



# Funeral Services Limited

## Solvency Assessment Report as at 30 September 2021

Prepared by

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25 April 2022

Actuarial  
Governance, risk & compliance  
Redress calculations  
Software

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## Executive Summary

1. This report summarises the solvency assessments for each of the individual funeral trusts operated by Funeral Services Limited ("FSL") as part of the company's application for Financial Conduct Authority ("FCA") authorisation.
2. Based on the assumptions set out in this report, the solvency level of 13 of the 14 trusts of the FSL funeral planning business (the "Funeral Plan") as at 30 September 2021 is less than 100%. In total the surplus (deficit) (excess of the assets over the liabilities) for these 13 trusts is £(7,896)k.
3. One of the trusts (Sheffield) has a surplus of £1k.
4. Because the solvency level for 13 of the trusts is less than 100%, a remediation plan is required in order to ensure the liabilities can be met within each of these 13 trusts on a stand-alone basis.
5. It is noted that these trusts represent a very small proportion of pre-paid plans that FSL is responsible for (about 3% by number of plans). The vast majority are invested in insured arrangements, and when combined, FSL is, and is projected to remain, solvent. This is the first time the regulations have required each trust to be valued on a stand-alone basis. FSL also includes traditional (at-need, or non-pre-paid) funeral plan business.
6. I have reviewed the proposed FSL remediation plan for the 13 trusts, which has the full backing of the FSL Board. It provides for capital injections from the surplus of the FSL traditional funeral plan business and the implementation of investment strategy changes by 29 July 2022, including additional capital injections if the investment strategy changes were delayed. It also provides for data cleansing by 29 July 2023, including additional capital injections if required. At the latest valuation, as at 30 September 2021, the surplus of the FSL traditional funeral plan business is comfortably high enough to cover the trust deficits, which provides additional comfort that the plan for capital injections is achievable. In my opinion, the proposed remediation plan is achievable, based on reasonable assumptions, and would bring the solvency level up to 100% by 29 July 2022 and maintain this level over the following 2 years. On this basis, I approve this proposed remediation plan.

## Introduction

### Purpose and Scope

7. The purpose of this report is to:
  - Provide the Solvency Assessment Report ("SAR") and assess the solvency of each of the 14 FSL trusts as at 30 September 2021. This is in line with the FCA Policy Statement 21/8 "Regulation of funeral plans", in particular section 3.2 of the Funeral Plan Conduct of Business sourcebook ("FPCOB"), published 5 July 2021 and effective 29 July 2022.
  - Review and provide an opinion on the proposed FSL remediation plan for each of the trusts with the aim of bringing the solvency level up to 100% by 29 July 2022 where required.

8. This report is commissioned by FSL to provide the SAR and review of the proposed remediation plan as required for the FCA authorisation application. Further information is provided in the report "Solvency Assessment Report as at 30 September 2021: Detail and Review of Proposed Remediation Plan" dated 25 April 2022.
9. The SAR must contain an actuarial valuation for each trust, comparing the value of:
  - the benefits already promised to, or in respect of, plan-holders net of the value of outstanding instalments and lump sum payments, with
  - the invested assets.
10. This is the first actuarial valuation of each of the FSL trusts on their own. The actuarial valuation for FSL as a whole was last carried out as at 30 September 2020.
11. In preparing this report I have taken account of the following professional standards as published by the Actuarial Profession and the Financial Reporting Council, in particular:
  - TAS 100: Principles for Technical Actuarial Work
  - TAS 400: Funeral Plan Trusts
  - Actuarial Profession Standard (APS) Z1: Duties and responsibilities for actuaries working for UK trust-based pre-paid funeral plans
12. Additionally, this report has been subject to internal peer review by a senior actuary who is not involved in the normal day to day actuarial activities with FSL. As such I believe this peer review may be regarded as "independent" and in keeping with the Actuarial Profession Standard X2: Review of Actuarial Work. No unresolved issues remain as a result of that review.

## Reliances and limitations

13. This report is commissioned by FSL and must not be relied upon for any purpose other than that set out in the paragraphs above. In line with the FPCOB, this report is submitted to the FCA and is to be published on the FSL website within 30 days. This report must be considered in its entirety, as individual sections, if considered in isolation, may be misleading.

