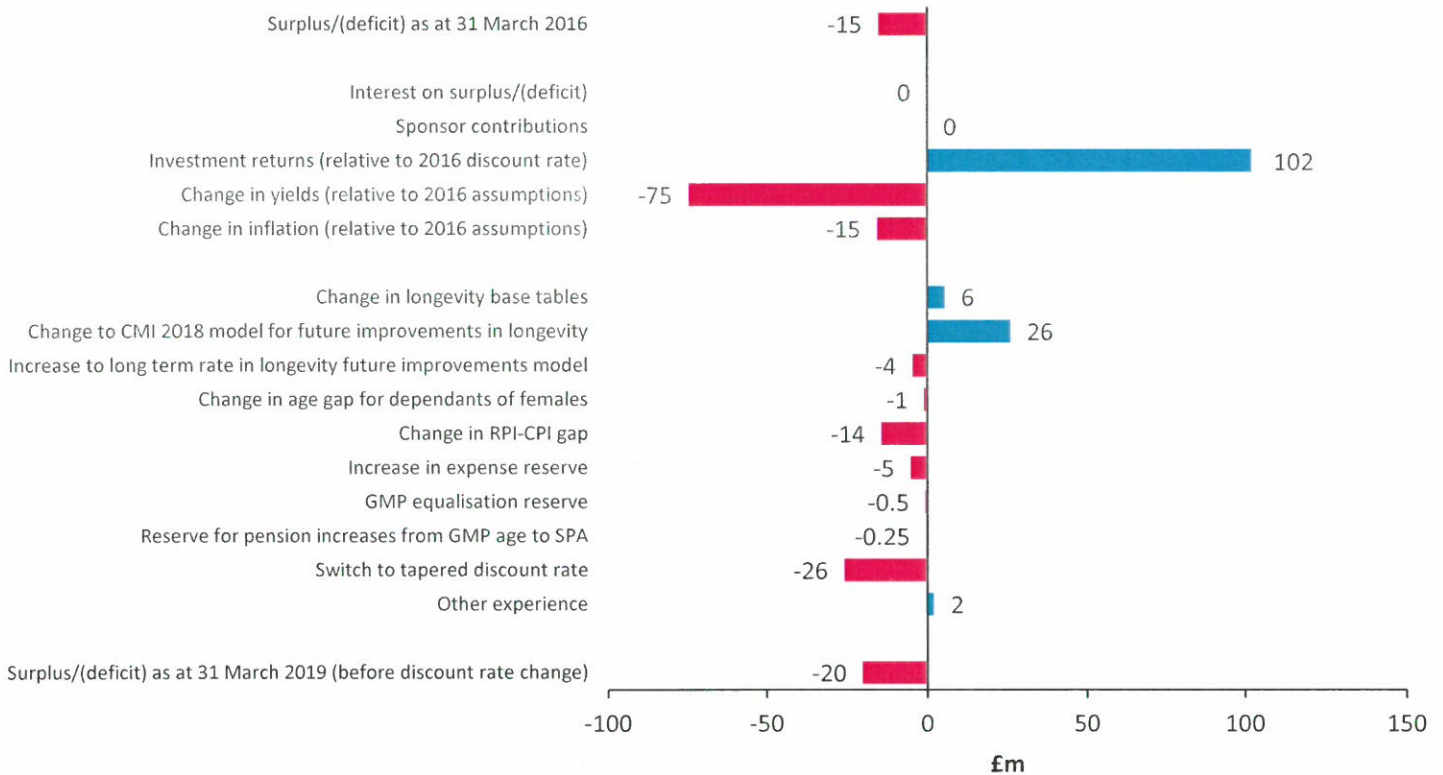
## Insured benefits

The Scheme holds insured annuities with Legal and General in respect of some pensioner members. The assets and liabilities in this report include these annuities.

