The Plan with Grace Funeral Payment Trust

Solvency Assessment Report on the Actuarial Valuation as at 30 September 2022

Date: 10 February 2023

Prepared by: David Downie BSc FIA

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WBR ACTUARIAL

Results of the Solvency Assessment Actuarial Valuation of the Plan with Grace Funeral Payment Trust as at 30 September 2022

Introduction and Executive Summary

I have been requested by Plan with Grace Limited ("the Plan Provider") to perform an actuarial valuation of the Plan with Grace Funeral Payment Trust ("the Trust") and to provide a Solvency Assessment Report ("SAR") as required by the Financial Conduct Authority ("FCA") under section 3.2.2 of the Funeral Plan: Conduct of Business sourcebook. The Trust is for the pre-arrangement and pre-funding of funeral services and the report covers all plans in the.

This report, in accordance with the Financial Services and Markets Act (Regulated Activities) Order 2001 act. 60(1)(b)(v) the "RAO", covers the determination, calculation and verification of the assets and liabilities (known as the RAO valuation) of the Trust as at 30 September 2022 (the "Valuation Date"). The report is addressed to the Plan Provider but contains information that is also relevant to Trustees. It describes the financial condition of the Trust at the valuation date and considers the funding appropriate to the Trust after the valuation date.

In preparing this report we have complied with the Technical Actuarial Standard (TAS) - TAS 100 covering Principles for Technical Actuarial Work. It is expected that the Financial Reporting Council, who publishes the TAS's in consultation with the Institute and Faculty of Actuaries, will update TAS 400 (covering Funeral Trusts) to give specific guidance on contents of the SAR. This report complies with the principles of TAS 400, to the extent applicable.

We have also taken account of the following items produced by the Institute and Faculty of Actuaries:

- APS Z1 "Duties and responsibilities of actuaries working for UK Trust-based Pre-Paid Funeral Plans (effective 01.12.2015);
- APS X2 "Review of Actuarial Work" (effective 01.07.2015);
- Guide for Actuaries on UK Trust-Based Pre-Paid Funeral Plans;
- Guide for Trustees on UK Trust-Based Pre-Paid Funeral Plans.

We have considered general data, administrative, procedural, investment and pricing issues and Plan Holders' contracts.

The Funeral Directors have confirmed that the objective of the Funeral Plan is to provide the contracted funeral to the Plan Holder at the time of need.

This valuation does not take account of any future new business that may be written after the effective date of this valuation.

This report is produced for the use of the Trustees and the Plan Provider and should not be relied upon by any other party without contacting the actuaries involved.

The results of the valuation show that the Trust has a best estimate funding level of 130.3%. The investments held by the Trusts were invested in a broad range of assets and the Trust as a whole has produced an overall negative investment return over the year estimated at -0.9%.

The ultimate liability of meeting the final funeral payments is jointly shared between PwG and the Funeral Directors contracted to provide the funerals. The liability of any shortfall in funding will be held on PwG's balance sheet. PwG will also hold a reserve on its balance sheet for any bonus declarations granted to the Funeral Directors as an increase in the FD fees but which are only payable on the death of the plan holder.

Therefore, is it important that the strength of the company's covenant of PwG is assessed regularly. The funding level from PwG's perspective is 115.1%.

The total actuarial cost of granting a 6% bonus to all plans that were in force for more than 2 years at the review date and a 3% bonus to all plans that were in force for more than 1 year but less than 2 years at the review date is £201,000. The fund can easily support this bonus declaration.

Further sensitivities to the above results are also demonstrated within the report.

Purposes of the Report

The main purpose of this valuation is to advise the Trustees of the position of the Trust relative to the liabilities as required under clause 5.6.1 of the deed and this is purely a “valuation exercise”.

The purpose of this RAO valuation is also to establish the level of security from within the Trust for a Plan Holder’s contracted funeral service and to identify, as far as possible, the development of the Trust and the risks and issues that might affect the various stakeholders in the Trust in the future. The valuation also satisfies various statutory requirements as required under Financial Services and Markets Act 2000 (Regulated Activities) Order 2001.

The report includes elements required by FCA which are also required to be reported in the SAR, namely:-

- the determination, calculation and verification of both the assets and liabilities of the Trust under a best estimate basis;
- the liabilities are to be measured against the amounts needed to provide the funeral
- the funeral plan Trust data should be shown into the following subcategories of payment method:
    - paid in full or single payments;
    - instalment payments fully paid;
    - instalment payments not fully paid.
- where the funeral costs increase with inflation this may be allowed for.

The purposes of the valuation are described above and the report is produced for the use of the Trustees and Plan Provider. Neither WBR Actuarial nor I accept any liability to any third party in respect of the contents of this Report for its use for any purpose other than those set out as above.