## Data

14. FSL have provided the following data for each of the Funeral Plan trusts as at 30 September 2021.
  - Records for each of the Funeral Plan trust plans as at 30 September 2021.
  - Information about past sales patterns to help estimate when fields such as the effective date are missing from these records.
  - The current estimated cost to FSL of fulfilling each funeral together with assumptions for future funeral cost inflation. This is a total (wholesale) cost not a marginal (excluding overheads) one.
  - The amount of assets within each trust and how these are invested (currently all in cash).
  - Background information for the 14 trusts including trust deeds where available. These trusts are dated from 1991 to 2006 and came into FSL alongside historic acquisitions of regional Co-ops, i.e. Plymouth, Yorkshire, and Leeds. No conflicts of interest between the trustees and FSL have

been identified. The FSL Board have agreed to pay all trust administration expenses, though this will require a change to some of the trust deeds, which the trustees are expected to approve.

15. Further information about the data extract provided is summarised in "Appendix A – Summary of Data Extract Provided".
16. I have relied on the data provided but have also performed reasonableness checks.
17. For some plans, the level of funeral benefit, date of birth, effective date, and/or gender are missing, and some plan-holders are likely to have "goneaway" (lost touch with their funeral provider and possibly died without a claim being made). In those instances, I have made estimates for the missing fields, and also added a reserve for uncertainty, to cover the risk that the actual data would have resulted in a higher best estimate liability.

## Methodology and Assumptions

### Methodology

18. The best estimate liability is calculated as:
  - The value of future funeral benefits on death of the plan-holder
  - Plus the value of future cancellation benefits, which is the return of instalment(s) less cancellation fee
  - Plus an implicit reserve for uncertainty for missing data, in the event that actual data is different from best estimates
  - Plus the amount payable for Funeral Savings Plans ("FSPs"), where the plan-holder receives the premium paid at death.
19. Cancellation benefits are payable when a funeral is provided by a funeral director outside of the FSL network or when a plan-holder cancels their plan early. The trust plans have been in force for many years and it is unlikely that plan-holders will cancel in the future. Plans that are goneaway and where the policyholder has died are in practice paid the cancellation benefit when the beneficiaries come forward and this is included in the "cancellation at death" total in the "Balance sheet" section below.
20. Future cash flows are projected based on assumptions about the level of benefit payable (e.g. by allowing for assumed funeral cost inflation) and when the benefits are expected to be paid (i.e. allowing for assumed mortality and cancellation rates). These cash flows are then discounted back to the valuation date at the assumed discount rate to a single net present value. No future instalment payments are due for these plans.
21. The trust solvency level is calculated as the trust assets as a percentage of the trust liabilities.

### Assumptions

22. The liabilities of the trusts have been determined on a best estimate basis. A best estimate is one that is not deliberately either optimistic or pessimistic.

23. The discount interest rate reflective of expected future investment returns on the trust assets is based on 30 September 2021 UK government bond yields for the average term of the plans in each trust.
24. The discount interest rate and cost of the funeral benefit by trust for the SAR valuation and under the proposed remediation plan are summarised in the following table.

<b>Valuation assumptions by trust</b>			
<b>Trust name</b>	<b>Discount interest rate for SAR</b>	<b>Discount interest rate for proposed remediation plan</b>	<b>Funeral benefit</b>
The Co-operative Funeral Bond Fund	0.97%	2.28%	£2,707
North East Funeral Trust	0.80%	2.11%	£2,707
Caring Covenant Funeral Bond Fund	0.88%	2.20%	£2,707
Kent Plan Liability	0.71%	2.02%	£2,707
George Burgess Plan Liability	0.71%	2.02%	£2,707
Arnold Plan Liability	0.71%	2.02%	£2,707
Yorkshire	0.71%	2.02%	£2,707
Sheffield *	N/A	N/A	N/A
United	0.71%	2.02%	£2,707
Leeds Co-Operative Society Limited	0.71%	2.02%	£2,707
Plymouth & South Devon Co-Operative	0.71%	2.02%	£2,707
Pinnacle Plan Liability	0.80%	2.11%	£2,707
Hinton	0.88%	2.20%	£1,612
P&W	0.88%	2.20%	£1,612

\* The Sheffield trust only contains FSPs in which the benefit on death is the return of premium. The liability has been set equal to this amount.

