HYMANS ROBERTSON

Legal Services Commission Staff Pension and Assurance Scheme No4

Actuarial valuation as at 31 March 2016 compliance report

2 November 2016

Matthew Davis
Fellow of the Institute and Faculty of Actuaries
Scheme Actuary

			Section
Past service	Assets	£347m	1
	Technical Provisions	£362m	
	Surplus/(deficit)	(£15m)	
	Funding Level	96%	

Contributions	Contributions from the Ministry of Justice ('MoJ')	Nil	1

Changes since previous valuation	The increase in deficit is largely as a result of: • the introduction of a £10m expense reserve; and • a fall in real yields, which was not fully met by asset growth.	2

Risks	Employer covenant	3
	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 2016 ('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, while minimising any requirement for the Ministry of Justice ('MoJ') to pay contributions to the Scheme.

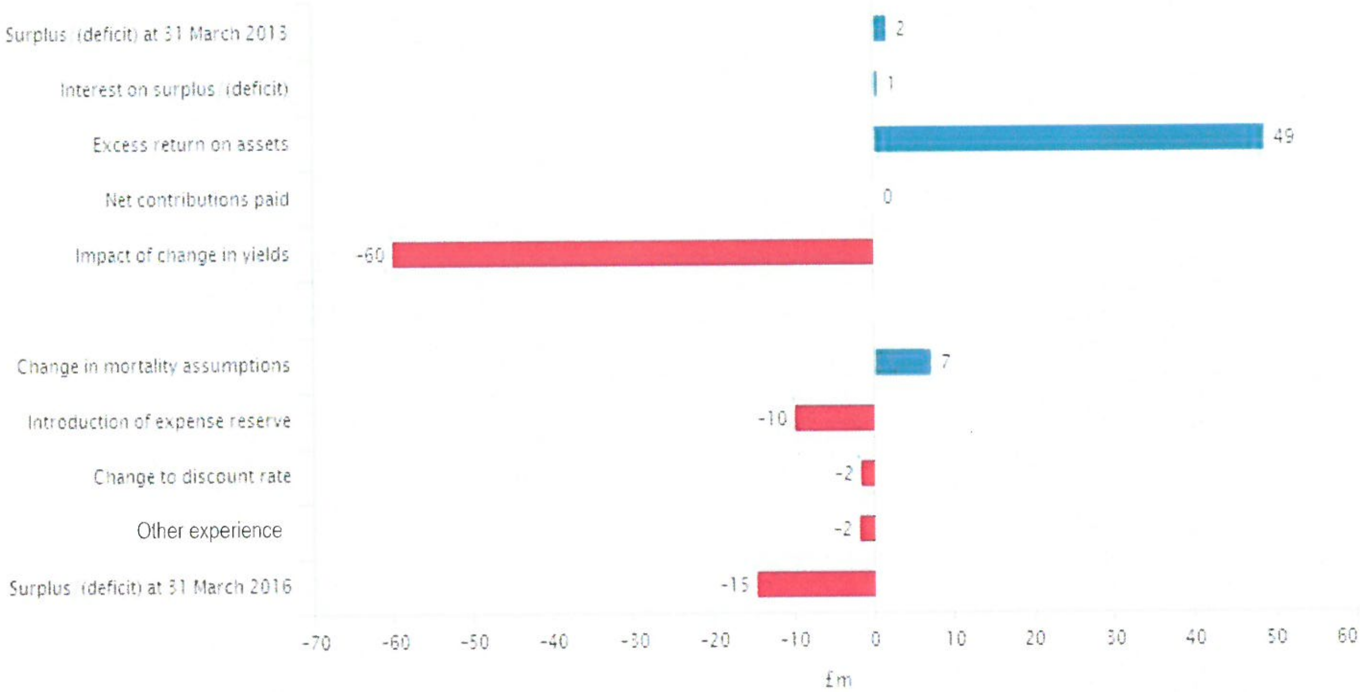
Insured benefits

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	
Assets 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.)	£347m
Technical Provisions An estimate of the amount needed to pay benefits and expenses, using the assumptions specified by the Trustees	£362m
Surplus/(deficit) Technical Provisions less assets	(£15m)
Funding level 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 2016.	

