

YOUR SUMMARY FUNDING STATEMENT

2023

legal services

COMMISSION

Dear Scheme member,

This is your 2023 Summary Funding Statement and Annual Update from the Trustees of the Legal Services Commission Staff Pension and Assurance Scheme No.4 (“the Scheme”), who are responsible for overseeing the Scheme and its finances. The Trustees send this report to all scheme members each year to share news about the Scheme and its financial status.

The second half of 2022 brought turbulent market conditions which provided challenges for many pension schemes and unsurprisingly we were not unaffected. Applying their experience from previous market shocks, the Trustees were able to use their flexible and diligent governance structure to help the Trustee board make decisions quickly and confidently during the period. This proved to be particularly valuable throughout the market turmoil. I am pleased to report that the Scheme’s investment strategy proved to be robust against the unprecedented market movements with the Scheme’s funding level remaining stable at around 96%.

As a board of Trustees, we continue to develop measures and stress test our governance structures in order to help the Scheme to expect the unexpected - if we have learned anything from the past few years it is that these measures will no doubt be put to the test!

This year the Trustees finalised the 31 March 2022 valuation, an activity which must be carried out by the Scheme Actuary every three years. I am pleased to report an improved funding level since the 31 March 2019 valuation, a good result given the challenging economic backdrop over the three year period. The Scheme and your benefits remain secure.

Last year, I reminded you of the launch of the new member website, PRISM. I am pleased to inform you that we have begun rolling out additional functionality within PRISM, most recently allowing members in the run up to retirement to generate retirement quotes themselves. Once again, I would like to encourage you to register online for PRISM if you haven’t already and join your fellow members who are managing their pensions online. As always, I urge you to check your email and postal addresses are up to date, as these are critical to making sure you receive any benefits due.

I would also like to take this opportunity to inform you that at the time of you receiving this newsletter I will have sadly left my role as the Chair of Trustees. It has been a pleasure being a Trustee for your scheme, and I would like to thank all the members, Trustees and advisors who have made this role so enjoyable over the last 6 years. I am delighted to inform you that the Trustees have selected my successor as Michelle Darracott from professional trustee firm ‘BESTrustees’, who is very excited to work with this well established Board. I hope you will agree that my departure leaves you in capable hands, and I look forward to seeing the great work that Michelle will do for your Scheme. Information about Michelle and other changes our Board this year can be found in the link at the end of this page.

If you have any feedback about this statement or ideas for improvement to help you better understand the information, please let us know (see page 4 for contact information). As ever please do keep up to date with our Trustee updates and your pension information on the Scheme website (www.lscpensions.co.uk).

Best wishes,
Jill Youds, Chair of the Trustees

To find out more about the Trustees of your Scheme, visit:
<https://www.lscpensions.co.uk/resources/meet-your-trustees/>



KNOW THE SCHEME

Update on scheme website and new features

In November 2021 we launched the new secure Scheme website, PRISM, and earlier this year, we were pleased to announce that the new 'retirement quote online' feature was implemented into PRISM. This new feature, the first of a number which will help you understand what benefits are available to you, can help you plan for when to access your benefits by showing you immediately your expected levels of pension and tax-free cash lump sum. Provided you are over the normal minimum pension age* (currently 55), you will be able to run calculations for retirement dates within the next 12 months. We encourage you to log in to PRISM and make use of this feature.

**please note changes to NMPA are on the horizon, more information can be found in an article on PRISM under the 'News' section.*

We currently have over 780 members registered for PRISM and in the last year over 1,250 self-service processes were completed by members online. **If you haven't already registered, you can do so at www.lscpensions.co.uk.** For more information on how to register, see our 'How to Guides' on the Scheme website homepage. If you have any questions regarding PRISM or how to register, please do not hesitate to get in touch with the Scheme administrator.

You can find this newsletter together with full information about your Scheme benefits and copies of other recent reports on the Scheme website under the 'Scheme Information' section. The website also provides topical news items and contains relevant forms and documents to support you at each step and to explain pension terminology.

As previously advised, since early 2019 we have moved to paperless communication and will only communicate with you via the Scheme website, www.lscpensions.co.uk, or via email other than in exceptional circumstances. If we do not hold an up-to-date email address for you, you could be missing out on important information about the Scheme and your pension. You can provide us with an email address any time via the Scheme Administrator (contact details on page 4).

How does your Scheme work?

The LSC Scheme is a final salary pension arrangement otherwise known as a defined benefit scheme. Your pension at retirement is linked to your salary when you left the LSC (or when the Scheme closed on 31 March 2013) and the length of time you have been a member.

Your benefits are paid from the assets of the Scheme. The benefits you receive from the Scheme are ultimately government-backed, however, the Trustees invest the assets of the Scheme with the aim of producing a suitable return each year. For some of you these benefits are now being paid, for others these benefits will be received in years to come when you retire.

Is my pension secure?

The Scheme has a Crown Guarantee from MoJ. This means the Government has guaranteed that the Scheme will have sufficient assets to meet all payment obligations in respect of pensioner members and those whose benefits are preserved for payment when they reach the Scheme retirement age. If a pattern of insufficient funding emerges following an actuarial valuation, then the MoJ will be required to make payments to the Scheme to recover the shortfall. This is intended to ensure that there will always be sufficient money to pay members' benefits.

How is the Scheme doing?

