

*Strictly Private & Confidential*

Actuarial Report (i.e., Annual) of

---

## **Ethical Funeral Plans Trust**

---

As of 31 July 2021 (Valuation Date)

**Prepared for  
The Trustees**

by

**TrustActuarial Limited**

This report complies with Technical Actuarial Standards TAS 100 (Principles for technical actuarial work) and the Framework for FRC technical actuarial standards plus TAS 400 (July 2020 Version) concerning the determination, calculation and verification of the assets and liabilities of a funeral plan trust

**22 OCTOBER 2021**

---

---

**CONTENTS**

---

**Section**

1.	<b>Result Background and Scope</b>
2.	<b>The previous valuation</b>
3.	<b>Changes Since the Previous Valuation</b>
4.	<b>Factors affecting the Valuation</b>
5.	<b>Summary Valuation Data</b>
6.	<b>Analysis of Experience since last valuation</b>
7.	<b>Valuation Methodology and Assumptions</b>
8.	<b>Valuation Report</b>
Appendix I	10-year cash flow
Appendix II	Further arrangement details, legislation and actuarial guidance
Appendix III	Detailed valuation data
Appendix IV	Valuation assumptions rationale
Appendix V	Sensitivity results
Appendix V1	Population analysis
Appendix VII	Background and details of the Plan Guarantees

---

## 1. RESULT, BACKGROUND AND SCOPE

---

My investigations show that the relationship between the Scheme's assets and the present value of its future liabilities:

31 July 2021	£,000
(a) Liabilities	2,530
(b) Assets (at Market Value)	2,627*
Surplus {(b)-(a)}	97*
Funding Level {(b)/(a)}	104%*

\*It must be noted that if all investments had been disposed of at the valuation date a tax liability of £214,736 would have arisen (as noted in the audited accounts). I cannot give taxation advice so have not factored this in above but understand that steps can be taken to ameliorate this liability to some extent, especially for a continuing entity, see Section 6 (heading, Taxation).

**The draft corresponding level on 31 July 2019 was 105%.**

The funding level on "hiving off" discontinuance is 112% (see Section 8)

The funding level on "returning deposits" plus inflation uplift to date 102% (previously a draft 105%) see Section 8.

The funding level on a best estimate return of 5% pa before tax of 20%, i.e., 4% pa is 126% corresponding to the 104% funding level on a prudent basis above.

### **Ethical Funeral Plans Trust ("The Fund")**

Peace Funerals (The "Plan Provider") markets a range of pre-paid funeral plans ("The Plans"). The Plans provides 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 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). See Appendix II for further details and relevant legislative/guidance background.

### **Funeral costs**

The Trustees the Plan Provider have agreed that when a funeral takes place the Plan Provider will be entitled to charge to the Fund a certain amount (including inflationary uplift) to cover the Funeral Directors Costs in full and a contribution towards the Disbursement Costs. '

The cost of the funeral is projected forward in this valuation including inflation and then discounted to the Valuation Date.

Subject to the caveats the *Funeral Director's Costs* for carrying out the chosen funeral will be **covered in full** at that time provided that the plan is fully paid. The conditions on Disbursement Costs are different and ALL details are set out in Appendix VII.

### **TrustActuarial Limited's Assignment (purpose and scope)**

TrustActuarial Limited ("TA Ltd") has been appointed by the Trustees of The Fund ("The Client") to carry out an actuarial valuation of The Fund as of 31 July 2021, in accordance with Article 60(1)(b) of the RAO, namely the verification and valuation of the assets and liabilities of The Trust. This exercise produces the actuarial cost of providing the funerals for members who have paid in advance expressed as a single lump sum at the valuation date; that is the liability of the Trust. The liability arises from the terms of the Trust which impose on the Trust the obligation to maintain the funds they receive in order to undertake the various funerals for the members. The obligation of the Trustees is to pay for the funerals.

The main purpose of the valuation is to establish the degree to which The Fund is capable of making the payments required under the Trust Deed and this is tested by the funding level on the chosen trustee on-going funding basis. In addition, it considers the financial position of The Fund on discontinuance. The exercise seeks to calculate any contributions necessary by the Plan Provider (which is essentially a planning exercise). The valuation will therefore provide the Trustees with information to assist them in such a way so as to reasonably ensure that costs of future funerals can be met from The Fund.

