Solvency Assessment Report (SAR) for the Ethical Funeral Plans Trust as of 31 July 2023 (Valuation Date) addressed to the Plan Provider, Peace Burials Limited following the requirements of FPCOB 3.2

We have been instructed to provide **Peace Burials Limited** (the Plan Provider) with a Solvency Assessment Report as required by the Financial Conduct Authority ("FCA") under section 3.2.2 of the Funeral Plan: Conduct of Business sourcebook. The SAR report draws from a valuation of the **Ethical Funeral Plans Trust**'s assets and liabilities as at as of 31 July 2023 ("Review date"). This SAR complies with Technical Actuarial Standards TAS 100 (Principles for technical actuarial work, version 2.0) and the Framework for FRC technical actuarial standards, TAS 400 (Version 3.0) concerning the determination, calculation and verification of the assets and liabilities of a funeral plan trust plus Actuarial Profession Standard (APS) Z1: Duties and responsibilities for actuaries working for UK trust-based pre-paid funeral plans. The aim is to ensure the interests of customers are not adversely affected in all reasonably foreseeable circumstances.

The finances of the pre-arranged funeral Trust are investigated each year by an independent actuary (TrustActuarial Ltd). In his investigation on 31 July 2023 the Trust actuary has indicated that the fund is 115% funded on a best estimate basis, that is for every £1 of monies projected to be required to pay for future funerals, there is £1.15 to cover the funeral promise. This figure will change each year, for example, because the value of the asset changes on a day-by-day basis. The assets are taken into the actuary's calculation at market value and other valuation assumptions (e.g., future interest rates and inflation) are chosen to be consistent with market conditions. Liabilities are valued by discounting future projected cash flows out of the fund to a lump sum at the valuation date, using a market-based interest rate.

The monies are held ring fenced in a Trust independent from the Plan Provider (Peace Burials Limited) who is also the final backer of the absolute guarantee to provide funerals. In arriving at their valuation assumptions, the Trustees had to be mindful of investment risks, unanticipated changes in mortality and higher than anticipated inflation in both funeral costs / administration expenses. There are no subcontracted liabilities to other funeral service providers.

Peace Burials Limited (The "Plan Provider") markets a range of pre-paid funeral plans ("The Plans"). The Plans provide a facility whereby individuals Plan holders are able to make advance payment for their funeral. This allows fully paid members the flexibility to plan any kind of funeral. The Fund is a trust fund established in 2007 by The Plan Provider to receive payments from Plan holders in respect of the Plans. The Plan was closed to new Customers from 29 July 2022. The Plan holder pays for the funeral at the price applicable and estimated at the time of application. There is a guarantee of the funeral cost at the price at application (subject to certain rules and guidelines). It must be re-emphasised that the Trust is merely a vehicle to reserve the cost of future funerals when required. It is Peace Burials Limited (the Plan Provider) who is the final backer of the absolute guarantee to provide the funerals to the highest standard as initially promised to Plan-holders, in exchange for the assets of the Trust, whatever they may be regardless of whether or not the Trust has available assets to fund the funeral. The Plan Provider, therefore, has a potential exposure in the form of a reduced fee should the Trust's investment strategy, over which it has no control, fails to deliver an appropriate return or result in a fall in underlying asset values, or if the cost of delivery for a funeral increases at rates in excess of investment returns. In respect of buffers the approximately £300k Best Estimate surplus illustrated above is in the context of the £2m Best Estimate liabilities.

Plan- holder data

The membership position at the current Valuation Date is set out below:

	Active as at 31 July 2023	Average age (un-weighted)	Present Funeral Costs at 31 July 2023
Total	**850**	**77.8**	**£2,699,400**

The number of live plans categorised by payment method/ total plan value in relation to undrawn or live plans categorised by payment method:

	PLANS TOTAL	VALUE TOTAL £	% NUMBER	% VALUE
SINGLE PAYMENT PLANS	764	2,413,150	89.9	89.4
INSTALMENT PLANS PAID	74	247,247	8.7	9.2
INSTALMENT PLANS OUTSTANDING	12	39,003	1.4	1.4
	850	2,699,400	100%	100%

Average Plan Values (deposits plus fees) by payment method

SINGLE PAYMENT PLANS:	**£ 3,206**
INSTALMENT PLANS PAID:	**£ 3,402**
INSTALMENT PLANS OUTSTANDING:	**£ 3,188**

At the Review Date the amounts still to be received by the Trust in relation to partly paid instalment plans were £42,433.90.