Technical Provisions funding level	
<i>Assets</i> See the Trustees Report and Accounts as at the valuation date for further details. (The value of the insured annuities have been restated from those used for the accounts so that the value is consistent with the Technical Provisions basis.)	£431m
<i>Technical Provisions</i> An estimate of the amount needed to pay benefits and expenses, using the assumptions specified by the Trustees	£451m
<i>Surplus/(deficit)</i> Technical Provisions less assets	(£20m)
<i>Funding level</i> Assets divided by Technical Provisions	96%
Contributions required	
At the valuation date, the Scheme was more than 90% funded on the Technical Provisions basis. Consequently, under the Scheme's funding arrangement, no deficit reduction contributions are due from the MoJ from 31 March 2019.	

## 2 Changes since the previous valuation

Since the previous actuarial valuation of the Scheme, there have been changes to the Scheme membership, the value of its investments, and to the economic environment in which the Scheme operates and the valuation assumptions. These changes have affected the Scheme's funding position as follows:



Overall the Scheme has moved from a £15m deficit at 31 March 2016 to a £20m deficit at 31 March 2019. The key reasons for the change are:

- Adjusting the approach to setting the discount rate used to value the liabilities, to reflect expectations of the Trustees' longer term de-risking plans.
- A decrease in the future assumed RPI/CPI gap, reflecting uncertainty over RPI.

These factors have been offset somewhat by:

- A reduction in future longevity improvements, reflecting recent trends.
- Investments growing by more than liabilities over the last three years.

### 3 Risk management

Over time, the funding position will depend on the extent to which future experience matches the assumptions made. In the previous section, I showed the extent to which the assumptions made at the previous valuation did not reflect actual experience over the period since the last actuarial valuation. In this section I discuss the key risks to the Scheme and the potential implications of the actuarial assumptions not being met in the future.

Risk	How the Trustees manage this risk
<p><i>MoJ's covenant</i> MoJ may not be able or willing to pay contributions to the Scheme in the future leading to assets being insufficient to secure full accrued benefits in a wind up situation.</p>	<p>The Scheme has a crown guarantee and funding arrangements in place. The Trustees are comfortable retaining the risk of a UK Government default as this is perceived to be lower risk than an insurer's covenant on buy-out.</p>
<p><i>Investment and economic</i> If future investment returns are lower than allowed for within the valuation assumptions, assets will not grow in value as expected, and the funding level of the Scheme will fall.</p>	<p>The Trustees monitor the funding position on a regular basis.</p> <p>The Scheme maintains a high level of hedging to interest rates and inflation.</p>
<p><i>Longevity</i> If life expectancy improves in the future at a faster rate than allowed for in the valuation assumptions, then pensions will need to be paid for longer, so the liabilities will increase and the funding level will fall.</p>	<p>The Trustees use up to date information to set longevity assumptions.</p> <p>The Trustees use a prudent approach to set future longevity assumptions.</p>
<p><i>RPI-linked assets hedging CPI-linked benefits</i> Inflation-linked pension increases in the Scheme are linked to CPI. The Scheme uses RPI-linked assets to hedge inflation (as it is difficult to obtain suitable CPI-linked assets). The Government has announced a consultation on changes to RPI. One possible outcome is that RPI-linked assets decrease in value, which could worsen the funding position.</p>	<p>The Trustees are considering this as an emerging risk as part of their risk management processes.</p> <p>The Trustees have reduced the RPI/CPI gap compared with the 2016 assumption, which reduces the reliance in the funding basis on the gap between RPI assets and CPI liabilities persisting in future.</p>
<p><i>Resource and environment risks</i> Resource and environment issues could worsen the Scheme's funding position. These risks exist and may prove to be material.</p>	<p>Following training, the Trustees are considering whether to invest some growth assets into funds which explicitly incorporate resource and environment risks into asset selection. The Trustees have adopted a tapered discount rate which assumes a lower requirement to hold growth assets in future. The tapering reflects future plans, rather than explicitly seeking to isolate resource and environment risks, but means the funding plan is not as reliant on future investment growth as before.</p>

There are a range of further risks which the Trustees keep under review. These include the development of legislation relating to pensions, potential costs associated with equalisation (beyond that reserved for) and the impact of options offered to members.

### Sensitivity of key assumptions

The table below illustrates the approximate impact on the Technical Provisions liabilities of changes in the key assumptions.