### **Reliance's and Limitations**

The Client supplied much of the information upon which TA Ltd has based this report. TA Ltd has relied upon the accuracy of such information and cannot accept any responsibility for any inaccuracies or omissions. The accuracy of the electronically supplied funeral costs is vital to the valuation results and it is the trustees' responsibility to convince themselves of the legitimacy of these inputs.

TA Ltd personnel are available to expand upon the comments in this report to The Client, if required. In particular, it is essential that the Trustees are confident that the funeral costs (including inflation uplift) for each customer at the Valuation Date and as supplied to the actuary are adequate to cover the current cost of the funeral. Actuaries play a limited but important role in valuing Trusts but the primary responsibility rests with the plan Trustees.

---

## 2. THE PREVIOUS VALUATION

---

I previously carried out a draft actuarial valuation of The Fund as of 31 July 2019.

In particular, the aforementioned report dated noted the following:

“The Fund appears adequately funded on the assumptions chosen by the Trustees. Due to the nature of the actuarial process, temporary deficits and surpluses will arise at each assessment. The surplus (£93,000) has reduced since the previous (2016) assessment of £149,000, representing minor fluctuations.

The circa £344,000 surplus on “hiving off” discontinuance in my opinion means that the fund is secure barring major upheaval. The Trustees should continue to monitor the position and be alert to any adverse experience such as the impact of negative net real rates of return. There is also the risk that funeral directors will default on their agreement to charge funeral director costs equal to the cost at outset plus inflation (e.g., if the funeral provider was subject to extreme cost pressures).

The Plan Provider may ask for additional advice over and above that given to the Trustees in this report but given the involvement from the Plan Provider in the production of this report, this is unlikely to be necessary. The assumptions are on a prudent basis, the Trustees should aim at a minimum funding level of 100% in order to be able to withstand unanticipated adverse circumstances”.

---

### 3. CHANGES SINCE THE 31 JULY 2016 VALUATION

---

#### **Changes to Funeral Plan**

The Plan Provider implemented the following changes in respect of plans purchased from The Plan Provider:

**None**

#### **Provision of Expenses**

Various additional costs are charged to The Fund, see Section 6 for details.

---

#### 4. FACTORS AFFECTING THE VALUATION

---

This valuation exercise provides the actuarial cost of providing the funerals for members who have paid in advance expressed as a single lump sum at the valuation date because that is the liability of the Trust. The on-going valuation on a prudent basis as chosen by the trustees following actuarial advice is the RAO 60(1)(b)(v) (i.e., statutory) valuation.

It is the understanding of TA Ltd that the funeral costs supplied does not allow for any discretionary increments to the amount payable from the funeral plan trust.

---

## 5. SUMMARY VALUATION DATA

---

### Summary of customer data

The Plan Provider has supplied membership data for TA Ltd's investigations of the Trust's financial position in electronic format. As of 31 July 2021, there were:

- 892 Plans (763 on 31 July 2019).

### Summary membership movements:

Summary Membership Movements:-		
	year end 2019/20	year end 2020/21
Opening plans	727	827
New plans	146	131
Funerals Disbursed	-44	-64
Funerals Withdrawn	-2	-2
Closing "Live" plans	827	892

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

	Active as at 31 July 2021	Average age (un-weighted)	Estimated Present Funeral Costs at 31 July 2021
<b>Total</b>	<b>892</b>	<b>77.3</b>	<b>£2,369,938</b>

The cost includes inflation to date and more details about the valuation data is included in Appendix III. Of the 892 members 10 had nil liability and 13 with liability of under £400.



---

## 6. ANALYSIS OF EXPERIENCE SINCE LAST TRIENNIAL VALUATION

---

### Introduction

An integral part of any actuarial valuation is an analysis of the experience of the Fund / Trust in the period preceding the valuation.

This process gives an insight into the workings of The Fund, whilst at the same time providing justification, or otherwise, for the valuation assumptions. It also serves as a means of checking the robustness of the data.

### Funeral Cost Inflation for the Plans

Over the 2 years the RPI increased at 2.5% pa (3.4% assumed in 2019), the CPI increased at 1.6% pa (2.4% assumed in 2019).