Trust and Operational Provisions

The Trust was effectively set up by deed which was amended and restated 8 June 2022 ("the Trust Deed") providing pre-paid bespoke funeral services in accordance with the provisions of the Plan. At the effective date of this RAO valuation the Trust was managed by 2 Trustees, namely: Mr R Hills and Mr J Attard- Manche.

Apex Corporate Trustees (UK) Limited has been appointed as Custodian Trustee to deal with the monies within the Trust Fund. Saranac Partners has been appointed as Fund Manager to invest the monies within the Trust.

Payment of a Pre-Paid Sum is currently made via the Company to the Trustees by the Plan Holder. After deduction of administration costs, the balance is transferred to the Client Account operated by the Trustees, and subsequently invested with the Custodian Trustee and held in the Trust Fund. This sum is held under trust for the provision of the contracted funeral service from the Funeral Directors at the time of need.

The plan provider currently has agreement with numerous funeral directors in place all selling the same type of plan. The basic funeral director services and disbursements within each plan are guaranteed. Additional extras can be paid for. These normally represent a small proportion of the total Pre-Paid Sums. Such extras are not guaranteed, and the money is carried forward and applied at the time of need to provide the contracted extras at the then current price.

On death, a payment is made by the Company to the Funeral Directors, or any associated company or business arranging the funeral, which then provides the funeral service as contracted at inception. The Trust will only return the "Customer Fund" to the Company which is defined as the initial customer payment less an admin fee and less any investment income or capital gains earned on it. The Company is therefore responsible for the full the cost of the funeral.

A funeral director agreement between the Company and each appointed Funeral Director establishes the duties of the Funeral Director in the provision of the contracted funeral. The standard contract for services allows the appointed Funeral Director to claim from the Company the current funeral price at the time of need.

If a Plan Holder leaves the area, it may be possible for a funeral service to be provided by another funeral director on arrangement.

Once the Pre-Paid Sum has been fully paid a binding contract is issued to the Plan Holder. A Guarantee is provided by the appointed Funeral Director in favour of the Plan Holder and the Company for the provision of the agreed funeral with indemnities against all costs other than those due and payable in accordance with the contract.

Clause 5.6.1 of the Trust Deed requires that a valuation is undertaken annually. On an annual basis the net investment gain earned by the Trust (after tax and trust operating costs) will be shared with the Funeral Directors on the basis of the first 1.5% to be allocated to the Funeral Directors, the next 1.5% to be allocated to PwG and then the remaining net investment gain will be shared equally. PwG will hold a reserve on its balance sheet for any bonus declarations granted to the Funeral Directors as an increase in the FD fees but which are only payable on the death of the plan holder.

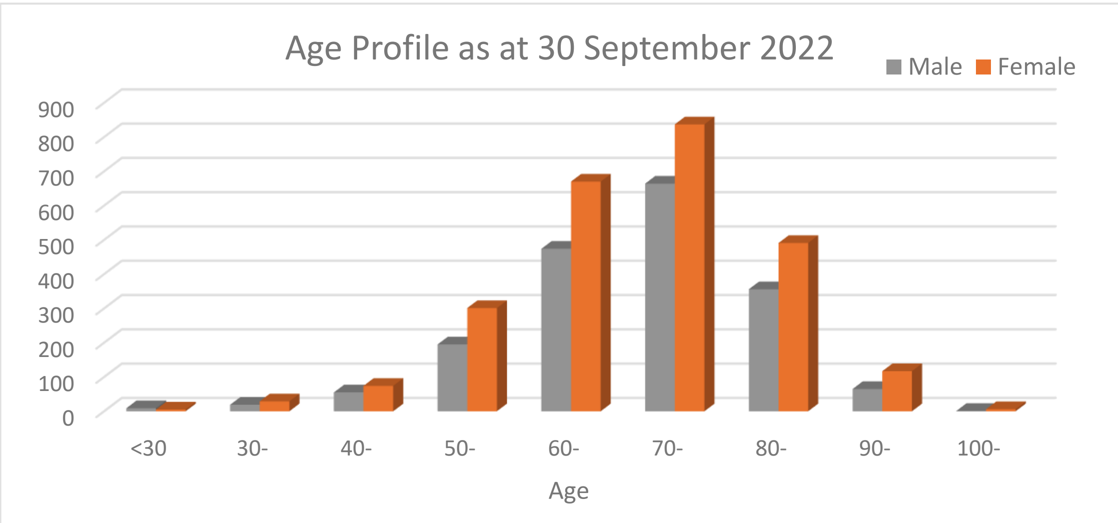
Summary of Data

Although I have taken all reasonable steps to ensure that the data is of adequate quality for the purposes of this valuation, I have relied on the accuracy of the information provided by the Trustees. The responsibility for the accuracy of the data for the valuation is therefore ultimately that of the Trustees. I have no material uncertainty about the accuracy of the data.