At least every three years, the Scheme Actuary carries out a financial review of the Scheme known as an actuarial valuation. The Actuary estimates the amount of each member's future pension payments and how long each pension is likely to be in payment. The Actuary then adds up all these future payments and works out how much the Scheme might receive from investment returns. The positions of the Scheme over the last 3 years is set out below:

As at 31 March 2021

Assets: There was **£455m** in the Scheme available for paying out benefits

Liabilities: The estimated cost of providing benefits for all Scheme members was **£485m**

Shortfall: There was a shortfall of **£30m**

Funding level: The Scheme had **93%** of the assets estimated to be needed to pay members the defined benefits they had built up

As at 31 March 2022

Assets: There was **£463m** in the Scheme available for paying out benefits

Liabilities: The estimated cost of providing benefits for all Scheme members was **£478m**

Shortfall: There was a shortfall of **£15m**

Funding level: The Scheme had **97%** of the assets estimated to be needed to pay members the defined benefits they had built up

As at 31 March 2023

Assets: There was **£317m** in the Scheme available for paying out benefits

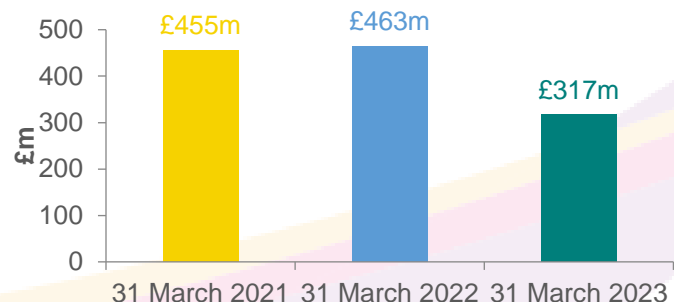
Liabilities: The estimated cost of providing benefits for all Scheme members was **£331m**

Shortfall: There was a shortfall of **£14m**

Funding level: The Scheme had **96%** of the assets estimated to be needed to pay members the defined benefits they had built up

How have the Scheme's funding position and assets changed over time?

Since we last updated you, the Scheme's funding position has slightly decreased from 97% as at 31 March 2022 to 96% as at 31 March 2023, however the total shortfall between the assets and liabilities has decreased by £1m. This is largely due to changes in economic conditions over the year, which have caused the values of both the assets and liabilities to fall since our last update.



In late 2022, the Scheme faced turbulent market

conditions following the announcement of the 'mini budget'. Gilt yields, which had been steadily rising for some time rose at an unprecedented rate in a very short period. This caused rapid movement of the Scheme's assets and liabilities.

How have the Trustees managed risk over the year?

Throughout the year the Trustees have taken specific actions to manage the most prominent risks facing the Scheme. In particular, the Trustees made quick and effective decisions with regards to the investment strategy in late 2022 throughout the unprecedented market stress experienced.

The Trustees regularly review their risk register, which outlines the key risks the Scheme faces and the controls in place to protect the Scheme if the risks arise. The Trustees' focus has continued to be on risks which could most affect the Scheme and its members. More recently, the Trustees have also undertaken training exercises for responding to unforeseen circumstances affecting the scheme, assessing their protocols and procedures for responding in such events.

Payments made to MoJ The Trustees can confirm that there have been no payments made to MoJ out of the Scheme's assets in the year to 31 March 2023.



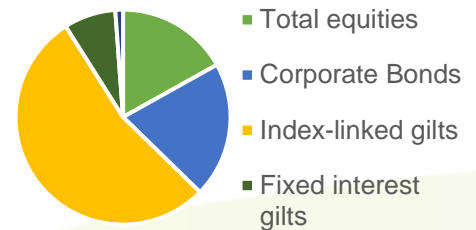
KNOW THE INVESTMENTS

Update on the Scheme's investment strategy

The Scheme's assets are invested by the Scheme's investment manager with the aim of increasing their value and providing income that can be used to pay benefits when they fall due. With the assistance of our advisors, we carefully monitor the investment manager's performance. Over the last three years, the Trustees have developed the Scheme's investment strategy to reduce the risk of significant shortfalls in funding in future.

The Scheme's funds are invested in a mix of assets, and the distribution as at 31 March 2023 is shown in the chart. Broadly, equity investment are shares in listed companies and index-linked gilts are government bonds with an investment return linked to movements in inflation.

Since 31 March 2023, the Trustees carried out a full review of the investment strategy and took the decision to retain the current proportions of the Scheme's investments, which had shifted to lower proportions of equities following the market turmoil in September 2022. The Trustees were content with this de-risking of the assets which means a greater proportion of assets are invested in funds which behave similarly to the Scheme's liabilities. This helps 'lock in' the strong funding level.



Responsible investment

The Trustees continue to invest half of the Scheme's equities in the LGIM Future World Fund, which invests more in companies that exhibit certain characteristics (good value, low volatility, smaller companies and high quality) and that rely less on carbon reserves, incur lower carbon emissions or generate greener revenues compared with the market-cap weighted index. The Trustees continue to challenge their investment manager to ensure the aims of this fund are met and to ensure Environmental, Social and Governance factors are considered more widely in their investments. This year the Trustees dedicated significant time outside of Trustee meetings to consider climate change risk and responsible investments, considering objectives to measure their progress in these areas over the next few years.

Did you know?

Neither the Trustees nor our advisors can give financial advice but a professional adviser can. If you are thinking of leaving the Scheme or making any changes to your pension arrangement, the Trustees strongly recommend you get advice first. For a list of advisers go to www.unbiased.co.uk or contact the Scheme Administrator.

Please be aware that some criminals will try to target pensions. Our best advice is to not click on any links in emails that you are unsure about and hang up immediately on any unwanted or nuisance callers. For more information about avoiding pension scams, visit www.fca.org.uk/scamsmart.

Further documents

A number of formal documents which provide further information about the Scheme can be requested from the Trustees via the Scheme Administrator. These include the Statement of Funding Principles, which sets out the Scheme's funding plan, and the Statement of Investment Principles, which explains how the Trustees invest the money paid into the Scheme and how they consider environmental issues and climate change in these decisions. The Annual Report and Accounts are also available upon request.

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