### Taxation

Investment income is taxed at 20% and capital gains are also taxed above certain limits but I understand it should be possible to invest to keep the effective tax rate close to nil. The combined tax rate could be 10% for example.

### Mortality Assumptions

The mortality basis assumed at the 2019 valuation was 150% ELT 17 for males and female's mortality unadjusted.

The average age at the valuation date for the members was 77.3 years. The average expectation of life at the current Valuation Date for the male members was 11.3 years (13.1 years for females). Due to assumed improvements in mortality at 1.5% pa these expectations of life increase by 1.2 years in 12.5 years hence.

The table below sets out a comparison of the actual deaths over the most recent year with the numbers expected p.a.

	<b>Actual deaths from Plan holders in 2019/2021</b>	<b>Approximate expected deaths 150% ELT 17 for males and female's mortality. Improvements: CMI 2015 Core Projection with a long-term improvement rate of 1.5%</b>
<b>Total</b>	<b>108</b>	<b>121</b>

The expected deaths are over the previous 2 years. Whilst not using a strictly scientific comparison it does give a good indication of the actual versus expected mortality experience ignoring spurious accuracy. It is clear that actual mortality rates are circa 1.5 times the national average of England and Wales, in line with similar such experiences we have encountered.

The small numbers inherent in a valuation of this size means that any analysis of

mortality experience needs interpreting with caution. The Plan Provider's Plan holders mainly come from (and around) Sheffield. A population analysis is set out in Appendix V.

### **Withdrawals**

4 Plan holder withdrew over the 2 years. Withdrawals are likely to remain at this exceptionally low level.

### **Trust Expenses**

Certain costs came directly from The Fund in the inter-valuation period. The running expenses were web/data base development, Meeting Expenses, Commission, Actuarial Charges, Accountancy fees Bank Charges and Tax. The costs were broadly offset by the administrative charges plus interest earned on instalments.

---

## 7. VALUATION METHODOLOGY AND ASSUMPTIONS

---

### Introduction

The valuation process involves comparing the discounted value of future estimated funeral costs with the current value of The Fund. In particular 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 Fund accumulates depends on future investment returns, after allowing for any expenses met by The Fund. The cost of future funerals will depend on the rates of inflation in the future. The incidence of payments from The Fund will depend on the mortality rates experienced by Plan holders.

The basic valuation process takes the typical projected outflows illustrated in Appendix 1 (but for the whole future time period) and answers the question:

“what would I need in the Trust pot now earning interest at the assumed rate, in the light of future inflation and expense inflation and assumed mortality to discharge the liabilities of the trust”.

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 reflect relevant market related conditions at the Valuation Date.

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

The Fund would be in deficit if the actuarial value of future benefits including some assumed level of future funeral costs increase and potential tax payments, when discounted at the assumed future investment rate were more than the current value of The Fund.

In order to carry out an actuarial valuation, it is necessary to make a number of 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 rate at which funeral costs are going to increase due to inflation, and the rates of return, expected on various asset classes.

The derivation of each of the main financial assumptions is set out in Appendix IV.

## Financial Assumptions

The assumption as to the relationship between the rate at which funeral costs escalate and the return achieved on the assets supporting the choice of these assumptions is critical in determining the financial condition of The Fund. It would be reasonable to assume The Fund would normally earn a margin over RPI and CPI.

The after-tax weighted return before expenses was 2.1%. See Appendix IV for details.

## Mortality Assumptions

The extents to which mortality has improved in recent years and how this trend may continue, remain a subject of much debate, investigation, and frankly conjecture. This valuation has used 150% ELT 17 for males and female's mortality; improvements: CMI 2015 Core Projection with a long-term improvement rate of 1.5%. If mortality is to continue to improve as in the recent past (the rate of improvement very recently has slowed considerably) there needs to be a "new thing" to augment the impact of say giving up smoking/statins/healthier lifestyles.

Covid-19 will have a temporary impact, but this may be mainly the "bringing forward" deaths of the more vulnerable without much long-term impact.

## Withdrawal Assumptions

I ignored withdrawals for the purposes of the valuation.