	30 September 2022			
	Lump Sum	**Instalments Fully Paid**	**Instalments Active**	**Total**
Number of Male Plan Holders	1,170	174	195	1,539
Number of Female Plan Holders	1,683	222	246	2,151
Total Plan Holders	**2,853**	**396**	**441**	**3,690**
Total Settlement £' 000's	6,456	714	354	7,524
Average Settlements £'s	2,263	1,803	803	2,039

There are numerous funeral directors currently participating in the Scheme. There are another 680 Plan Holders actively paying by Instalments who have not paid sufficient money into the Trust to register a proportional liability and so these have been excluded from the valuation. For both male and female Plan Holders, the average age is 71.

Plan Holders' dates of birth are not provided for all Plan Holders. Where the data is missing, we have assumed the average age (at inception) for such Plan Holders is equal to the average of those whose age is known. There is no evidence concerning a Plan Holder's state of health and this is unlikely to be available. The chart below sets out the age distribution of Plan Holders at the valuation date:

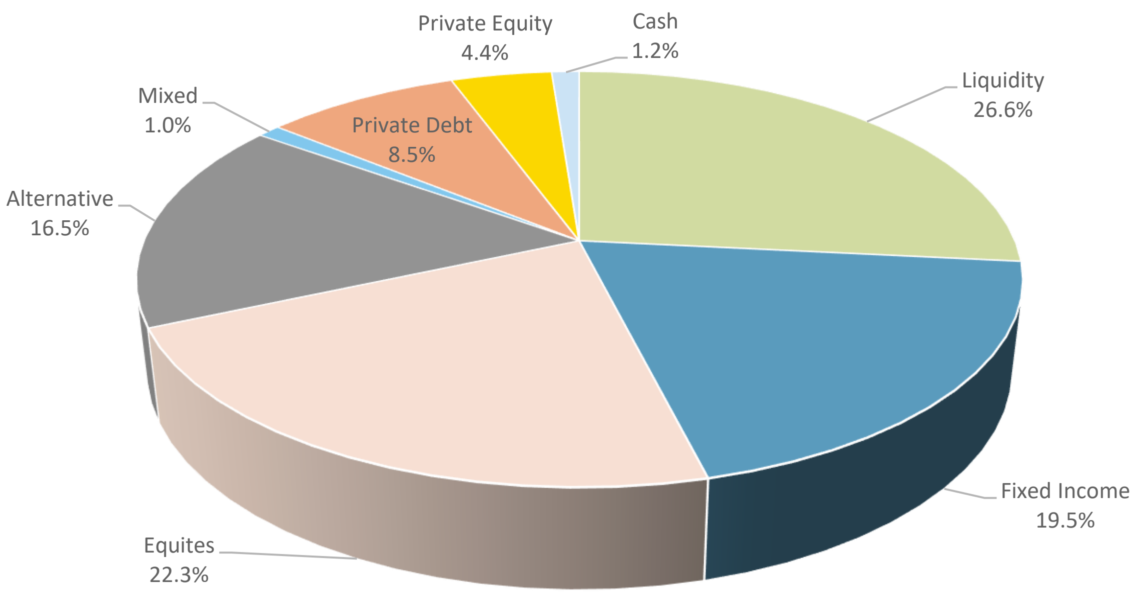


Asset Valuation

The assets of the Trust at the review date were being managed by Saranac Partners and the breakdown of the investments within the Trust is shown below:-

	£000's	Allocation
Liquidity Investments	1,833	26.6%
Fixed Interest	1,343	19.5%
Equities	1,537	22.3%
Alternative Investments	1,135	16.5%
Mixed Investments	73	1.0%
UBP Private Debt	587	8.5%
UBP Private Equity	303	4.4%
Cash	83	1.2%
Total	**6,894**	100.0%

Asset Allocation as at 30 September 2022



The estimated net investment return on the Trust earned over the year was minus 0.9% which equated to a loss of £64,000.

The investment objective and strategy should be kept under regular review and will need to consider the need for inflationary growth in the Trust fund and the changing liability profile. With a continuing positive cash flow from new business the objective must be to invest to contain risk and generate longer term capital growth in the most tax efficient manner.

No allowance has been made for unpaid tax, if any.

I have also reviewed the premium rates payable for future prospective business and currently payable for the existing instalment plans. I confirm that the rates payable are acceptable and will not jeopardise the existing funding position of the Trust.

The Trustees have been advised that the long term expected return from their investment strategy remains at 5% p.a. after investment charges.

Intervaluation Experience

The membership of the Trust continues to grow, and this is reflected in the growth in assets held.