25. Other assumptions made for the SAR valuation and under the proposed remediation plan are summarised in the table below.

<b>Valuation assumptions for all trusts for SAR and proposed remediation plan</b>	
Funeral cost inflation	3.0% p.a.
Mortality for males	115% English Life Tables published by Office for National Statistics (ELT17) for males
Mortality for females	115% ELT17 for females
Cancellation rate before death	Nil (other than an allowance in the first projection month to reflect data adjustments for goneaway plans which varies by trust)
Cancellation rate at death	0.4%
Expenses	Nil
Cancellation fee	£50

## Actuarial Valuation and Analysis of Change

### Balance sheet

26. The balance sheet below sets out the results of the actuarial valuation as at 30 September 2021 for all the trusts in total. It also projects the future position for three years under the best estimate assumptions of the proposed remediation plan. At the valuation date, the fair value of the trust assets is £28,239k and the trust liability is £36,134k, resulting in an overall surplus of £(7,895)k and a total trust solvency level of 78%.

<b>Balance sheet for all the trusts in total</b>				
<b>£000's</b>	<b>30/09/2021</b>	<b>30/09/2022</b>	<b>30/09/2023</b>	<b>30/09/2024</b>
<b>Trust assets</b>	28,239	28,584	25,455	22,896
Present value of future cash flows:				
Funeral costs	33,658	27,932	25,238	22,658
Cancellation at death - premium refunds	1,449	42	37	33
Cancellation at death - fees	-56	-2	-1	-1
FSPs	1,083	Nil	Nil	Nil
Expense reserve	Nil	Nil	Nil	Nil
<b>Trust liability</b>	36,134	27,972	25,274	22,690
<b>Trust solvency level = assets / liability</b>	<b>78%</b>	<b>102%</b>	<b>101%</b>	<b>101%</b>
<b>Trust surplus = assets less liability</b>	<b>-7,895</b>	<b>151</b>	<b>181</b>	<b>206</b>

27. It is noted that between 30 September 2021 and 21 April 2022 (the latest date economic data is available) the spread between expected investment returns and funeral cost inflation has narrowed somewhat (which would increase the trust surplus), but there are economic uncertainties due to the Russia-Ukraine war, the Omicron COVID-19 variants, and a high inflation environment. Small additional capital injections may be needed to maintain solvency due to changing economic conditions.

28. By trust, the balance sheets as at the valuation date are as follows.

<b>Balance sheet by trust as at 30/09/2021</b>				
<b>Trust name</b>	<b>Assets £000's</b>	<b>Liability £000's</b>	<b>Surplus £000's</b>	<b>Solvency level = assets / liability</b>
The Co-operative Funeral Bond Fund	13,390	16,363	-2,972	82%
North East Funeral Trust	3,790	5,070	-1,279	75%
Caring Covenant Funeral Bond Fund	3,474	4,614	-1,140	75%
Kent Plan Liability	234	532	-298	44%
George Burgess Plan Liability	61	101	-40	61%
Arnold Plan Liability	21	49	-29	42%
Yorkshire	1,271	1,505	-234	84%
Sheffield	270	269	1	100%
United	3,376	4,166	-790	81%
Leeds Co-Operative Society Limited	346	438	-91	79%
Plymouth & South Devon Co-Operative	1,157	1,546	-388	75%
Pinnacle Plan Liability	48	81	-33	59%
Hinton	569	983	-414	58%
P&W	231	419	-188	55%
<b>Total</b>	<b>28,239</b>	<b>36,134</b>	<b>-7,895</b>	<b>78%</b>

29. The total deficit of the 13 trusts that are in deficit is £7,896k. One trust (Sheffield) has a surplus of £1k.
30. The valuation result is sensitive to the funeral cost inflation assumption in excess of the discount interest rate. For example, an increase in the funeral cost inflation assumption from 3% to 4% would increase the total deficit of the 13 trusts that are in deficit from £(7,896)k to £(10,782)k.
31. The valuation result is less sensitive to mortality improvements resulting in longer life expectancy (improvement is the adverse risk given the assumption that funeral cost inflation will exceed the discount rate that reflects the investment returns).