## Summary Main Assumptions

- Discount Rate: 2.1%
- Rate of inflation of funeral costs: 2.7% average
- Mortality assumption: 150% ELT 17 for males and females. An improvement rate of 1.5% p.a. was used (long cohort, CMI Mortality Projections Model 2015).
- It was assumed that future expenses would be covered by the administration charges plus interest on instalment paid contributions.

## Associated Risks

The Trustees need to be aware of the potential impact upon The Trust of the actuarial assumptions failing achievement. To illustrate this, some of the relevant risks, together with their likely impact upon several key characteristics of the Scheme's financial position is in the table below:

Risk Factor	Impact of risk factor upon		
	Solvency Position	Stability of Contributions	Subsequent Funding level
inability to pay shortfall contributions	Worsened	n/a	Reduced
Future investment returns insufficient	Worsened	Any shortfall contributions will increase	Reduced
Mismatching (fall in asset values not matched by fall in liabilities)	Worsened / Little impact	Little impact / Any shortfall contributions will increase	Reduced
Unanticipated changes in mortality	Worsened if mortality lighter	Any shortfall contributions will increase if mortality lighter	Reduced
Funeral cost inflation higher than the inflation anticipated	Worsened	Any shortfall contributions will increase	Reduced

There are inter-actions of these elements, e.g., increasing longevity extends the duration between the receipt of the pre-payment and the date of the funeral,

increasing the exposure of the trust to the inflation of funeral costs, perhaps not be matched by asset returns.

There could be a need to sell assets to meet claims, potentially exposing the trust to market risk. The trustees are wary of this risk and so maintain a prudent investment policy including keeping some cash in hand. A pandemic unexpectedly requires a liquidation of assets, exposing the trust to liquidity risk. In addition to the above, if The Trust closes to new Plan holders an expense reserve will be required and the solvency position will worsen considerably.

The current business model operated by the Plan provider insulates the Fund from New Business strain.

---

## 8. VALUATION REPORT

---

### Value of Assets

The total value was £ 2,627,000, which broadly comprised:

Asset Class	% of Fund
Equity/Property	55%
Bonds	27%
Liquid	18%
Total	100%

See Appendix III for details

### Value of Liabilities - Withdrawal Benefits

Plan holders who took out a plan are entitled, at any time, to cancel their plan and request repayment (the refund is the whole of the deposit less the administration fee.) No inflation uplift is given

### Value of Liabilities - Discontinuance of the Trust

In the event the Trust discontinues for any reason, the Trustees are required to arrange for all the funerals provision. The ability of the Trustees to fulfil this obligation depends on the value of The Fund at the time and the price charged by alternative providers. TA Ltd understands an alternative provider would have been prepared to take over the customer portfolio at 90% of book value (see Appendix III part ii). The alternative provider would avoid marketing costs and be able to spread its fixed costs more widely.

The hiving off cost of funerals in respect of all substantial funeral Plan holders as at the Valuation Date was £2,133k (£2,370k x 0.9). To this we have added the potential capital gains tax liability of £215k. Based on the asset value above of £2,627k this represents a surplus of approximately £279k (£2,627-2,133-215k) or expressed another way, a discontinuance solvency level of 112%. This ignores any costs incurred by the Trustees (and charged to The Fund) on winding up of the Trust.

As an alternative, a return of deposits liabilities plus inflation to date would total £2,370,000 plus £215,000 potential capital gains tax liability, compared to the assets of £2,627,000 giving a “return of deposits” funding level of 102% (ignoring winding up expenses) i.e.,  $2,627 / (2370 + 215)$  expressed as a percent.

## Value of Liabilities - Ongoing Position

The future solvency of The Fund i.e., the extent to which the surplus/deficit increases or decreases, is dependent on whether The Fund is able to generate a net return, after all expenses in excess of administration fees and taxation, that is lower or higher than the rate at which funeral costs increase.

In order that the Trustees can appreciate the extent to which future surpluses/deficits may change in the light of the experience of The Fund, TA Ltd carried out a series of sensitivity tests. The results of the various sensitivity tests are set out in Appendix V.

