Golden Charter Trust Fund
Golden Charter Ltd

Solvency Assessment Report as at 30 September 2021

Barnett Waddingham LLP

24 May 2022

Contents

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 assets and liabilities as at 30 September 2021 ("Review Date).

This report complies with the Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100). We have also considered the actuarial guidance included in existing Technical Actuarial Standard 400: Funeral plan trusts and incorporated some of the principles where we believe they are appropriate in terms of meeting the FCA's requirements. At the time of preparing this report there are ongoing discussions between the FCA and the Institute and Faculty of Actuaries ("IFoA") in relation to actuarial guidance on the preparation of Solvency Assessment Reports.

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

- primarily 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.

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.

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.

If GCL ceased to be a provider of funeral plans, whether as a result of an insolvency event or otherwise, the guarantee given by the funeral service provider, which is unconditional and irrevocable, remains in place and fully enforceable by the customer and/or their estate. In these circumstances the funeral service provider would make appropriate arrangements with the Trust for payment upon provision of the relevant funeral services.

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.

Inflation protection

Each live plan in the Trust has a plan value known as the Funeral Director Invoice Amount or FDIA. This is the amount that was initially retained in the Trust to be paid to the appointed funeral services provider who will carry out the funeral increased in line with the growth agreed between the Trustees and GCL each year.

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 the GCL on cancellation in line with the funeral plan terms and conditions.

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beyond the expected

Valuation scenarios

We have assessed the liabilities on a number of scenarios as follows:

- *Ongoing basis with future inflationary protection* - are the available assets sufficient to pay plan values to the appointed funeral services provider at the expected time of the funeral assuming current plan values are increased with the desired aim of providing a level of inflationary protection to the appointed funeral services provider?
- *Ongoing basis no growth in plan values* – as the forward inflation risk contractually lies with the appointed funeral services provider, are there enough assets in the Trust to meet the current plan values with no future growth?
- *Cancellation basis* - are there enough assets available in the Trust to meet the amounts required if all planholders cancelled their plans at the Review Date?

Planholder data

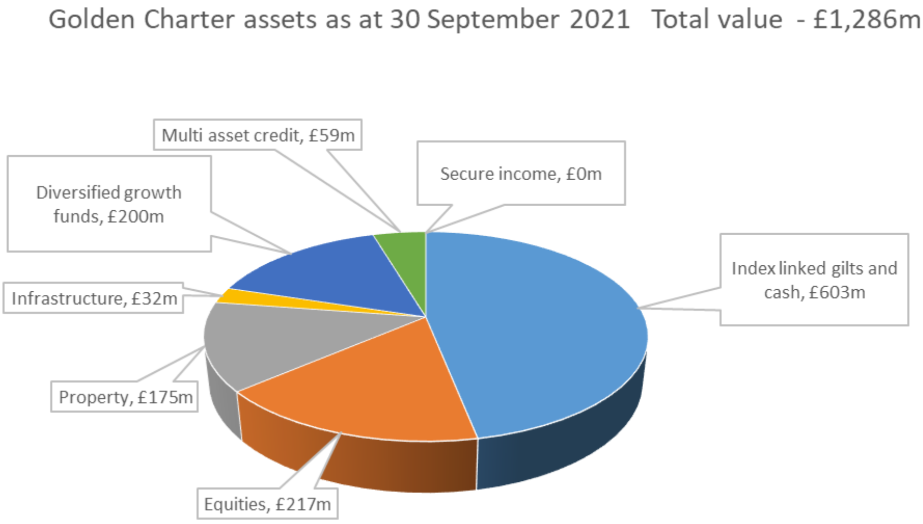
A summary of the valuation data provided to us by Golden Charter Ltd as at the Review Date is set out below:

	30 September 2021		
Plantype	**Number of Planholders**	**Fully paid plan values**	**Average**
Live Plans			
Single Payment	272,832	£949,944,839	£3,482
Instalment - fully paid	63,945	£207,081,612	£3,238
Instalment - partly paid	30,196	£97,045,770	£3,214
Total	**366,973**	**£1,254,072,221**	**£3,417**

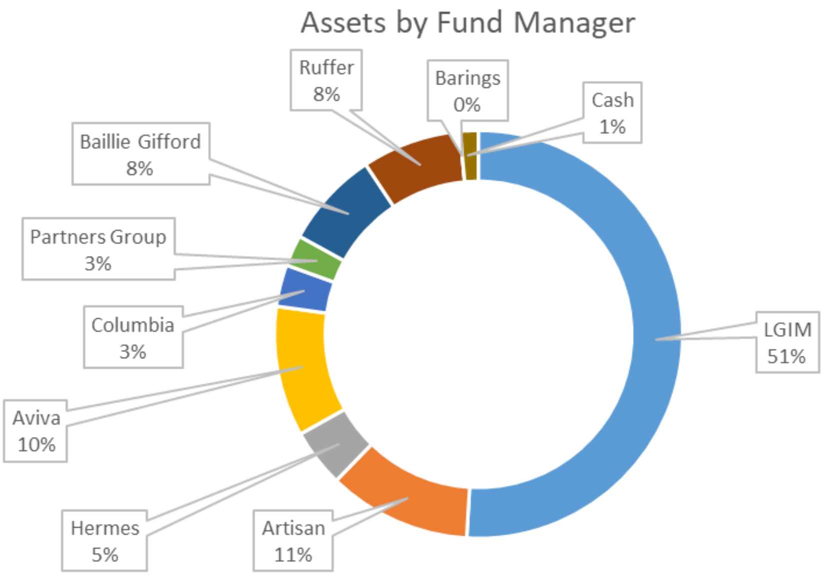
At the Review Date the amounts still to be received by the Trust in relation to partly paid instalment plans was £70m.

