

Golden Charter Trust Fund

Golden Charter Ltd

Solvency Assessment Report as at 30 September 2024

Barnett Waddingham LLP

11 March 2025

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Introduction

We have been instructed to provide Golden Charter Limited ("GCL") 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.

To prepare this Solvency Assessment Report we have completed a valuation of the Golden Charter Trust Fund's ("Trust") assets and liabilities as at 30 September 2024 ("Review Date").

This report complies with the Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 400: Funeral plan trusts.

Our interpretation of the FCA's requirements in terms of funeral plans backed by a trust are to ensure that:

- adequate arrangements are in place so that funerals are carried out in accordance with the funeral plan purchased by the planholder from the plan provider;
- should a planholder cancel their plan they will receive a refund in line with the cancellation terms;
- should the plan provider fail and it does not prove possible to find another provider to take on the plans, then it is important that the arrangements put in place by the plan provider do not adversely affect the interests of customers and covered individuals.

This report may be shared with other interested parties including the Trustees of the Golden Charter Trust, but it does not constitute advice to them.

We have carried out the valuation on an ongoing basis – the Trust continues to receive monies from new plan sales and pay out monies on the maturity of plans.

Purpose of the valuation

The FCA have set out their requirements for the preparation of a Solvency Assessment Report in chapter 3 of the Funeral Plan: Conduct of Business sourcebook.

The key aspects are:

- An actuarial valuation of the Trust is required to determine, calculate and verify the assets and liabilities of the Trust on a best estimate basis;
- The liabilities are to be assessed against the amounts the provider puts into trust to be sufficient for the purpose of providing the agreed funeral;
- The data and liabilities should be categorised into:
 - single payments;
 - instalment payments fully paid; and
 - instalment payments not fully paid.
- Details of any liability subcontracted to funeral services providers may include inflation.

The definition of actuarial best estimate is that the assumptions should be neither optimistic nor pessimistic – i.e. no margins for prudence with the actual outcome being equally likely to be higher or lower than the assumption made. The results of the valuation have been completed on a best estimate basis.

Previous valuation

The previous Solvency Assessment Report, dated 11 March 2024, was prepared based on a valuation carried out as at 30 September 2023. The results of that valuation indicated that the assets of the Trust exceeded its liabilities.

Subcontracted liabilities to funeral service providers

The funeral plan contract with the customer is constituted by the Terms and Conditions (Terms) on which GCL undertakes to appoint the selected funeral services provider as its sub-contractor to provide the customer's funeral services.

The Funeral Service Provider Terms sit in tandem with the Terms. When a funeral plan is sold by the funeral services provider, they accept the Terms when the application form is completed. Where the funeral plan is sold by GCL and allocated to the funeral services provider, GCL's allocation process deals with the funeral service provider's acceptance of the Terms.

Under the Funeral Service Provider Terms, the selected funeral service provider "unconditionally and irrevocably guarantees" to carry out the customer's funeral services and does not charge either the customer or their estate additional sums for doing so unless specifically permitted under the Terms. The guarantee is enforceable against the selected funeral service provider by any or all of the following parties - GCL, the customer and/or the customer's estate. There is therefore an unconditional undertaking by the funeral services provider to carry out the funeral.

In addition to the guarantee, the selected funeral service provider also undertakes to carry out the funeral services in accordance with the Terms. The Funeral Service Provider Terms deal with the process for payment of the funeral service provider i.e. by reference to such amount as would be intimated by GCL.

There is thus a binding undertaking, through the guarantee, given by the funeral service provider which ensures that the funeral services of the customer should be provided regardless of whether GCL itself remains in existence as a provider of funeral plans.

Current and future plan values

Each live plan in the Trust has a plan value known as the Funeral Director Invoice Amount or FDIA. At the point of sale, this is the amount that is paid into the Trust by the plan provider as agreed with the appointed funeral services provider who will carry out the funeral at the time of need.

The initial amount paid into the Trust is revalued annually in line with the growth agreed between the Trustees and GCL. The annual growth rate is agreed between the parties as part of the process to deliver this Solvency Assessment Report. The agreed growth rate for the twelve months to 31 March 2026 is 2.0%.

There is no contractual obligation to increase plan values but GCL's desired aim is to increase plan values to provide a level of inflationary protection to the appointed funeral services provider, based on actuarial advice.

Planholder cancellation

Not all plans will reach maturity. Plans can be cancelled and planholders will receive a refund of the amounts paid less a non-refundable arrangement fee that is retained by GCL on cancellation in line with the funeral plan Terms.