Asset Data

TrustActuarial Ltd relied on the list of investments appearing in the Trust's audited Financial Statements.

The main portfolio of investments (£1,552k) is managed by Quilter, some (£785k) by Morningstar Wealth Administration Limited and £21k cash at bank on behalf of the Trust, i.e. £2,358,353 in total at the valuation date.

Asset Type	£,000 Market Value	Percent
Equity/Property	£1,752,001	75%
Bonds (24% Gilts)	£407,743	17%
Liquid	£198,610	8%
Total	£2,358,353	100%

The main investment aims are to achieve capital growth over a period of five years or more through investment markets both in the UK and overseas with the portfolio broadly diversified across asset classes.

Valuation on a Best Estimate basis on 31 July 2023

Summary Main Assumptions

Discount Rate: 5.4% pa, Rate of inflation of funeral costs: 2.5%pa,

Mortality assumption: ELT 17 for males and females but mortality multiplied by 1.48. An improvement rate of 1.5% p.a. was used (long cohort, CMI Mortality Projections Model 2015).

Tax Treatment

Treated as a discretionary trust. Investment income is taxed at 20% and capital gains are also taxed above certain limits ("CGT") but we understand it should be possible to invest to keep the effective CGT tax rate quite low. The Trustees have instructed TA Ltd to assume a best estimate global average tax rate of 20% on investment returns. The actual global tax rate will become apparent over the future and the impact of a deviation from 20% will appear as an item of actuarial profit in the future (a potential loss if tax rates rise).

Withdrawal Assumptions

9 Plan holder withdrew over the previous year. The number of cancellations is so high probably because the trustees had sent every customer a plan statement, as required by the FCA; this served as a prompt to some in dire straits financially that there was a pot of money that they could encash. Some were transfers to the new trust. Withdrawals are likely to return to the historically exceptionally low level of circa 2 customers p.a.in the future.

Mortality Assumption detail

The basis used was 148% ELT 17 for males and female's mortality. Mortality improvements are allowed for by incorporating CMI 2015 Core Projection with a long-term improvement rate of 1.5%. Basically, the actuary assumed 1.48 times the normal number of deaths for the average persons in the England and Wales and also allows for future mortality improvements. The average age at the valuation date for the members was 77.8 years. The average expectation of life at the current Valuation Date for the male members was 9 years (10.6 years for females). Due to assumed improvements in mortality at 1.5% pa these expectations of life increase by on average 0.8 year in 10 years' time.

The 1.48 times adjustment was calculated in an experience investigation.

Retail Prices Inflation / Consumer Price Inflation impact on Funeral Cost inflation

At the Valuation Date, the Bank of England published a 3.5% RPI rate at the 10-year point of the UK implied inflation spot curve, The CPI rate was taken as 0.7% less than this at 2.8% (the gap was 1% previously, but CPI will become RPI in 2030, so the gap will reduce over the years). For those plan liabilities subject to RPI increases, these represented 11.9% of the total liabilities and the CPI Plans were 88.1%.

*The assumed long-term **prudent** rate of **price inflation** was therefore selected as 2.9% (3.5 * 0.119 + 2.8* 0.881 rounded)*

However, there was an adjustment to arrive at a best estimate funeral inflation assumption, to reflect that markets tend to over react for periods of time and to also reflect on the Bank of England's target rate of CPI inflation at 2% pa. A 0.4% reduction was made on the 2.9% above to give 2.5% pa assumed rate of funeral inflation rate as a best estimate. Expenses were assumed to escalate at 3.2% pa.

Investment Returns

The discount interest rates below were incorporated in the calculation of the global discount rate in proportion to the nature of the assets held at the Valuation Date to produce a best estimate investment yield implicitly assuming the Valuation Date holdings are maintained over the future:

Fixed Interest

As at the Valuation Date, the most relevant market yield was as follows:

- 10-year corporate bonds: 5.1% p.a. (provided by iBoxx, interpolated)
- 10 year Gilts: 4.32%

Equities

In determining an appropriate discount interest rate relevant to the equity holding, a useful starting point is the yield on long-term gilts (15-year term) as they are virtually risk-fee investments. At the Valuation Date, there were yielding circa 4.5% p.a. It is then necessary to consider the additional long-term return that might be available from equities relative to gilts - the "Equity Risk Premium". The assumed best estimate Equity Risk Premium was 3% per annum, which implies an assumed long-term return for equities of 7.5% per annum rounded (4.5+3). This return is after any management charges levied on the unit funds.