The results on the chosen going concern valuation (Article 60(1)(b) of the RAO basis) is set out in the table below. This valuation assesses the extent to which the Scheme met the funding objective as at 31 July 2021. The valuation assesses the extent to which the assets of the Scheme covered its liabilities (funding future funerals). My investigations show that the relationship between the Scheme's assets and the present value of its future liabilities is as follows:

<b>31 July 2021</b>	<b>£,000</b>
<b>(a) Liabilities</b>	2,530
<b>(b) Assets (at Market Value)</b>	2,627
<b>Surplus {(b)-(a)}</b>	97
<b>Funding Level {(b)/(a)}</b>	104%

## Analysis of the Change in Surplus

The funding level reduced by 1% over the prior 2 year due mainly to the higher inflation assumed and lower yield; a fuller analysis will be presented at the next triennial valuation.

## Level of Prudence in Technical Provisions

The assumptions for the on-going valuation are prudent as required by legislation - i.e., to contain margins for risk and adverse experience. It will be helpful to see what the ongoing basis reserves would be if calculated using assumptions with those margins removed to illustrate the additions for prudence. Clearly, there is an element of subjectivity in estimating the actuarial assumptions without any margins but using best estimates in the light of historical averages and current trends seems a useful starting point, however different actuaries will reach different conclusions. One margin is in the assumed valuation yield. The average return of funds following a similar strategy as determined by the Investment Association which monitors the asset breakdown of similar funds and sets investment parameters. In this case, the



appropriate sector is the IA Mixed Investment with 20-60% Shares and over the past 20 years, the average return of the sector is 5% pa.

On the revised assumptions, the funding level increases to 126% compared with the results of the chosen ongoing basis above. This difference gives an indication of the margin taken for caution and adverse experience.

## **Conclusions and Recommendations**

The Fund appears adequately funded on the prudent assumptions chosen by the Trustees. Due to the nature of the actuarial process, temporary deficits and surpluses will arise at each assessment. The surplus (£97,000) has increased since the previous (2019) draft assessment of £93,000, representing minor fluctuations

The circa £279,000 surplus on “hiving off” discontinuance in my opinion means that the fund is secure barring major upheaval. The Trustees should continue to monitor the position and be alert to any adverse experience such as the impact of negative net real rates of return. There is also the risk that funeral directors will default on their agreement to charge funeral director costs equal to the cost at outset plus inflation (e.g., if the funeral provider was subject to extreme cost pressures).”

The Plan Provider may ask for additional advice over and above that given to the Trustees in this report but given the involvement from the Plan Provider in the production of this report, this is unlikely to be necessary. The assumptions are on a prudent basis, the Trustees should aim at a minimum funding level of 100% in order to be able to withstand unanticipated adverse circumstances.

**Significant Post Valuation events - None**



**Geoff Arnold FIA**

Fellow of the Institute of Actuaries

For TrustActuarial Limited

## APPENDIX I

The projected undiscounted Funeral Costs from the Trust Fund over the next 10 years, assuming an “open to new Plan holders” fund but excludes the cash flow from any future Plan holders.

### Basis

Average funeral Inflation 2.7% pa, mortality 100% ELT 17 for males and females. The improvements allowed for are CMI 2015 Core Projection with long-term improvement rates of 1.5%. Other results are shown to demonstrate the sensitivity of this 100% factor.

The expected cash flows arising from funeral costs calculated by multiplying the expected funeral cost (increased by inflation) by the expected number of deaths in each projection year. So, for example, a pandemic is illustrated at 10 times the standard mortality rate of 100% for the general UK population.

	<b>Factor 150%</b>	<b>Factor 200%</b>	<b>Pandemic 1000%</b>
<b>Year</b>	<b>Funeral Costs£'000 (existing customers only)</b>	<b>Total (£'000)</b>	<b>Total (£'000)</b>
2021	<b>181</b>	<b>242</b>	1,013
2022	<b>173</b>	<b>217</b>	370
2023	<b>165</b>	<b>196</b>	248
2024	<b>158</b>	<b>179</b>	181
2025	<b>151</b>	<b>166</b>	139
2026	<b>145</b>	<b>154</b>	110
2027	<b>139</b>	<b>144</b>	88
2028	<b>134</b>	<b>136</b>	72
2029	<b>129</b>	<b>128</b>	59
2030	<b>124</b>	<b>121</b>	49

We have omitted the impact of new business, so the projections are not comprehensive, also an increasing funnel of doubt about the future exists whereby the projections move from useful guidance to unhelpful speculation. I have somewhat arbitrarily chosen this usefulness crossover point to be 10 years in line with that mandated for defined benefit pension schemes.