Planholder data

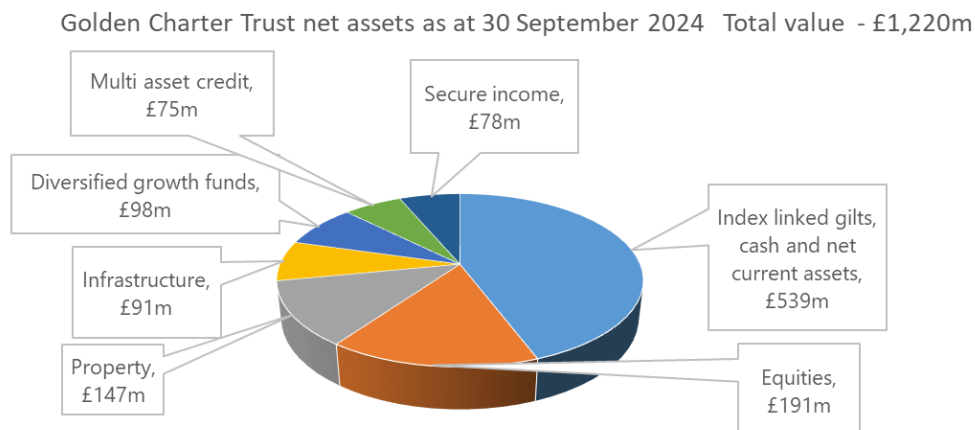
A summary of the valuation data provided to us by Golden Charter Ltd as at the Review Date is set out below:

Plantype	# Planholders	30 September 2024	
		Fully paid plan values	Average
Live Plans			
Single Payment	267,936	£980m	£3,660
Instalment - fully paid	63,226	£220m	£3,480
Instalment - partly paid	24,897	£86m	£3,455
Total	356,059	£1,286m	£3,610

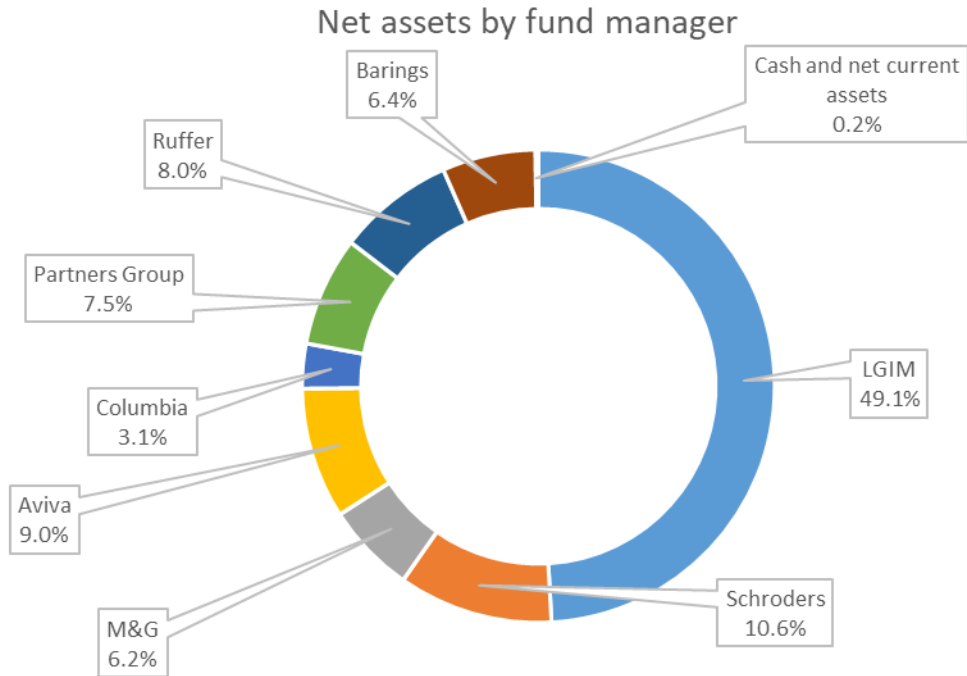
At the Review Date the amounts still to be received by the Trust in relation to partly paid live instalment plans was £50m. Whilst we carry out reasonableness checks on the data we are not able to independently verify the data and we rely on what has been provided by GCL.