Impact on Technical Provision liabilities	Remove addition above gilts in discount rate	0.25% p.a. decrease in future RPI-CPI inflation gap	Mortality: +1 year on life expectancy
Impact on liabilities	+£20m	+£20m	+£20m

### Longer-term projection

If the actuarial assumptions were borne out over the period, and assuming investment returns of gilts +0.85% p.a., from the date of this valuation to the next, the funding level would be expected to increase by a small amount (c1%), assuming that other assumptions are borne out in practice.

### Technical Provisions

The Scheme falls outside of statutory funding legislation, hence no Scheme Actuary certificate is required for the certification of the Technical Provisions. However, I confirm that the valuation uses the method and assumptions set by the Trustees of the Scheme as set out in the Statement of Funding Principles dated 12 November 2019.



Matthew Davis  
Fellow of the Institute and Faculty of Actuaries  
Scheme Actuary  
12 November 2019  
For and on behalf of Hymans Robertson LLP

## Appendix A: Methodology and assumptions

### Methodology

Using the actuarial assumptions set by the Trustees I have estimated the payments which will be made from the Scheme throughout the future lifetimes of existing deferred pensioners, pensioners and their dependants. I then calculate the amount of money which, if invested now, would be sufficient to make these payments in future, assuming that future investment returns are in line with the assumed discount rate. These are the Technical Provisions. I compare these Technical Provisions with the value of the assets. The ratio of the asset value to the Technical Provisions is known as the 'funding level'. If the funding level is more than 100% there is a 'surplus'; if it is less than 100% there is a 'deficit'.

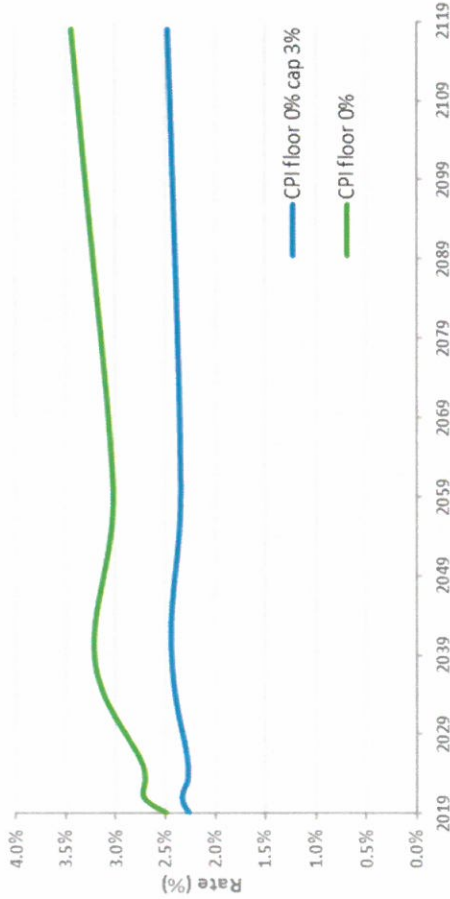
It is a requirement of the legislation that an 'accrued benefits funding method' must be used for valuing the Technical Provisions. In their application to Technical Provisions, such methods vary in only one material respect: the extent to which future pensionable pay growth is anticipated for employee members. This will not affect the Scheme as there are no employee members remaining.

### Financial assumptions

Assumption	2016 valuation	2019 valuation
Discount rate	Market implied gilt yield curve plus 0.5% p.a.	Market implied gilt yield curve plus an addition. The addition is 0.5% p.a. in 2019 and the addition tapers down linearly to no addition by 2039.
RPI inflation	Market implied gilt RPI curve	Market implied gilt RPI curve
CPI inflation	RPI curve less 0.9% p.a.	RPI curve less 0.7% p.a.
Benefit increases	In line with relevant price inflation adjusted to take account of any floors or caps on inflation that may apply.	In line with relevant price inflation adjusted to take account of any floors or caps on inflation that may apply (see 'pension increases' graph below).
National average earnings	RPI curve plus a margin of 0.5% p.a.	RPI curve plus a margin of 0.5% p.a.