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 £2m surplus at 31 March 2013 to a £15m deficit at 31 March 2016. The key reasons for the change are:

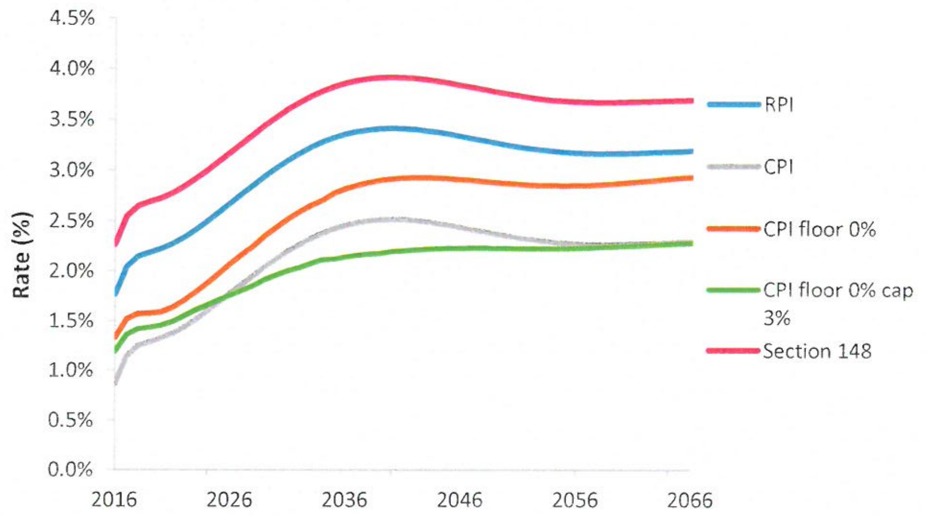
- The introduction of the expense reserve, which contributed towards £10m of the increase in deficit; and
- A fall in real yields which was not fully met by asset growth.

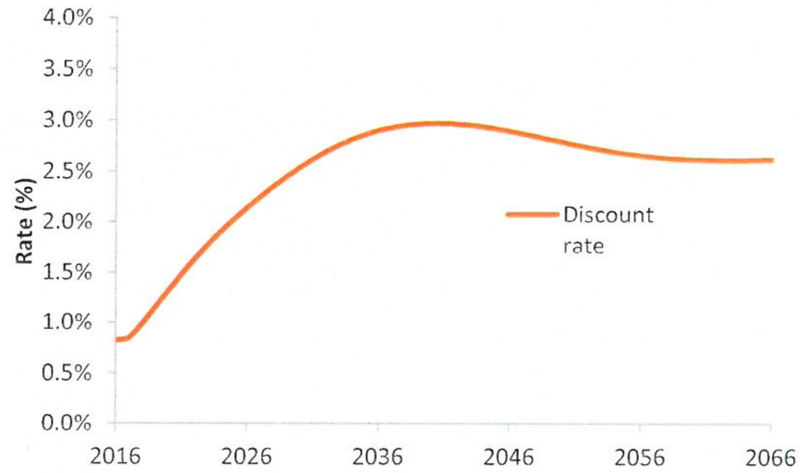
Appendix A: Assumptions

Financial assumptions

Assumption	2013 valuation	2016 valuation
Pre-retirement discount rate	Gilt yield curve plus 2% p.a.	Gilt yield curve plus 0.5% p.a.
Post-retirement discount rate	Gilt yield curve plus 0% p.a.	Gilt yield curve plus 0.5% p.a.
RPI inflation	Market implied gilt RPI curve	Market implied gilt RPI curve
CPI inflation	RPI curve less 0.9% p.a.	RPI curve less 0.9% p.a.