## APPENDIX II

### Further Arrangement Details and Relevant Legislation and Actuarial Guidance

Contributions (agreed at the time that the plan is taken out) can either be paid as a single sum or instalments can be negotiated to cover the Funeral Costs (the cost at outset of the Plan holders chosen funeral increased in line with the Retail Prices Index for Plans sold before December 2011 and by the Consumer Prices Index thereafter. The disbursements increase in the same way as Funeral Director Costs. Administrative charges are payable in addition. On the Plan holder's death, the full amount is used to pay these costs with any balance being refunded to the Plan holder's estate. A Plan can be cancelled at any time, the repayment is the full amount but subject to a deduction of the administration fee and any costs incurred by third parties. The trust pays all the expenses incurred.

The latest Trust Deed date is dated 14 June 2007. The assets are managed by Quilter and GIA with Praemium Administration Limited.

A trust-Based Pre-Paid Funeral Plan is an arrangement established by a Plan Provider to support the sale of contracts of the type defined in article 59(2) and exempted from Financial Conduct Authority regulation under article 60(1) (b) of the RAO. The RAO is the Financial Services and Markets Act 2000 (regulated Activities) Order 2001. Chapter XIV of The Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (SI 2001 No.544) ("RAO"), covering the activity and exclusion of funeral plan contracts as defined in article 59(2), came into force on 1st January 2002 and applies to contracts entered into on, or after, that date unless excluded under Chapter XIV of the RAO. There is a requirement for a Fellow of the Actuarial Profession to determine, calculate, and verify the assets and liabilities of the pre-paid Funeral Plan Trust at least every 3 years.

Article 60(1)(a) of the RAO relates to plans supported by whole life assurances and is outside the scope of guidance issued by the Board for Actuarial Standards. Article 60(1)(b) of the RAO relates to plans supported by funds held under trusts, whose liabilities and assets must be "determined, calculated and verified" at least triennially by an actuary who is a fellow of the Actuarial Profession.

The actuarial profession requires actuaries to ensure they:

- have the requisite skills and documentation to take on the appointment to undertake the valuation of the funeral plan trust.
- have the right information-gathering and escalation measures available to them to undertake appropriately the valuation of the assets and liabilities of the funeral plan trust.
- are aware of Plan holders' contractual entitlements, to ensure that there are adequate systems of control in place intended to ensure that Plan holders are not misled as to their expectations.
- report any concerns to the most appropriate regulator and/or to other professionals who may be involved in advising funeral plan trustees and plan providers if they discover:
  - 1) there is a material shortfall in the assets held by the trustees to cover the liabilities, or
  - 2) the plan provider's contractual obligations significantly exceed the liabilities of the funeral plan trust.

This report is required to and does comply with This report is prepared in accordance with professional standards established by the Financial Reporting Council. In particular, this report is compliant with Technical Actuarial Standards TAS 100 and TAS 400.

The report complies with the Actuaries' Code, which takes precedence.

## Appendix III

### i) Detailed Main Valuation Data

#### Documentation

TA Ltd has read the following documentation:

- Governing Documents, including:
- Trust Deed dated 14 June 2007.
- The current and historical marketing literature
- Contracts or terms and conditions between the Plan Provider and the funeral director, the funeral director and the Trustees and the Plan Provider and the Plan-holder
- The current Investment Policy plus \*historical minutes outlining the “cautious to moderate” risk profile
- Minutes of meeting of the Trustees with the following meeting date:

24 October 2019

25 June 2020

22 October 2020

12 March 2020

4 March 2021

31 March 2021

29 April 2021

22 July 2021

19 August 2021

#### Accounting Information

TA Ltd was given a copy of the audited financial statements for the year ended 31 July 2021.

#### Customer Data

TA Ltd was given spreadsheets containing the following information in respect of each active plan customer:

- Plan ID
- Name
- Current Funeral Cost Estimate
- Date of Birth
- Gender

The data provided was generally of an extremely high standard, a few members were allocated the average date of birth.