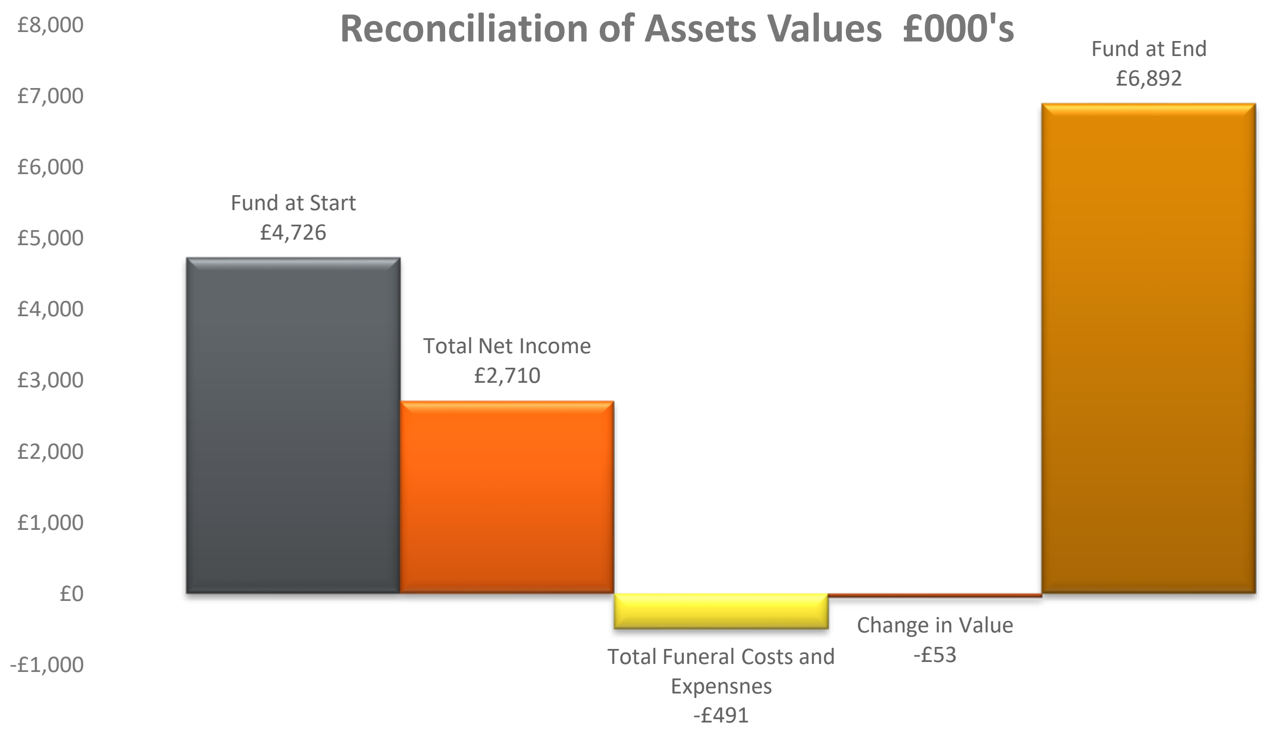
For this review, we have analysed the mortality experience of the Plan Holders who were in force at the 2021 review. There were 177 funerals paid over the year compared to an expected number of 131 deaths (135% of the expected rate). This higher expected death rate is less beneficial to the Trust. We will continue to keep this experience under review at future valuations.

For this RAO valuation we have not investigated the audit trail of payments made by Plan Holders through to the Customer Fund payment made by the Trust to the Company. This will need to be done at a subsequent valuation.

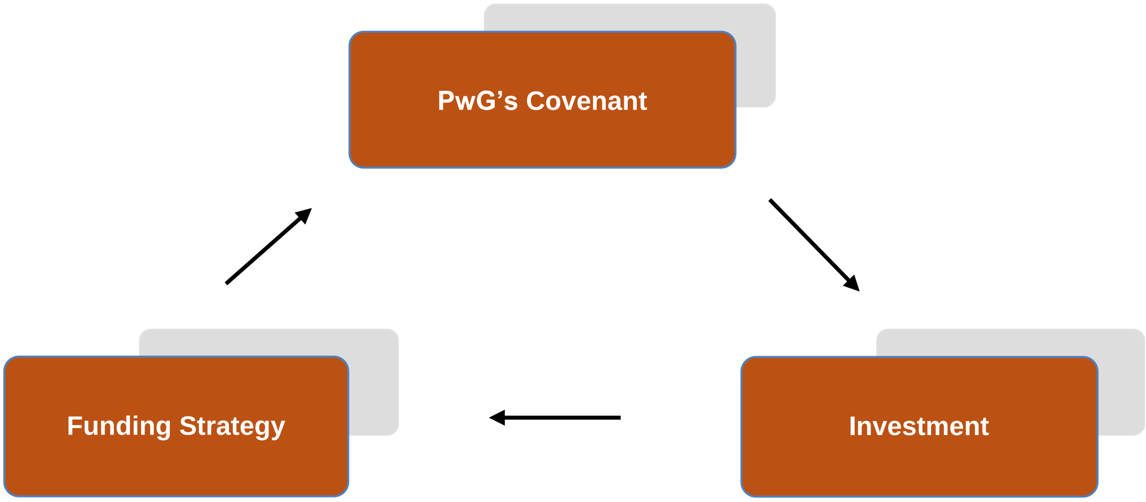
The estimated annual investment return earned on the assets as shown in the investment statements over the year to 30 September 2022 has been calculated to be minus 0.9% p.a. compared to the net of tax rate 4.0% p.a. assumed at the 2021 review. This has been lower than expected to the Trust.

