

YOUR SUMMARY FUNDING STATEMENT

2021



Dear Scheme member,

This is your 2021 Summary Funding Statement from the Trustees of the Legal Services Commission Staff Pension and Assurance Scheme No.4 ("the Scheme"), who are responsible for monitoring the Scheme's finances. The Trustees send this to all scheme members each year to give you an idea of the Scheme's financial status. A copy of the full valuation is available on request from the Scheme Administrator.

In my introduction last year, I noted that the funding levels in last year's report reflected the first few turbulent months of the Covid-19 pandemic, which had a strikingly negative effect on financial markets.

Since then, markets have mostly bounced back. Nevertheless, investment volatility and market uncertainty remain, as industry and consumers react to the changes in our lives and habits that the pandemic has brought about. The Trustees continue to keep the Scheme's investments and fund manager under scrutiny throughout these most unusual times and I am pleased to report to you this year that our investment performance has been strong.

The Scheme's funding position faced significant additional challenge this year due to the UK Government's decision that the UK's Retail Price Index (RPI) inflation measure will be aligned with the Consumer Price Index including housing costs (CIPH) from 2030. The Scheme holds index-linked gilts (to help us manage inflation risk) and reflecting this change saw a fall in the Scheme funding level of c8% during the year. This change was beyond the Trustees' control, but I can assure you that we started work immediately to recover our funding levels and I'm pleased to report that good progress is being made.

Finally, around the time you receive this report the UK will be hosting the UN Climate Change Conference (in October 2021). Pension schemes face real financial risks associated with climate change because of the impact of global warming on companies, countries and financial markets. The Trustees have been paying close attention to these issues for the last few years and have made changes to the Scheme's investments to be more climate aware. This work will continue in earnest over the next few years.

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 in touch with our Trustee updates and your pension information on the Scheme website

<https://lscpensions.co.uk/>.

Best wishes,
Jill Youds, Chair of the Trustees

To find out more about the Trustees of your Scheme, visit:
www.lscpensions.co.uk/media/2017/meet-your-trustees.pdf



KNOW THE FINANCES

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.

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 as at 31 March 2019 (the date of the latest formal triennial Scheme valuation), 31 March 2020 (the date we last updated you) and 31 March 2021 were:

As at 31 March 2019

Assets: There was **£431m** in the Scheme available for paying out benefits

Liabilities: The estimated cost of providing benefits for all Scheme members was **£451m**

Shortfall: There was a shortfall of **£20m**

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

As at 31 March 2020

Assets: There was **£428m** in the Scheme available for paying out benefits

Liabilities: The estimated cost of providing benefits for all Scheme members was **£462m**

Shortfall: There was a shortfall of **£34m**

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 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**

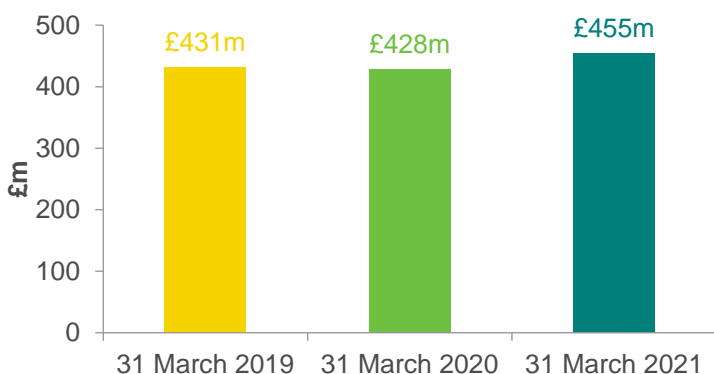
Funding level: The Scheme had **94%** of the assets estimated to be needed to pay members the defined benefits they had built up

How has the funding position changed over time?

Since we last updated you, the Scheme's funding position has improved from 93% as at 31 March 2020 to 94% as at 31 March 2021. This is largely due to strong investment returns, driven by the recovery of financial markets from the Covid-19 pandemic, which impacted the Scheme's position as at 31 March 2020.

In late 2020, the Scheme faced an additional challenge of reform to the RPI inflation measure, as described in the Chair's introduction. Reflecting the decision by the government to align RPI with CPIH from 2030 onwards led to a reduction in the Scheme's funding level. Since then, the funding level has recovered well and continues to steadily increase.

How have the Scheme's assets changed in value over time?



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 in response to the COVID-19 pandemic. This included holding more regular Trustee calls to focus on business continuity and closely monitoring the Scheme's investment strategy and the associated funding level. 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 those risks which could most affect the Scheme and its members. In particular, over the year the Trustees focused on the emerging risk associated with the government's proposed changes to the Retail Price Inflation ('RPI') index, aiming to reduce the potential impact on the Scheme's funding position.

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.

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 period since 31 March 2020

Scheme website and launch of new member web-services

You can find this report together with full information about your Scheme benefits and copies of other recent reports at www.lscpensions.co.uk; under the 'Scheme Information' section. The Scheme website also contains relevant forms and documents to support you at each step and to explain pension terminology. You can also see details of your own benefits in the secure section of the website. This gives members access to regular pension payment statements, expressions of wish, annual pension increase values and topical news items.

At the end of October the current website will be retired and we will be switching to a new and improved member web-service, 'PRISM'. If you are currently registered on the website you'll need to re-register on PRISM after the switch. Everything you need to know about PRISM and how to register can be found in [this](#) flyer for deferred members and [this](#) flyer for pensioner and beneficiary members on the Scheme website. We'll keep you updated as new features are launched throughout 2022.

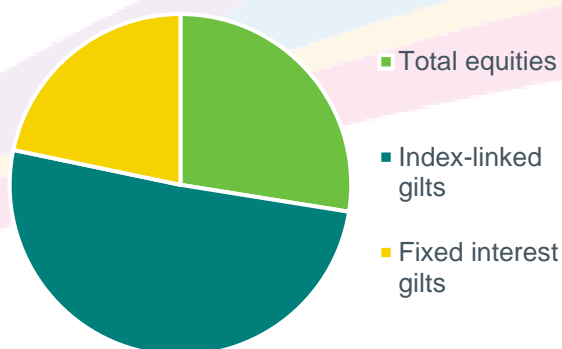
As previously advised, since early 2019 we have moved to paperless communication and will only communicate with you via the Scheme website or via email other than in exceptional circumstances. If we do not hold an up to date email address for you, you could be missing out on important information about the Scheme and your pension.



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 2021 is shown below. Broadly, equity investment are shares in listed companies and index-linked gilts are government bonds with an investment return linked to movements in inflation.



Responsible investment

Last year the Trustees made a change to their investment strategy to invest half of the Scheme's equities in the LGIM Future World Fund. This fund 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.

Did you know?

Neither the Trustees nor our advisers 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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