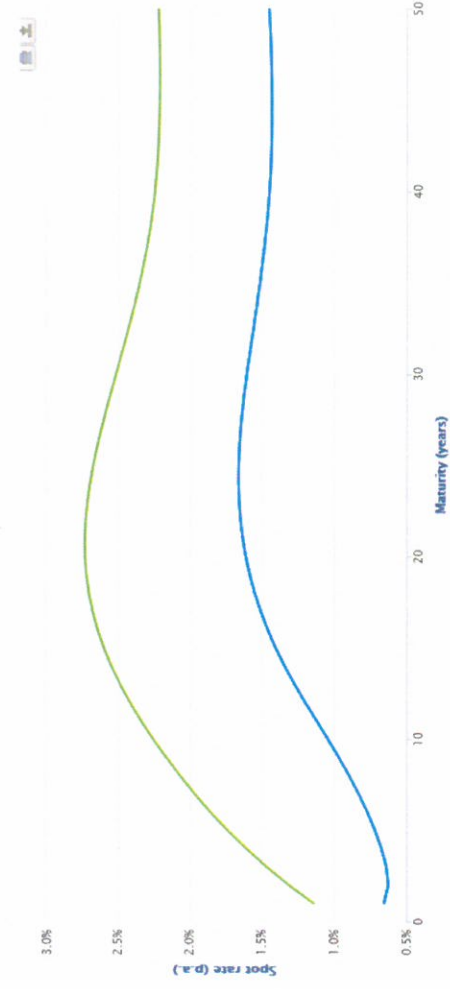
The charts below provides more information on the curves used in the valuation (the curves are spot rates, which are average rates assumed over a period).

**Inflation linked pension increases (as at 31 March 2019):**



**Gilt yield curve (before any addition to produce the discount rate):**

(The green line is from 31 March 2016; the blue line is from 31 March 2019)



**Demographic assumptions**

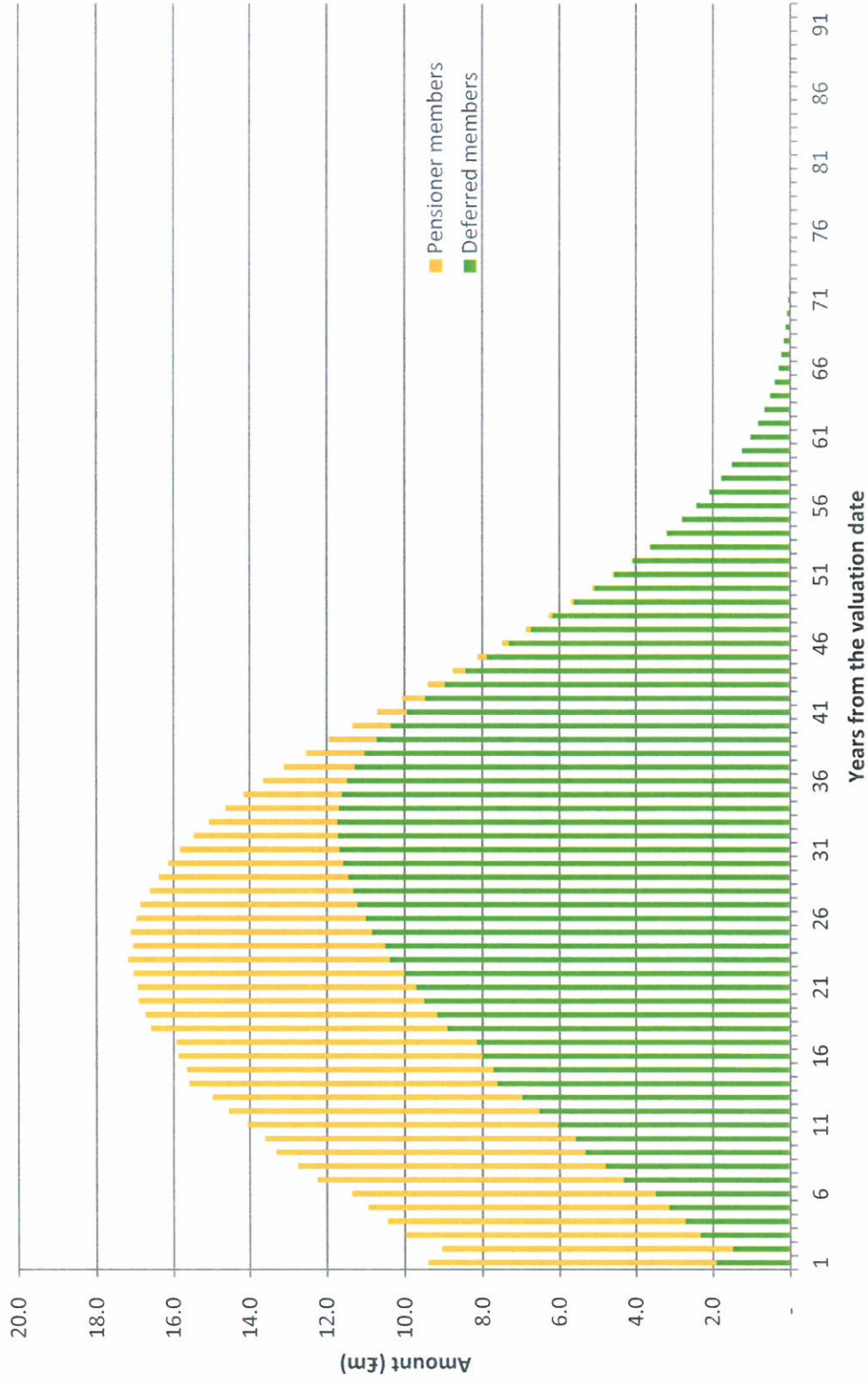
Assumption	2016 valuation	2019 valuation
Longevity base tables – post retirement	Latest Club Vita tables (averaged)	Latest Club Vita tables (averaged)
Longevity future improvements	2014 CMI model, assuming 'non-peaked' short term improvements, with a long term rate of improvement of 1.5% p.a. for men and women	CMI 2018 model with a long-term improvement rate of 1.75% p.a. for males and females and initial addition 'A' parameter of +0.5 for males, +0.25 for females.
Longevity base tables – pre retirement	Standard tables S2PMA for men and S2PFA for women	Standard tables S3PMA for men and S3PFA for women
Retirement timing	All members are assumed to retire at the earliest date	All members are assumed to retire at the earliest date at which benefits are payable unreduced.