A distribution of surplus of £320,800 was made to the Plan Provider over the year.

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



Integrated Risk Management



As regards to the administration of the funeral trust I advocate the Trustees adopt an integrated risk management approach. This is where the Trustees integrate the assessment of the financial strength of the Company - PwG (known as a company's covenant) within the investment strategy and the funding strategy.

Where the Company's covenant is deemed to be financially strong, the Trustees will be able to consider an investment strategy that has an element of more risk compared to the situation where the covenant is deemed to be financially weak. The investment strategy which is driven by a stronger covenant will then naturally lead to the expectation of higher investment returns. This will allow the actuary to reflect these expectations within the economic assumptions of the valuation basis.

The above cycle of review is ever interlinked and should be monitored regularly throughout the lifecycle of the Trust. Therefore, the strength of the Company's covenant should determine the permitted level of risk the Trustees can pursue within its investment strategy which then interlinks with the level of prudence adopted for the funding of the Trust.

Under the terms of the trust deed, it highlights the importance of the strength of the covenant of PwG as the Company underwrites the cost of the funeral.

Valuation Assumptions

The construction of the valuation basis involves consideration not only of current economic factors and fund experience but also as to future trends in mortality, investment yield and the rate of growth in funeral costs. The basis adopted should be viewed regarding relationships between the assumptions rather than to the absolute value of any components. Most importantly, the relationship between the investment return and the assumed level of inflation gives an indication of the real yield (before tax) expected to be earned on the investments held within the Trust.

Allowance must also be made of the tax payable by the Trust as the actual return earned on the money held in the Trust will be net of tax and net of expenses. The Actuarial basis may be subject to change over time. I have detailed below a set of assumptions that I have utilised in my calculations.

Details of the valuation method used for the determining the liabilities in the Trust are given in Appendix 1 and a summary of the assumptions adopted for the Best Estimate Valuation is shown below.

Economic Assumptions

A summary of the economic assumptions adopted for the valuation is shown below. Further details of the derivation of each element are given in Appendix 3.

Investment Growth

At the date of the review the annualised yield available under UK Government 10 Year Gilt is 4.20% per annum. This will represent the risk-free rate of return expected on the investments of the Scheme. The average yield on "AA" rated Corporate Bonds for durations of 10 to 15 years is 5.56% p.a. The dividend yield on the FTSE All-Share was 3.83%.

The Statement of Investment Principles agreed by the Trustees aims for medium risk with the focus on growth investments. The gross discount rate assumed for the valuation net of investment charges is 4.1% p.a. which is after allowance is made for a margin of 0.9% from the Trustees' average long term expected investment return.

Inflation Assumption - Funeral Directors Costs and Disbursement Costs

The trust bears no risk impact of future inflation on the funeral costs as this risk is borne directly by the Funeral Directors. In return it is expected that future bonus declarations will be added to the reserve held by PwG to increase the funeral director's fees over time and which is payable at the time of death.

Expenses

The annual expenses of administering the Funeral Plans, which is carried out by PwG, are met directly by the Company from the administration fee deducted and therefore there is no need for an explicit allowance in the valuation assumptions.

Discount rate - Net Real Investment Return

The discount rate used in valuing the liabilities of the funeral plan is the net real return on investments after allowing for the payment of taxes, the annual expense allowance above and the annual increase in funeral directors and disbursement costs.

I have therefore taken the gross investment return of 4.1% and reduced it to 3.7% to reflect an after tax position at the assumed rate of 10% tax. The net discount rate for valuing the liabilities for the Company is therefore taken as 3.7% p.a.

Mortality

I recommend that consideration is given to adopting up-to-date mortality tables as published by the Institute and Faculty of Actuaries. The Trust is too small to warrant use of its own mortality experience and hence will have to incorporate the use of published tables.

For the purposes of this review, the mortality rates have been adopted to reflect the graduated life tables which give statistics on national life expectancy for England and Wales as published by the Office for National Statistics known as English Life Tables No 17. (ELT 17). Further adjustments of a plus 3 year age rating and a scaling factor of 110% will be included. These adjustments will increase the expected mortality rates and thereby have the effect of increasing the liability of the Trust due to the positive discount rate being incorporated.

Cancellations

Plan holders who have informed PwG of their wishes to cease instalment payments will receive credit for all payments made after a deduction of an administration fee.