Assets

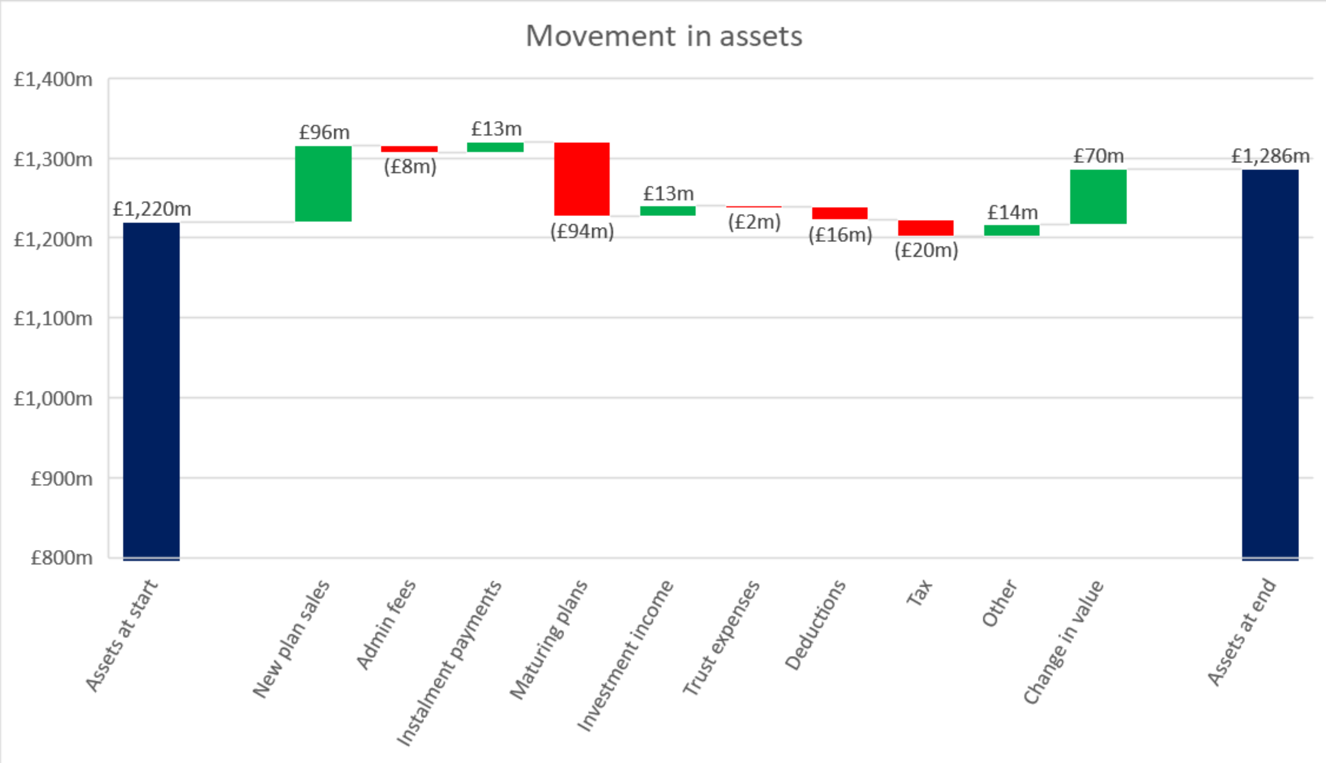
The market value of the assets of the Trust Fund as at 30 September 2021 based on a net asset statement prepared by the Trust's auditors was £1,286m. The assets were invested as follows:



The allocation of assets by fund manager was as follows:



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



Assumptions

Future inflationary protection and projected plan growth

We have discussed with GCL the assumption to be adopted for inflationary protection for appointed funeral services providers and have agreed a long term assumption of 2% per annum. We have also incorporated the 2.5% increase agreed for March 2022.

Tax rates and expenses

We have adjusted the assumed level of future investment returns to reflect the expenses met by the Trust Funds (investment management fees and trust costs) and the expected amount of tax.

Discount rate as at 30 September 2021

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 assumed return from equities is based on dividend yields plus expected long term inflation plus expected real long term dividend growth at the Review Date. The expected returns from index linked gilts are based on market yields as at the Review Date. For the remaining assets we have assumed an average return of long term inflation plus 4.2% based on the advice from the Trust's investment consultant.

