

# Golden Charter Trust Fund

## Golden Charter Ltd

Solvency Assessment Report as at 30 September 2022

**Barnett Waddingham LLP**

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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 assets and liabilities as at 30 September 2022 ("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 the proposed amendments and incorporated the principles where we believe they are appropriate in terms of meeting the FCA's requirements.

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.

We have carried out the valuation on an ongoing basis – the Trust continues to receive monies for 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.

## Previous valuation

The previous Solvency Assessment Report, dated 24 May 2022, was prepared based on a valuation carried out as at 30 September 2021. 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. 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 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:

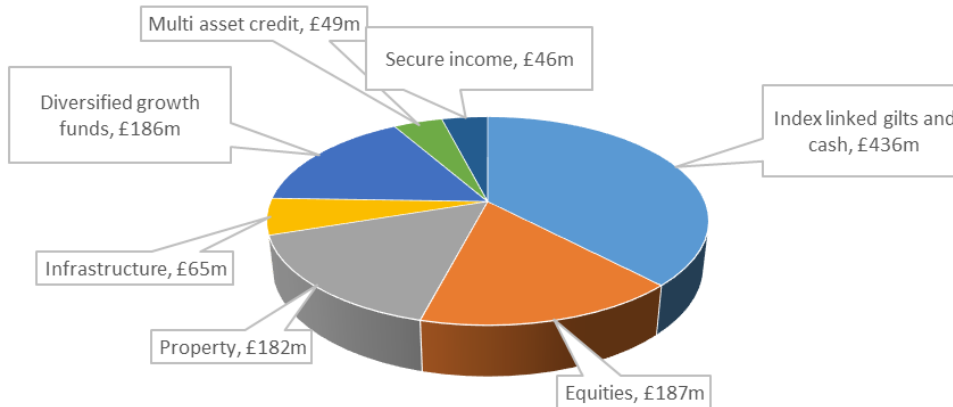
Plantype	# Planholders	30 September 2022 Fully paid plan values	Average
<b>Live Plans</b>			
Single Payment	271,394	£965m	£3,555
Instalment - fully paid	63,909	£213m	£3,340
Instalment - partly paid	28,392	£93m	£3,275
<b>Total</b>	<b>363,695</b>	<b>£1,271m</b>	<b>£3,495</b>

At the Review Date the amounts still to be received by the Trust in relation to partly paid live instalment plans was £63m.

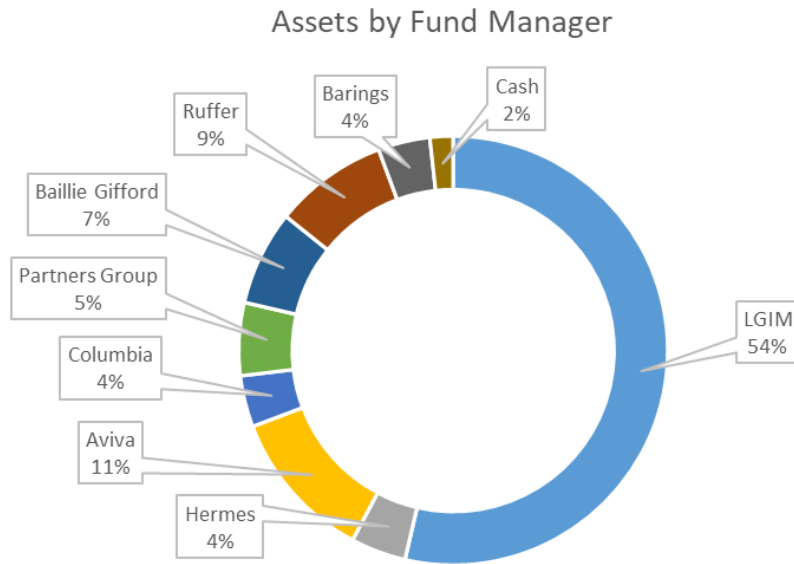
## Assets

The fair value of the assets of the Trust Fund as at 30 September 2022 based on a net asset statement approved by the Trust's auditors was £1,151m. The assets were invested as follows:

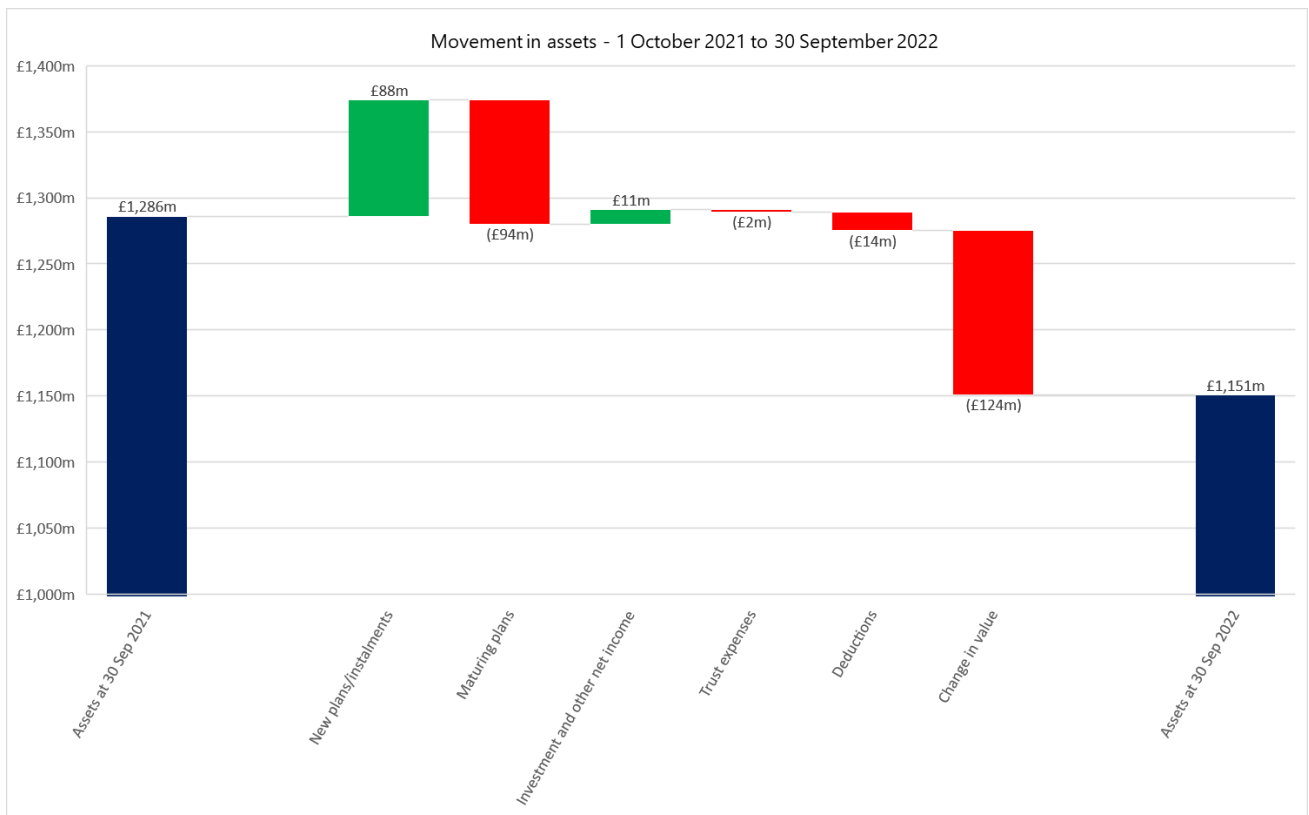
Golden Charter assets as at 30 September 2022 Total value - £1,151m



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

### 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 2022

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. Long term inflation is derived from the Bank of England inflation curves. At the Review Date long term inflation was assumed to be 2.6%.

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 2022		
	Expected Return	Allocation	Contribution
Equities	7.1%	15%	1.1%
Index linked gilts	3.8%	40%	1.5%
Real and other growth assets	6.8%	45%	3.1%
Gross return			5.7%
less tax			(1.0%)
less fund manager fees			(0.5%)
less trust expenses			(0.1%)
Best estimate discount rate			4.1%

### 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

## Increases in Plan Values

In accordance with there being no contractual obligation to increase plan values we have calculated the liabilities in line with plan values at the Review Date with no future increases other than the 2.6% increase agreed for the twelve months to March 2024. Within our sensitivity of results section of this report we have however included alternative results allowing for plan growth beyond 31 March 2024.

## Valuation method

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

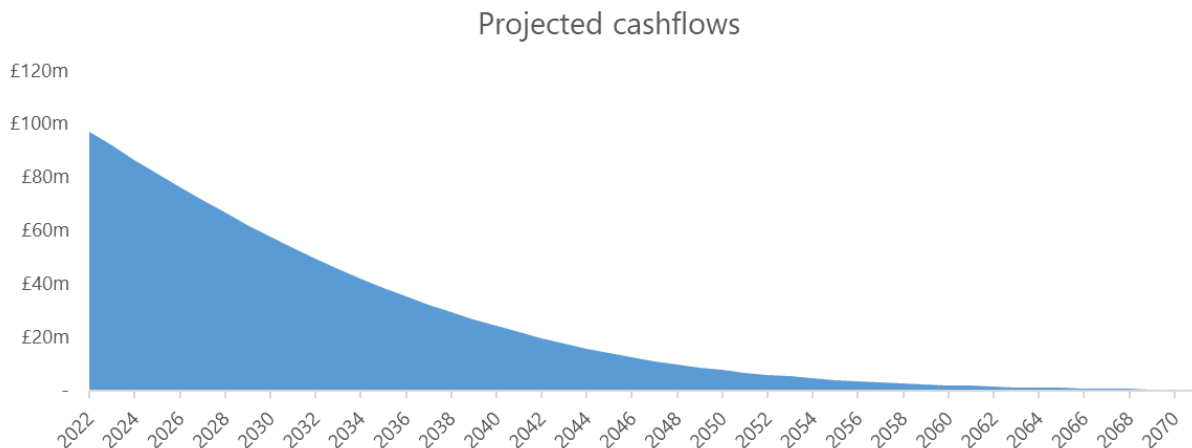
### Fully paid plans

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 £63m is £51m.

The projected cashflows based on full FDIA's 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 2022

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

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.

30 September 2022	
Liabilities (based on full FDIA's)	
Single payment	£689m
Instalments - fully paid	£142m
Instalments - not yet fully paid	£44m
less NPV of future Instalments to be received	(£51m)
Total	£825m
Assets	£1,151m
Surplus	£326m
Funding level	140%

## 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 £3,305.

## 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	£760m	£825m	£900m
Assets	£1,151m	£1,151m	£1,151m
Surplus	£391m	£326m	£251m
Funding level	151%	140%	128%

## Plan growth sensitivity

In the following table we show the results assuming 2% p.a. growth in plan values after 31 March 2024.

Plan growth p.a.	0%	2%
Liabilities	£825m	£973m
Assets	£1,151m	£1,151m
Surplus	£326m	£178m
Funding level	140%	118%

## 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.

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 2022 is that on the ongoing best estimate basis and assessing the liabilities as the initial amounts received plus previous growth, the funding level is 140%.

We would recommend that the next valuation is carried out as at 30 September 2023.



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