Comparison of Basis

A summary of the assumptions adopted for the 2022 review is shown below along with a comparison of the basis adopted for the 2021 review:-

	2022	**2021**
Discount Rate (Net of Investment charges)	4.1%	4.4%
Net of Tax Discount Rate	3.7%	4.0%
RPI Inflation	N/A	N/A
Funeral Inflation	N/A	N/A
Tax Allowance	10%	10%
Expenses	Nil	Nil
Mortality	110% of ELT 17 plus 3 years	110% of ELT 17 plus 3 years

Funding Position - Best Estimate Basis

The liability of the Trust fund arises from two categories of plans held namely Paid in Full Plans and partly paid Instalment Plans. Based on the membership data and assumptions set out elsewhere in this report, I calculate that the value of the liabilities for the funeral plans is as summarised below. A comparison with the 2021 results is also shown.

Trust

	2022 £000's	2021 £000's
Value of Assets	**6,893**	**4,724**
Value of PwG Liabilities	5,291	3,250
Investment Allocation to PwG	-	21
Actuarial Surplus for Trust	1,602	1,453
Total Funding - Trust	**6,893**	**4,724**
Funding Level – Trust	**130.3%**	**144.7%**

PwG

	2022 £000's	2021 £000's
Value of Assets	**6,893**	**4,724**
Value of PwG Liabilities	5,291	3,250
Investment allocation to PwG	-	21
Actuarial Surplus allocation for PwG	801	726
Actuarial Bonus Reserve for Funeral Directors	801	727
Total Funding - PwG	**6,893**	**4,724**
Funding Level – PwG (excluding FDs)	**115.1%**	**122.4%**

The available assets for Plan with Grace Limited are £6,092,000 which is the assets of £6,893,000 less PwG surplus allocation of £801,000 which gives a funding level of 115.1% of the total liability of £5,291,000 as at 30 September 2022.

The funding level for the Trust has decreased over the year from 122% to 115%. The main reasons for the reduction in funding level are the underperformance of the assets against the expected rate of 4% assumed last year, the surplus distribution and the slight change in the discount rate.

Funding Position - Sensitivity Analysis

Net Discount Rate

The Best Estimate funding position above allows for a net discount rate of 3.7% p.a. Allowing for a change in discount rate by 0.5% p.a. will provide the following results:-

Trust

	Plus 0.5% p.a. £000's	Minus 0.5% p.a. £000's
Value of Assets	**6,893**	**6,893**
Value of PwG Liabilities	5,085	5,516
Investment allocation to PwG	-	-
Actuarial Surplus for Trust	1,808	1,347
Total Funding - Trust	**6,893**	**6,893**
Funding Level – Trust	**135.6%**	**125.0%**

The above change in discount rate can reflect either a change in the future expected investment return on the Trust assets or a change in tax treatment of the Trust - each change being considered in isolation.

Pandemic

The Trustees should be aware of the risk associated with any future pandemic and the effect it could potentially have on the financial position of the Trust. I have therefore considered a scenario whereby 25% of all plans become enacted and the cost of associated funeral plans are paid out immediately. I have assumed that the claims will be spread evenly across all plans. The liability of the Trust will therefore fall by 25% but when added to the value of the potential claim payments the total best estimate liability becomes £5,849,000.

This leads to a funding level of 104.2% at the review date.

Discontinuance

The actuarial cost to the Trust of providing funerals for all Plan Holders at the valuation date is £5,291,000. The Trust should be able to provide for this amount without recourse to the Company. The costs of making any outstanding tax payments would be in addition. There is currently no deficit because there is no impact of high future funeral price inflation.

Funding Position - Bonus Declaration

The Best Estimate Funding Position of the Trust indicates that there is an actuarial bonus reserve of £801,000 being held in favour of the funeral directors. This reserve will be used to support future bonus declarations to the funeral directors which in practice will increase the amount paid out as FD fees at the time of death of a plan holder.

I have calculated the actuarial cost of granting a 6% bonus to all plans that were in force for more than 2 years at the review date to be £154,000.

Furthermore, I have calculated that the actuarial cost of granting a 3% bonus to all plans that were in force for more than 1 year but less than 2 years at the review date to also be £47,000.

The total cost of granting all the above bonuses is £201,000 which can easily be supported.

Future Cashflows

The position of the Trust needs to be looked at another way by considering the projected number of deaths and payments from the Trust each year ignoring future new business, again based on the assumptions set out above. It is these total projected cash flows, for the full lifetime of the existing Plan Holders rather than simply over the next 10 years, that are discounted back to the valuation date using the assumed return on investments which gives the value of the liabilities.

The table below shows the future projected cashflow payments out of the Trust over the next five years. A full cashflow forecast is shown in Appendix 2. These cashflows represent only the expected funeral plan payments for all plans held at the valuation date. No allowance is made for any future premiums due from the existing instalment plans or any new business after the valuation date.