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

	30 September 2021		
	Return	Allocation	Contribution
Equity return	7.3%	15%	1.1%
Index linked gilts	0.9%	40%	0.4%
Real assets	6.7%	45%	3.0%
Gross return			4.5%
less tax			(0.9%)
less fund manager fees			(0.5%)
less trust expenses			(0.1%)
Best estimate discount rate			3.0%

Mortality assumptions

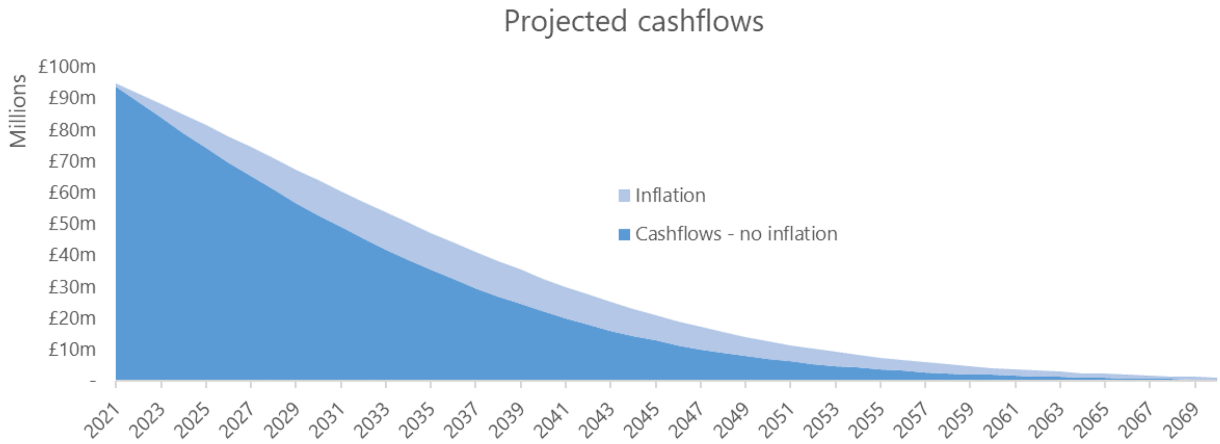
The mortality base tables adopted in the valuation were the ELT17 tables with separate age related scaling factors at each age up to age 100 based on the report on the mortality review dated 18 July 2017. For ages above 100, due to experience being unreliable at very old ages, we have used the ELT17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

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

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

Valuation method

The valuation method is to project future payments from the Trust using the mortality and plan growth assumptions described above. The projected cashflows from the Trust are set out below.



The above graph shows the projected cashflows for each year following the Review Date over the next 50 years by which time most of the cashflows from existing plans are expected to have ceased.

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

Instalment plans

For fully paid plans – single payment or fully paid instalment plans - the projected cashflows are the full FDIAs expected to be paid based on the inflation and mortality assumptions.

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 of £70m is £61m.

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 £3,670.

Funding position at 30 September 2021

Below we have set out the funding position as at the Review Date using the assumptions described above where applicable for the three scenarios previously outlined:

We have shown the results under each scenario 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.

Scenario	Future inflation protection	No future inflation protection	Customer cancellation
Liabilities			
Single payment plans	£865m	£723m	£842m
Instalment plans - fully paid	£185m	£150m	£191m
Instalment plans - payments outstanding	£74m	£54m	£41m
less NPV of outstanding Instalments	(£61m)	(£61m)	
Total	£1,063m	£866m	£1,074m
Assets	£1,286m	£1,286m	£1,286m
Surplus	£223m	£420m	£212m
Funding level	121%	148%	120%

Sensitivity analysis and risks

The results of the valuation are also sensitive to some of the key assumptions adopted, in particular the discount rates used and the mortality assumptions adopted.

A 1% increase/decrease in the discount rate will decrease/increase the valuation of liabilities by around 10%.

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.

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 market 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 market values of assets.

Should the provider fail and it does not prove possible to find another provider willing to take on the plans, then GCL would expect that plan-holders will receive a full refund of the amounts paid without any deductions for non-refundable arrangement fees as defined by the funeral plan contract. At the valuation date, the total liability that would be payable on that basis by an insolvency practitioner would be £1,152m. The assets at the valuation date are 112% of the potential liability that would be payable in an insolvency situation. If this position crystallised then this would allow the insolvency practitioner to consider providing additional funds to customers over and above the amounts that they have paid for their funeral plan.

Conclusions

The financial position of the Trust Fund at the Review Date of 30 September 2021 is that on the ongoing best estimate basis and allowing for future inflation protection growth in plan values, the funding level is 121%. On a full cancellation basis the funding level is 120%.

The key risks in terms of a deterioration in the financial position from current levels on the ongoing basis in the short term are:

- Actual investment returns are significantly less than the assumed returns underlying the discount rate without any compensating changes in market yields.
- Actual mortality rates being materially different to expected.
- New money being invested on less favourable terms compared to market conditions at the Review Date.

We would be pleased to answer any questions arising from this report.

We would recommend that the next valuation is carried out as at 30 September 2022.

Graeme D Muir FFA

Barnett Waddingham LLP