The charts below show the 31 March 2016 yield curves used in the valuation.



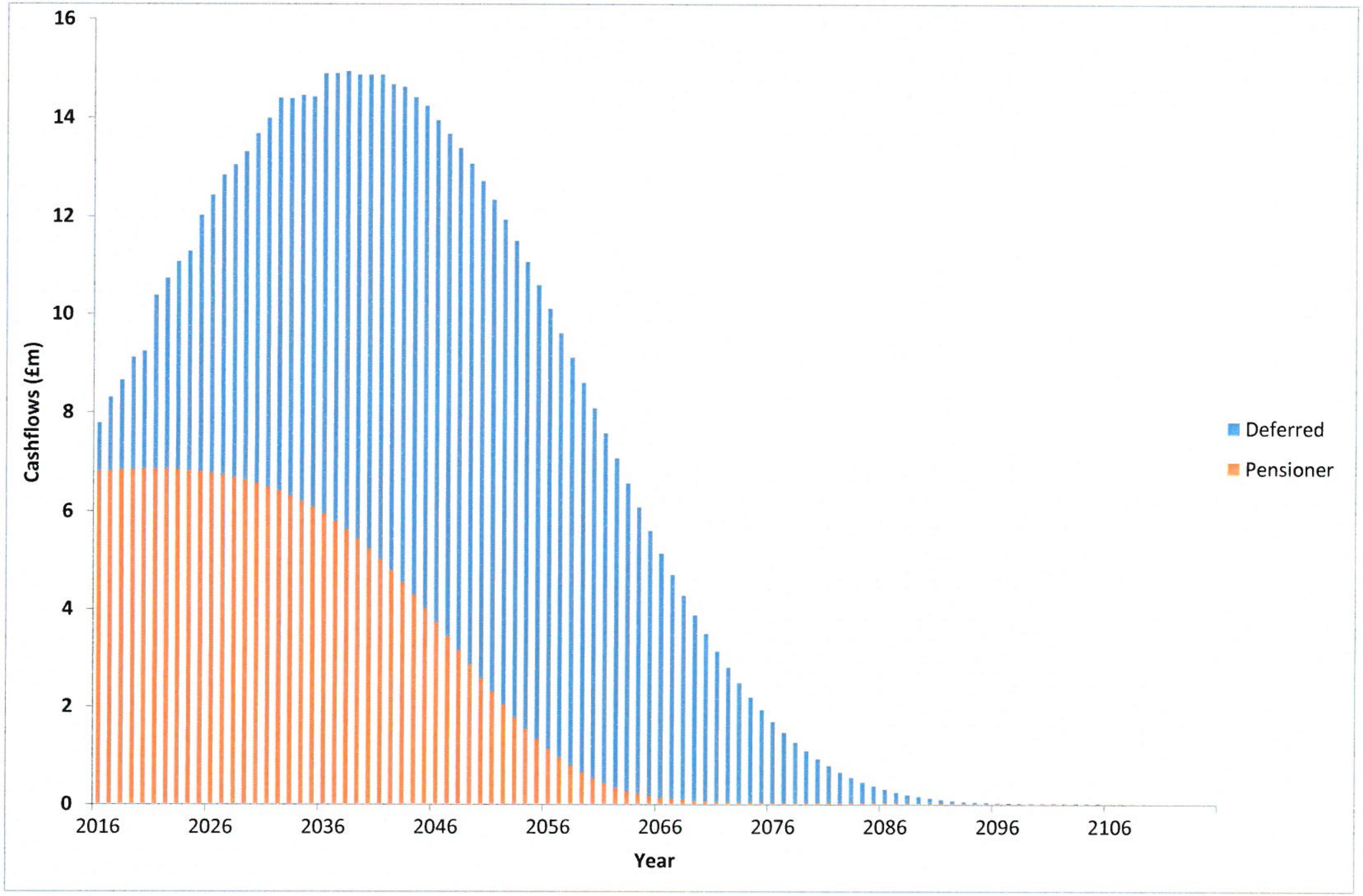


Demographic assumptions

Assumption	2013 valuation	2016 valuation
Longevity base tables – post retirement	Latest Club Vita tables (averaged)	Latest Club Vita tables (averaged)
Longevity future improvements	2010 CMI model, assuming 'non-peaked' short term improvements, with a long term rate of improvement of 1.5% p.a. for men and 1% p.a. for women	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
Longevity base tables – pre retirement	Industry standard tables S1PMA for men and S1PFA for women	Industry standard tables S2PMA for men and S2PFA for women
Retirement	Members are assumed to retire at the earliest age they can take benefits unreduced	Members are assumed to retire at the earliest age they can take benefits unreduced
Proportion married	85% of male members and 75% of female members assumed to have a dependant or spouse	85% of male members and 75% of female members assumed to have a dependant or spouse
Age difference	Male partners are assumed to be 3 years older than female partners	Male partners are assumed to be 3 years older than female partners
Ill health retirements	No allowance made	No allowance made
Commutation	No allowance made	No allowance made

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	1,513	£6m per annum	50
Current pensioners	892	£7m per annum	66
Total	**2,405**		

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 3% of the value of total of invested assets):

Category	% of total
Growth assets – global equities	17%
Growth assets – absolute return fund	18%
Matching assets – index-linked gilts	65%
Total	**100%**

Full details of the Trustees' investment strategy are contained in the Scheme's Statement of Investment Principles dated 4 November 2015. The market value of assets at the valuation date was £347m. The table below shows a reconciliation of this value with that shown in the Scheme accounts.

Assets in Scheme accounts as at 31 March 2016	£348m
Difference from restating insured annuities onto 31 March 2016 Technical Provisions basis	(£1m)
Technical Provisions assets for valuation as at 31 March 2016	£347m

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	0.25% p.a. decrease in discount rate	0.25% p.a. increase in future inflation	Mortality: +1 year on life expectancy
Impact on liabilities	+£19m	+£16m	+£14m

Longer-term projection