## Analysis of Change

32. This is the first valuation for each of the trusts individually. For future valuations, it will be possible to analyse the change in the surplus since the previous valuation into actual versus expected experience, and any change in the assumptions made about future experience. In this context, expected experience is the experience assumed at the previous valuation.



## Conclusion

33. In line with the new FCA regulations, the solvency for each of the FSL trusts has been assessed on a stand-alone basis for the first time.
34. On a best estimate basis, 13 of the 14 trusts have a deficit, and in total the trust liabilities exceed the trust assets for these 13 trusts by £7,896k as at 30 September 2021. One of the trusts (Sheffield) has a surplus of £1k.
35. As a result, FSL proposes to implement a remediation plan in line with the new FCA regulations, to bring the solvency level for each FSL trust to 100% by 29 July 2022, when the new regulation comes into force. This means that sufficient assets will be held within each trust to provide for the liabilities on a stand-alone basis, assuming the best estimate assumptions are met.
36. I have reviewed the proposed FSL remediation plan, which has the full backing of the FSL Board. It provides for capital injections and the implementation of a change to investment strategy by 29 July 2022, including additional capital injections if the investment strategy review were delayed. It also provides for data cleansing by 29 July 2023. In my opinion, the proposed remediation plan is achievable and, based on reasonable assumptions, would bring the solvency level up to 100% by 29 July 2022. Realistic projections indicate that this level will be maintained over the following 2 years, but the plan also includes contingency capital injections within 3 months should data cleansing result in different results than expected. On this basis I approve this plan.
37. One of the key assumptions in the best estimate basis is the projected funeral costs for each planholder. These have been provided by FSL.
38. The major risk to the Funeral Plan is higher than expected funeral cost inflation and, to a much lesser extent, improvements in mortality (improvement is the adverse risk given the assumption that funeral cost inflation will exceed investment returns). For example, a 1% increase in the funeral cost inflation assumption would reduce the total surplus/(deficit) of the 13 trusts that are in deficit from £(7,895)k to £(10,781)k.



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## Appendix A – Summary of Data Extract Provided

39. The table below summarises the data extract information provided, excluding assets and plan values for FSPs of £1,083k. The FSP benefit is a return of premium and not a funeral.

Data extract and other information provided by trust excluding FSPs					
Trust name	Number of funeral plans	Payment method	Assets for funeral plans £000's	Funeral plan value £000's	Average funeral plan value (wholesale cost) £
The Co-operative Funeral Bond Fund	5,419	Single payments	12,990	14,669	2,707
North East Funeral Trust	1,530	Single payments	3,478	4,142	2,707
Caring Covenant Funeral Bond Fund	1,510	Single payments	3,474	4,088	2,707
Kent Plan Liability	181	Single payments	234	490	2,707
George Burgess Plan Liability	34	Single payments	61	92	2,707
Arnold Plan Liability	17	Single payments	21	46	2,707
Yorkshire	516	Single payments	1,263	1,397	2,707
Sheffield	0 (all FSP)	Single payments	1 (surplus for FSPs)	0 (all FSP)	0 (all FSP)
United	1,428	Single payments	3,370	3,866	2,707
Leeds Co-Operative Society Limited	120	Single payments	258	325	2,707
Plymouth & South Devon Co-Operative	538	Single payments	1,157	1,456	2,707
Pinnacle Plan Liability	27	Single payments	48	73	2,707
Hinton	521	Single payments	569	840	1,612
P&W	223	Single payments	231	359	1,612
<b>Total excluding FSPs</b>	<b>12,064</b>		<b>27,156</b>	<b>31,843</b>	<b>2,639</b>

Assets are the amount of single or instalment payments paid and invested by the valuation date (net of commission) including interest/bonuses.

There have been no withdrawals of surplus from any of the trusts in the past year.