Assumption	2016 valuation	2019 valuation
Ill health retirements		No allowance made
Commutation		No allowance made
Transfers out		No allowance made
Proportion married		85% of male members and 75% of female members were assumed to have a dependant at retirement or earlier death.
Spouse age difference	Male partners are assumed to be 3 years older than female partners.	Male scheme members are assumed to be 3 years older than their partners Female scheme members are assumed to be 2 years younger than their partners
GMP equalisation	No additional reserve	£0.5m reserve included
Expense reserve	£10m reserve in liabilities	£15m reserve in liabilities
Pension increases between GMP age and SPA	No additional reserve	£0.25m reserve in liabilities

## Appendix B: Projected benefit payments

The chart below illustrates the benefit payments that would be made from the Scheme were the assumptions in Appendix A borne out in practice:



## Appendix C: Membership data and assets

### C.1 Scheme membership

The membership data as at the valuation date is summarised below:

Category	Number	Pensions	Average age
Deferred pensioners	1,345	£5.5m per annum	51
Current pensioners	947	£7.5m per annum	67
<b>Total</b>	<b>2,292</b>		

The deferred pensions include revaluation to the valuation date.

Average ages are weighted by liability.

### C.2 Scheme investments

The Trustees' investment strategy is as follows (the table excludes insured annuities which have a value of broadly 2% of the value of total of invested assets):

Category	% of total
Growth assets – global equities	25%
Matching assets – index-linked gilts	75%
Cash	<1%
<b>Total</b>	<b>100%</b>

Full details of the Trustees' investment strategy are contained in the Scheme's Statement of Investment Principles dated April 2019. The market value of assets at the valuation date was £431m. The table below shows a reconciliation of this value with that shown in the Scheme accounts.

Assets in Scheme accounts as at 31 March 2019	£430.9m
Difference from restating insured annuities onto 31 March 2016 Technical Provisions basis	(£0.3m)
Technical Provisions assets for valuation as at 31 March 2019	£430.6m

## Appendix D: Summary of the Scheme's provisions

The Scheme benefits are set out in the Trust Deed and Rules dated 24 November 2010. The benefits I have modelled for this valuation are based on my understanding of the benefits of the Scheme, as summarised below. The summary is for the majority of the membership but some members have different benefits.