	Expected Number of Deaths	**Expected Funeral Payments £000's**
Year 1	235	445
Year 2	232	427
Year 3	228	408
Year 4	224	389
Year 5	220	370

The figures set out in the table are simply estimates of the order of magnitude of the potential payments from the Trust. The actual experience will be checked against these projections as it will influence future assumptions particularly in respect of the prudent life expectancy assumptions.

Risks

It is important to appreciate the various risks inherent in the valuation of the liabilities of the Trust. In particular, the main risk is that the valuation assumes a best estimate net of tax real return of 3.7% p.a. will be earned on the investments within the trust after allowance for elements of expenses and tax.

Should any one of the elements of expenses or tax increase at a higher rate than assumed thereby reducing the net real investment return earned on the assets then the level of future surplus will be lower and indeed the Trust could potentially emerge with a deficit. The degree of sensitivity of the results was shown above and therefore due care is needed when agreeing any non funeral plan payments out of the Trust.

The Trust has incorporated up-to-date rates of mortality. Should plan members die sooner than assumed then the Trust will pay out before it is expected leading to a reduction in future levels of surplus.

The success of PwG to maintain its new business levels has a direct impact on the ability of the Trust fund to continue meeting the expenses of administering the funeral plans. Should there be a fall in new business without a corresponding reduction in the administration expenses, this will lead to lower levels of future surplus.

Further aspects of risk are discussed in Appendix 5.

Final Comments

At the Valuation Date, the Plan with Grace Funeral Payment Trust had a funding surplus of £801,000 from PwG's perspective and a bonus reserve held of £801,000 for the actuarial cost of future bonus declarations to the Funeral Directors.

The total actuarial cost of granting a 6% bonus to all plans that were in force for more than 2 years at the review date and a 3% bonus to all plans that were in force for more than 1 year but less than 2 years at the review date is £201,000.

Monitoring the investment strategy and performance continues to be crucial to the operation of the Trust, as it needs to produce lower risk investment returns which after tax are sufficient to cover the high rates of funeral price inflation which are common in this type of funeral trust.

Material Changes

I am not aware of any further changes that will have materially altered the results of this report at the date of signing.

Date of Next Review

The next full formal valuation should be carried out as at 30 September 2023.

Signed on Behalf of WBR Actuarial
David Downie BSc FIA
David.Downie@WBRGroup.co.uk
10 February 2023

WBR Actuarial
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Appendix 1 - Valuation Method

Valuation Method - General

The approach adopted for the valuation consists of projecting future cashflows of expected payments from the Trust and then discounting back these cashflows to produce a total net present value liability.