## Asset Data

TA Ltd relied on the total of investments appearing in the Trust's **audited** Financial Statements on 31 July 2021. At this date, the assets were taken as comprising the following rounded figures:

<b>Asset Type</b>	<b>£,000 Market Value</b>	<b>Percent</b>
<b>Equity/Property</b>	£1,442,062	55%
<b>Bonds</b>	£709,701	27%
<b>Liquid</b>	£475,506	18%
<b>Total</b>	£2,627,269	100%

### ii) Details of the Hiving off valuation

In 2021 TA Ltd understands that the Trustees are confident for the reasons noted below that an alternative provider would take on the customer portfolio at 90% of book value.

- a) The number of undrawn plans held within the Trust is small as compared with those held by other larger providers and therefore the transfer of plans will be relatively straightforward to manage
- b) The funerals are planned to take place in a largely localised area which will pose fewer management issues for any provider
- c) Transfer of these plans will not necessitate any selling or promotion resulting in a significant cost saving for any interested party looking to take on the portfolio

## Appendix IV

### Valuation Assumptions, rationale

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

At the Valuation Date, the Bank of England published a 3.6% RPI rate at the 12-year point of the UK implied inflation spot curve, The CPI rate was taken as 1% less than this at 2.6% (the 1% gap was maintained from the previous valuation). For those plan liabilities subject to RPI increases, these represented 10.3% of the total liabilities and the CPI Plans were 89.7%.

*The assumed long-term rate of price inflation is therefore selected as 2.7% ( $3.6 * 0.103 + 2.6 * 0.897$  rounded)*

#### Management Fees

TA Ltd has assumed in the ongoing valuation that new Plan holders will continue to enter the Trust and the administration fees will broadly cover expenses at least in the short term.

The Trustees need to inform TA Ltd as soon as practically possible if the Trust is ever closed off to new Plan holders for an expenses reserve to be introduced.

#### Average tax rate

After consulting with the trustees this was taken as 20%.

#### Investment Returns

##### Fixed Interest

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

- 10-year corporate bonds -1.3% p.a. (provided by iBoxx)

***To calculate the global discount rate, these discount interest rates are factored proportional to the nature of the assets held at the Valuation Date to produce a best estimate investment yield.***

##### 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-free investments. At the Valuation Date, there were yielding circa 0.9% 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 Equity Risk Premium was 3% per annum, which implies an assumed long-term return for equities of 3.9% per annum rounded (0.9+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 0.5% before tax.

### **Adopted weighted return assumption:**

The table below implicitly assumes the Valuation Date proportional holdings maintained.

<b>Assumed Asset Class</b>	<b>% of Fund</b>	<b>Assumed Gross Return</b>	<b>Contribution to WRbt*</b>
<b>Equity/Property</b>	55%	3.9%	2.14%
<b>Bonds</b>	27%	1.3%	0.35%
<b>Liquid</b>	18%	0.5%	0.09%
<b>Total</b>	100%		2.6%
<b>*Weighted Return before tax</b>		i.e., 2.10%	after tax of 20%



## Appendix V

### Sensitivity Results:

#### (All else being equal basis)

If the cost of funeral inflation rate reduces by 0.5% then the funding level increases by 5.7%.

If the net yield reduces by 0.5% then the funding level falls by 5.7%

If the mortality is 100% of the ELT17 table then the funding level reduces by 1.5%. If the rate of improvement in mortality reduces to 1% pa (from 1.5% pa) the funding level increase by 0.2%.

If the plan closes to new entrants, then the funding level reduces considerably. In my opinion, this event leaves the hiving off of the funeral “book” to another set of funeral directors as the only pragmatic option.

If there is a pandemic (say 10 times general population normal mortality) then the funding level rises by 4.8% and the expectation of life falls to circa 23% of “1 time normal” population expectation. For example, the average expectation of life of 9.9 years at the valuation date falls to 2.3 years.

#### Notes:

**In my opinion** the neutral basis is to have a 50/50 chance of attaining its target; the role of the Trustee is to overlay their judgement of what is prudent (in the manner required by Trust Law of a prudent man in the exercise of his own affairs).