Normal Pension Age (NPA)	60
Earnings	Basic Pay. This included London Weighting, Shift Allowance and permanent Responsibility Allowance but did not include casual and intermittent remuneration.
Pensionable Earnings	Member's Earnings in the preceding year
Final Pensionable Earnings	Highest figure of Pensionable Earnings falling within the period of three years ending on retirement or date of leaving if earlier.
Pensionable Service	Years and days of service with the LSC whilst an employee member of the Scheme.
Pension at NPA	An annual pension of one eightieth of Final Pensionable Earnings each year of Pensionable Service, payable monthly.
Lump sum at NPA	Three eightieths of Final Pensionable Earnings per year of Pensionable Service
Pension Increases	<p>Pensions in payment in excess of Guaranteed Minimum Pension are increased in line with Pensions Increase (Review) Orders, which currently follow the increase in the Consumer Prices Index.</p> <p>Once Guaranteed Minimum Pension comes in to payment it is increased in line with the statutory requirements.</p>
Deferred revaluation	<p>Deferred pensions in excess of Guaranteed Minimum Pension are increased in line with the Pensions Increase (Review) Orders, which currently follow increase in the Consumer Prices Index.</p> <p>Guaranteed Minimum Pensions are increased in line Section 148 orders.</p>
Death after Retirement	A spouse's pension typically of one half of the member's pension (a higher pension may be paid for a short period following death), plus a lump sum may be paid in certain circumstances.

There is no recent history of providing discretionary benefits (i.e. benefits or increases to benefits in excess of those payable under the Scheme's rules) and I have been instructed by the Trustees to not reserve for this. I have not allowed for any changes which might be required as a result of further legislation regarding equalisation of benefits on the ground of members' age or gender (beyond the explicit reserves set out above).

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November 2019

<http://clients.hymans.co.uk/clients/LegalServicesCommissionStaffPension/ActuarialTrusteeDB/2019FormalValuation/FinalValuationDocumentation/191024%20LSC%20Actuarial%20Valuation%20Compliance%20Report%202019.docx>

# Appendix E: Reliances and Limitations

## Purpose of the Valuation

This valuation has been carried out to comply with the Scheme's funding arrangements.

This report is addressed to the Trustees of the Scheme and is provided solely for their purposes in the management of the Scheme and in particular to fulfil their statutory obligations and requirements of the Scheme's governing documents. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. Neither I nor Hymans Robertson LLP accept any liability to any party other than the Trustees unless we have expressly accepted such liability in writing.

This report has been produced in line with relevant requirements of Technical Actuarial Standards (TASs) and the underlying actuarial work meets the relevant requirements of the following TASs: TAS 100 and TAS 300. As the Scheme has a Crown Guarantee I have not reported on the solvency position of the Scheme.

As the Scheme's funding rules (as set out in the Legal Aid Sentencing and Punishment of Offenders Act 2012) do not require the sponsor (Ministry of Justice) to make deficit recovery contributions in circumstances where the Technical Provisions funding level equals or exceeds 90% at the valuation date (as is the case for this valuation) I have not calculated a recovery plan or deficit recovery contributions.

## Funding Objective

The Scheme's funding objective is set out in the Statement of Funding Principles document dated 12 November 2019.

## Statement of Investment Principles

The Statement of Investment Principles dated April 2019 states the policy for securing the appropriateness of the assets in relation to the Statutory Funding Objective.

## Compliance

The following communications also relevant to this report:

- 'Valuation as at 31 March 2019: Advice on assumptions' dated 12 November 2019;
- 'Calculation of GMP equalisation reserve for funding' dated 12 November 2019;
- 'Preliminary valuation results and training' dated 3 September 2019;
- 'Training on assumptions' dated 7 May 2019;
- 'Preparing for the 31 March 2019 valuation: Longevity developments' dated 5 February 2019; and
- Scheme funding report on the formal valuation as at 31 March 2016, dated 2 November 2016.