Trust Net Assets

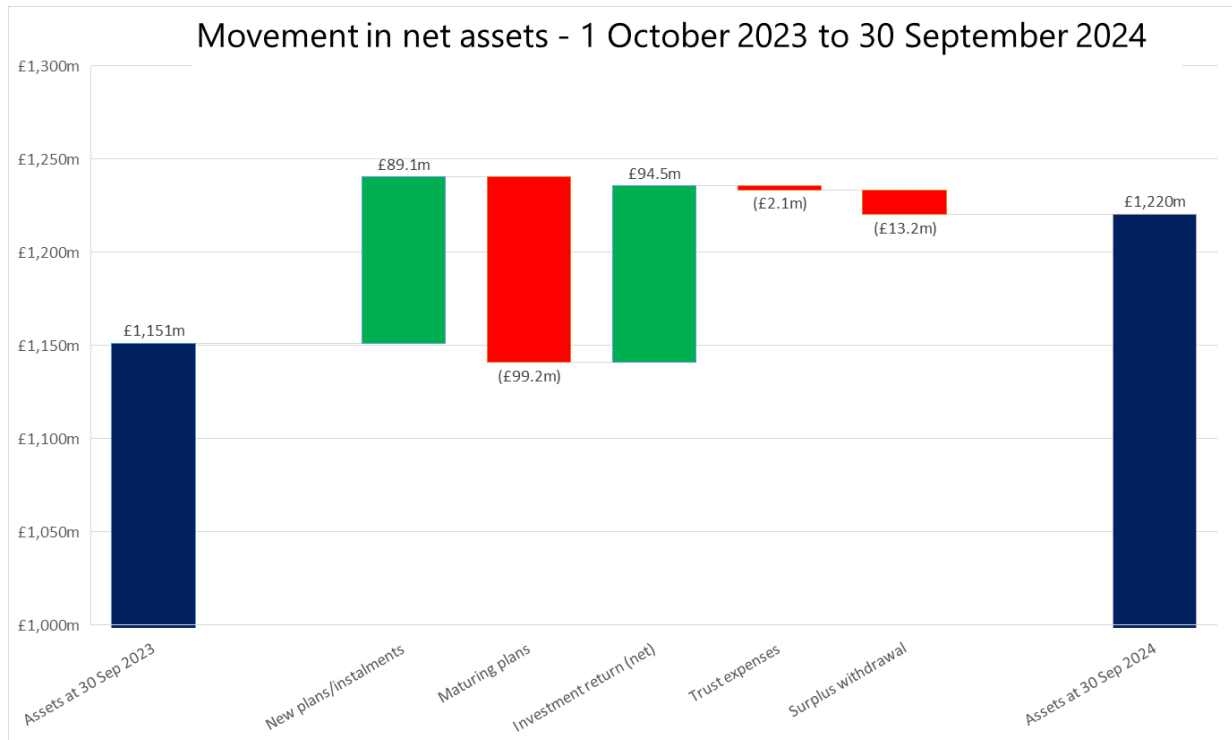
The value of the net assets of the Trust that we have used in the valuation as at 30 September 2024 is the fair value of the assets based on a net asset statement approved by the Trust's auditors adjusted for minor subsequent updated valuations of two of the investments. The net assets were invested as follows:



The allocation of net assets by fund manager was as follows:



A reconciliation of the net assets during the 12 months to the Review Date is set out below:



Assumptions

Tax rates and expenses

We have adjusted the assumed level of future investment returns to reflect the expenses met by the Trust Funds and the expected amount of tax.

Trust expenses are primarily investment management charges and other professional fees, as well as staff costs and related administrative costs of running the Trust. The expense assumption made reflects the annual amount of such expenses that the Trust incurs expressed as a percentage of the Trust assets and incorporated into the valuation via a deduction from the best estimate discount rate/expected future investment return. As at the valuation date the deduction equates to 0.6% of the expected future investment return.

The Trust's investment portfolio is held in a corporate entity wholly owned by the Trust. The entity's profits are the investment returns achieved net of expenses and are subject to corporation tax at the prevailing rate, currently 25%. However, the tax basis is such that investment returns that take the form of dividends are excluded from the calculation as are returns up to the level of inflation from index linked gilts. For the purposes of the valuation we complete calculations to determine the tax that is expected to accrue as a percentage of the assets and allow for this as a deduction from the best estimate discount rate/expected future investment return. As at the valuation date the deduction equates to 0.8% of the expected future investment return.

Discount rate as at 30 September 2024

The derivation of the discount rate is firstly to determine the expected return from each asset class on a best estimate basis and then adjust for tax and expenses.