Deposits

TA Ltd (after consulting the Trustees) has assumed a cash deposit rate of 3.5% before tax.

Summary

The application of a best estimate notional 20% global tax rate currently produces a net of tax best estimate investment return of 5.4% pa. (rounded) after investment expenses have been deducted and a best estimate funeral inflation rate pa of 2.5%.

Valuation Method.

The first stage of the valuation process involves calculating the equivalent lump sum (at the valuation date) of the stream of projected future funeral costs using interest, inflation, and mortality; this process is called discounting. As a second stage this discounted value of the liabilities is compared against the current value of The Fund. The present value of expected future funeral costs was calculated for each individual by applying a whole life assurance factor to the funeral cost estimate at Valuation Date; this produces a valuation reserve similar to that of a single premium whole of life insurance policy. The rate at which the Trust Fund accumulates depends on future investment returns after tax, after allowing for any expenses met by The Trust Fund. The incidence of payments from The Trust Fund will depend on the mortality rates experienced by Plan-holders.

The basic valuation process takes the typical projected outflows for the whole future time period and answers the question "what would I need in the Trust asset-pot now earning interest at the assumed rate, in the light of future expense inflation and assumed mortality to discharge the liabilities of the Trust". I.e., the liabilities at the valuation date have been derived by discounting the projected cash flows over the lifetime of the Trust to the valuation date, using the valuation discount rate.

A fundamental principle of an actuarial valuation is that the valuation of assets and liabilities should be consistent; thus, the valuation is on the market value of the assets held by The Fund and in TA Ltd's opinion, the future rates of return reflecting relevant market related conditions at the Valuation Date.

The level of solvency of the Trust Fund is determined by comparing the actuarial value of the sums agreed under the funeral plans with the current value of the Trust Fund. The Trust Fund is 100% solvent (or funded) if the actuarial value of benefits equals the value of the Trust Fund.

The Trust Fund would be in deficit if the actuarial value of sums agreed under the funeral plans plus expenses (including some assumed level of future increase in expenses) when discounted at the assumed future investment rate was more than the current value of the Trust Fund.

To carry out an actuarial valuation, it is necessary to make several assumptions, some of these are of a statistical nature, such as estimates of the future rates of mortality; others are of an economic nature, such as the rates of return expected on various asset classes.

Financial position of the Trust on a Best Estimate basis:

The funding level on a Best Estimate (BE) basis was 115%. [The Best Estimate basis assesses each of the assumptions such that there is an equal likelihood of actual experience being greater or less than the expected value].

Category	**£'000**
BE Liabilities	**2,056**
Assets (at market) of investments + cash	**2,358**
Surplus {(b)-(a)}	**302**
Funding Level {(b)/(a) x 100%}	**115%**

The key risks (in terms of a change in the financial position from current levels) are:

If the discount rate reduces by 0.5% then the best estimate funding level falls by 4.6% (surplus falls by £101,000).

If the mortality is 200% of the ELT17 table, then the best estimate funding level falls by 3.7% (surplus falls by £80,000). If the rate of improvement in mortality reduces to 1% pa (from 1.5% pa) the best estimate funding level reduces by 1.2% (surplus reduces by £25,000).

If there is a pandemic (say 10 times general population normal mortality) then the funding level falls by 25.6% (surplus reduces by £691,000).

If Climate change reduces the return on equities by 1% p.a., then the funding level falls by 3.7% and the surplus falls by £80,000.

If the equity prices fall by 17% the best estimate funding level falls to 100%.

Geoff Arnold FIA (Fellow of the Institute of Actuaries)

For TrustActuarial Limited 3 December 2023

SAR Appendix

The level of all monies deducted from the trust over the year to 31 July 2023:

Total net Payment was £35,447 (£34,102 expenditure+£2,757 taxation-£1,412 interest).

Total Expenditure was £34,102

Grand Total: £34,102 (expenditure)+£2757 (taxation)=£36,859 gross

EXPENDITURE

Actuarial costs	17,696	
Website & Database costs	400	
Meeting expenses	4,120	
Commission	315	
Accountancy fees	2,982	
Audit Fees	2,760	
Legal Fees	5,755	
Bank charges	74	(34,102)

Taxation	2,757

Movement in monies re funeral plans 2023	**£**
***Funeral plan receipts**	**25,822.83**
Funerals purchased	**(213,967.67)**
Plan refunds	**(21,152.56)**
Increase in provisions for future liabilities	**(206,756.00)**

***Instalments from sales pre 29 July 2022**