## APPENDIX VI

### Population analysis

Information mainly from the Director of Public Health Report for Sheffield 2016- A matter of life and healthy life <https://www.sheffieldccg.nhs.uk/Downloads/About%20US/CCG%20Governing%20Body%20Papers/2016/6%20October%202016%20GBP/Item%2022k%20Director%20of%20Public%20Health%20report.pdf>

The main bulk of funeral plan customers is in Sheffield and surrounds. Sheffield is the 4<sup>th</sup> largest city in England and its population continues to grow, albeit slowly after a period of decline; it is increasingly diverse. Healthy life expectancy remains a major challenge, Sheffield has more preventable deaths per head than England as a whole. Health inequalities continue to exist in Sheffield and are not improving. The traffic in Sheffield is at crisis point, no doubt contributing to pollution/related diseases and high blood pressure. Life expectancy continues to increase in Sheffield and in 2016 stands at 78.9 years for men and 82.5 years for women. This compares favourably with the other major English cities but still falls short of the English average of 79.5 years for men and 83.2 years for women. The last 20 years of life are likely to be in poor health, significantly worse than the English average.

The two main causes of death in Sheffield people are cancer and cardiovascular disease (heart attacks and strokes) which together account for more than half of all deaths each year. When causes of death in men and women are considered separately, dementia is the third main cause of death in women whilst respiratory disease is the third main cause of death in men. Although death rates are reducing in Sheffield, they remain higher than England with the exception of deaths from certain infectious and parasitic diseases. Of greater concern is the number of deaths that are considered preventable. Overall, it is estimated that around 20% of all deaths in Sheffield could be prevented each year - that is equivalent to around 900 deaths every year. This is significantly higher than for England. The main direct causes of preventable deaths are high blood pressure, obesity, high cholesterol, smoking, alcohol consumption poor diet, HIV etc, cold homes and lack of physical activity.

The gap in life expectancy between the most and least deprived in Sheffield is around 8.5 years. Socio-economic causes of deaths in Sheffield are mainly caused by unemployment, low income, poor education lack of GP surgeries and poor-quality housing. In broad brush geographical terms mid-East Sheffield is an early death blackspot, especially when compared to the more affluent Southwest Sheffield.

## Appendix VII

### Background and details of the Plan Guarantees

The costs in all plans are made up of three components: the funeral director's costs; disbursement costs; and an administrative charge. The plan documentation will clearly show the amount of each of these three components and all the elements that have been included in the cost of the plan.

**Funeral Director's costs.** These are the costs that the funeral director charges for the provision of services and products that they supply directly. They include the funeral director's professional fee for taking care of the funeral arrangements, collection from place of decease or public mortuary (within normal working hours), storage, attending on the day of the funeral, provision of bearers, and supply of the selected coffin. It also covers the supply of mainstream forms of transport.

**Disbursement costs.** Disbursement costs cover the payment of those items and services which are supplied by people other than the funeral director. They include but are not limited to the fees payable to doctors for the signing of cremation forms; payments made to clergy and other officiants for leading funeral ceremonies; organists' fees; church fees; crematoria fees; and, in the case of a burial, the charges for burial rights and for interment. They also include the amount that is set aside within the plan for any specialist form of transport, flowers, newspaper announcement(s), or as an additional contribution towards burial costs.

**Administrative charge.** This is the cost to process the plan throughout its whole life span, from plan sale to the plan being executed. This money is separate from the funds that are used to pay for funeral.

**Guarantees.** Provided that the Plan holder does not cancel the plan and subject to both the approval of the funeral plan, and the Plan holder not dying within 12 months of taking out the plan, the following guarantees apply:

That the *Funeral Director's Costs* for carrying out the chosen funeral will be **covered in full** at that time provided that the plan is fully paid.

That the *Disbursement Costs* that have been set aside within the plan will have increased in value in line with the Consumer Price Index (CPI) from the beginning of the 13th month after the plan date. If the actual costs of the disbursements at the time that the funeral is carried out are higher than the amount that has accrued for disbursement costs, the balance will be payable to the funeral director by the person organising the funeral, in line with that funeral director's terms and conditions. If the indexed payments made to the Trustees during the lifetime of the Plan holder exceed the cost of the funeral, only the cost of the funeral will be paid to the funeral director carrying out the funeral.

If the Plan holder does die within 12 months of the plan being taken out, a sum of money equal to all the payments made to the Trustees for that plan during the lifetime of the Plan holder less the administrative charge will be paid by the Trustees towards the cost of the funeral. No interest will be paid on any payments that have been made.