The investment strategy of the trust is to allocate the assets into 3 "buckets" as follows:

- Growth assets – equities, multi asset credit, secure lending and absolute return funds (40%)
- Protection assets – index linked gilts (40%)
- Real assets – property and infrastructure (20%)

The assumed return from growth assets is based on the expected return from equities. This is based on dividend yields plus expected long term inflation plus expected real long term dividend growth at the Review Date. The assumed return from the protection assets is based on the expected returns from index linked gilts and based on market yields as at the Review Date. Real assets are assumed to achieve a return of 0.5% less than Growth Assets.

Long term inflation is derived from the Bank of England inflation curves. At the Review Date long term CPI inflation was assumed to be 2.70% p.a.

The expected investment return is then a weighted average of the different returns from the different asset classes and then adjusted for tax and expenses to obtain the discount rate as follows:

30 September 2024			
	Return	Allocation	Contribution
Growth assets	6.6%	40%	2.6%
Protection assets	3.9%	40%	1.6%
Real assets	6.1%	20%	1.2%
Gross return			5.4%
less tax			(0.8%)
less fund manager fees			(0.4%)
less trust expenses			(0.2%)
Discount rate			4.0%
Long term CPI			2.7%

Mortality assumptions

The mortality base tables adopted in the valuation were the ELT17 tables with separate age-related scaling factors at each age up to age 100 based on the report on the mortality review dated 18 July 2017. For ages above 100, due to experience being unreliable at very old ages, we have used the ELT17 tables without adjustment.

The following table shows the underlying life expectancies at 60, 70 and 80 implied by the mortality tables described above.

Age	Life expectancy (years)	
	Males	Females
60	18.3	21.9
70	13.4	16.1
80	7.8	9.5

The following table shows the actual and expected number of deaths in the 12 months to the current valuation date.

12 months to 30 September 2024					
Actual Deaths	Expected Deaths	Act/Exp	Actual mortality rate (% p.a.)	Expected mortality rate (% p.a.)	Average age of all planholders
27,871	27,403	102%	7.8%	7.7%	79.7

As we see the actual number of deaths was reasonably close to the expected number of deaths in the 12 months to the valuation date - a similar outcome to previous periods. We continue to monitor the actual mortality experience and will revise the assumptions if deemed appropriate.

Increases in Plan Values

In accordance with there being no contractual obligation to increase plan values we have calculated the liabilities in line with the current level of plan values at the Review Date with no future increases other than the 2.0% increase agreed for the twelve months to 31 March 2025 and 2.0% for the 12 months to 31 March 2026. Within our sensitivity of results section of this report we have however included alternative results allowing for plan growth beyond 31 March 2026.

Valuation method

The valuation method is to project future payments from the Trust using the underlying assumptions described above.

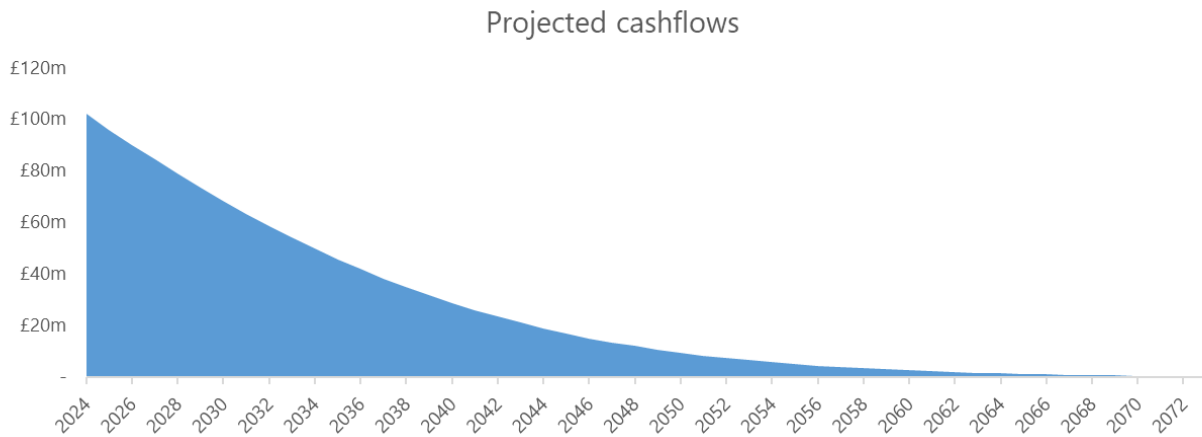
Fully paid plans

For fully paid plans – single payment or fully paid instalment plans - the projected cashflows are the full FDIA's expected to be paid based on the plan growth and mortality assumptions.

Instalment plans

For instalment plans with instalments still to be paid we have assumed the full FDIA will be paid in the cashflow projection but then deducted the net present value of remaining instalments – essentially treating future instalments as future cashflows into the Trust. The net present value of the remaining instalments to be paid of £50.2m is £40.6m.