If the actuarial assumptions were borne out over the period, and assuming investment returns of gilts +1% p.a., from the date of this valuation to the next, the funding level would be expected to increase by a small proportion assuming that Scheme assets produce a return of gilts + 1% p.a. and 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 2 November 2016

M Davis

Matthew Davis
Fellow of the Institute and Faculty of Actuaries
Scheme Actuary
2 November 2016
For and on behalf of Hymans Robertson LLP

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
MoJ's covenant The 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.	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.
Investment and economic 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.	The Trustees monitor the funding position on a regular basis. The Scheme hedges around 75% of its exposure to changes in interest rates and inflation..
Longevity 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.	The Trustees use up to date information to set longevity assumptions. The allowance for future longevity improvements in the actuarial assumptions lessens the potential impact of further improvements.

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

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 for each year of Pensionable Service, payable monthly.
Lump sum at NPA	Three eightieths of Final Pensionable Earnings per year of Pensionable Service
Pension Increases	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. Once Guaranteed Minimum Pension comes in to payment it is increased in line with the statutory requirements.
Deferred revaluation	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. Guaranteed Minimum Pensions are increased in line Section 148 orders.
Death after Retirement	A spouse's pension of up to one half of the member's pension (a higher pension is paid for the first three months), 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.

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 section E.3 of the Pensions Technical Actuarial Standard (TAS) issued by the Financial Reporting Council (FRC), and the underlying actuarial work meets the relevant requirements of the FRC's Data and Modelling TASs.

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 2 November 2016.

Statement of Investment Principles

The Statement of Investment Principles dated 4 November 2015 states the policy for securing the appropriateness of the assets in relation to the Statutory Funding Objective.