The projected cashflows based on full FDIAs of existing plans from the Trust are set out below.



We then discount these projected payments using the discount rate and deduct the net present value of future instalments to obtain the net present value of the liabilities. We then compare the value of the liabilities with the fair value of assets.

Funding position at 30 September 2024

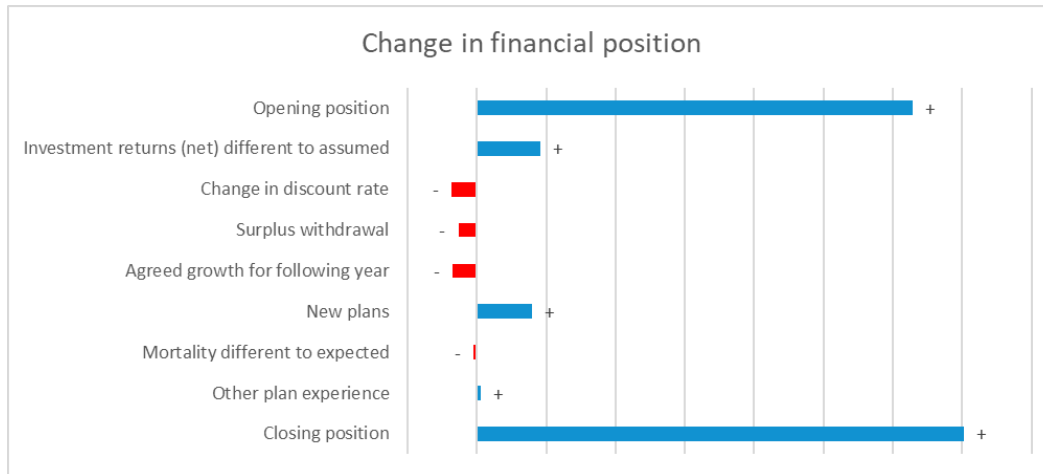
Below we have set out the funding position as at the Review Date using the assumptions described above.

We have shown the results split by plans that were paid for by a single payment, instalments that have been fully paid and instalments that are not yet fully paid.

30 September 2024	
Liabilities	
Single payment	£719m
Instalments - fully paid	£151m
Instalments - payments outstanding	£40m
less outstanding Instalments	(£41m)
Total	£869m
Assets	£1,220m
Surplus	£351m
Funding level	140%

The funding level is therefore 140% (138% at the previous Review Date) with a surplus of £351m (£314m at the previous Review Date).

A broad analysis of the change in the surplus position for the Trust since the previous Review Date is set out below:



Assets per plan

Another useful indicator of the ability of the Trust to be able to meet funeral costs is to determine the assets per plan – we divide the assets plus net present value of future instalments by the number of in force plans.

At the Review Date the assets per plan was £3,541.

Sensitivity analysis

The results of the valuation are also sensitive to some of the key assumptions adopted, in particular the discount rate and plan growth assumption adopted.

Discount rate sensitivity

In the table below we show the results assuming a 1% increase/decrease in the discount rate.

Discount rate +/-	+1%	0%	-1%
Liabilities	£803m	£869m	£946m
Assets	£1,220m	£1,220m	£1,220m
Surplus	£417m	£351m	£274m
Funding level	152%	140%	129%

Plan growth sensitivity

In the following table we show the results assuming 2.0% p.a. growth in plan values after 31 March 2026.

Plan growth p.a.	0%	2%
Liabilities	£869m	£1,008m
Assets	£1,220m	£1,220m
Surplus	£351m	£212m
Funding level	140%	121%

Risks

There is the risk that the funding position will change in a potentially material way if actual investment returns are significantly different to the assumed returns underlying the discount rate without any compensating changes in market yields and discount rates. We provide the GCL Board and the Golden Charter Trustees with regular updates on investment performance and Trust funding levels in between provision of this annual Solvency Assessment Report.

On cancellation, the liability is a cash sum equal to the amount paid less a non-refundable arrangement fee that is retained by the GCL in line with the funeral plan terms and conditions. Whilst the fair value of the assets at the Review Date was more than sufficient to meet the amounts required should all plans cancel, this may not be the case should there be significant falls in asset values.

Conclusions

The financial position of the Trust Fund at the Review Date of 30 September 2024 is that on the ongoing best estimate basis and assessing the liabilities as the initial amounts received plus previous and planned growth until March 2026, the funding level is 140%.

We would recommend that the next valuation is carried out as at 30 September 2025.



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