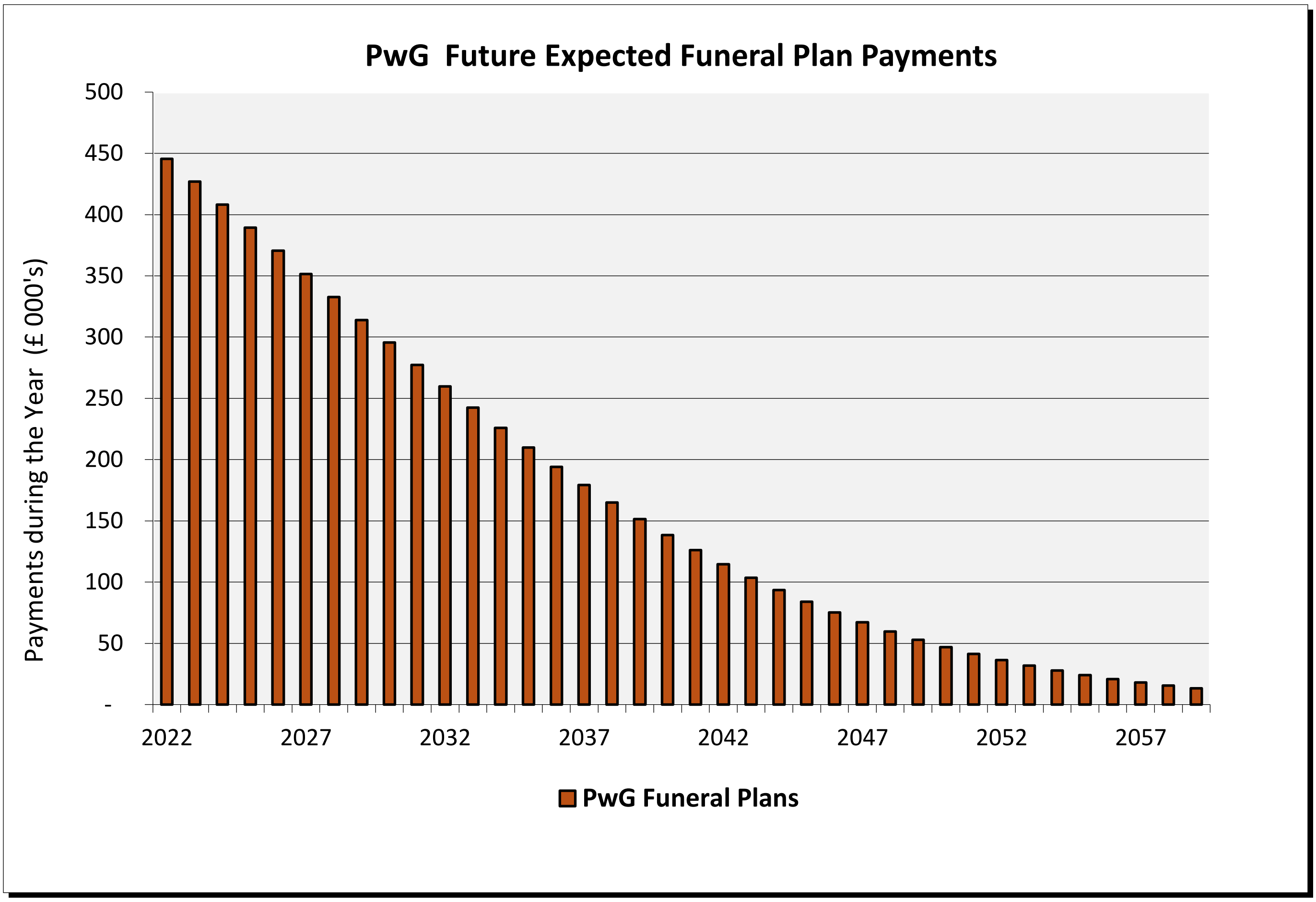
Valuation Method - Liabilities

For the purposes of my calculations I have adopted a cashflow funding method to determine the value of the future expected funeral costs. This method involves projecting the funeral plan payments into the future until the assumed life expectancy of the plan holder. Allowance is also made of the possibility of the cancellation of the plans (where applicable) and the projection will allow for future increases on the funeral payments in line with the assumed rate of inflation (if applicable). The funeral plan payments consist of both the Funeral Directors Fees and the Disbursement Costs. The individual projected expected funeral payments are then discounted back at the net of tax discount rate to the valuation date and then added together to give the total liability. The liability is then compared with the actuarially valued assets of the Trust to determine the level of any shortfall or surplus arising.

Valuation Method - Assets

For the purposes of this valuation the assets have been taken into account at their market value as shown in the investment statements.

Appendix 2 - Cashflow Profile



Appendix 3 - Actuarial Assumptions – Financial

The construction of the valuation basis involves consideration not only of current economic factors and fund experience but also as to future trends in mortality, investment yield and the rate of growth in funeral costs. The basis adopted should be viewed regarding relationships between the assumptions rather than to the absolute value of any components. Most importantly, the relationship between the investment return and the assumed level of inflation gives an indication of the real yield (before tax) expected to be earned on the investments held within the Trust.

Allowance must also be made of the tax payable by the Trust as the actual return earned on the money held in the Trust will be net of tax and net of expenses. The Actuarial basis may be subject to change over time. I have detailed below a set of assumptions that I have utilised in my calculations.

In the following pages we have set out the main considerations we have used in setting the assumptions for the RAO actuarial valuation as at 30 September 2022. For each of the major assumptions we have derived what we consider to be a neutral estimate (i.e. no margin for prudence). A range of assumptions could be given for the neutral estimate. For simplicity, we have stated a neutral estimate as a single point of interest for each assumption.

Discount Rate

The discount rate can be thought of as the rate of return which needs to be earned on the Scheme's investments in order to have enough money to honour the Funeral Plan contracts as they fall due. It is one of the most important valuation assumptions, and even a small change in the discount rate can have a considerable impact on the results.

Obviously, one would take account of the expected return on the Scheme's assets when setting the discount rate assumption. This will reflect the current investment strategy and known anticipated changes in that strategy. There is a balance to be achieved by the Trustees in seeking to earn a better return than that available on low risk assets, such as Government bonds ('gilts') and avoiding a higher risk strategy which could have an impact on the ability to provide the funeral when needed and could also require financial support from the Company. The requirement for prudence means that only part of any anticipated extra return should be incorporated in the discount rate assumption.

It is the Company which effectively underwrites any investment risks taken, so the Trustees need to be convinced that the Company can afford to support these risks in the future before allowing for them in the funding calculations.

Investment Charges

In deriving expected returns on investments, it is normal to assume that investment management charges of between 0.5% p.a. and 0.2% p.a. apply on the equity/property and for fixed interest investments respectively. Actively managed funds are likely to have higher charges than this but will be targeting a higher long term return. We believe this allowance for investment charges is prudent and is sufficient to allow for the growth in the fund for new business.

Expected Return on Investments

Due to the planned investment strategy of the Trust, it is assumed that a gross of tax neutral investment return assumption net of investment charges will be 4.1% p.a. as advised by the Trustees.

Inflation

Guarantees provided within the funeral plan are linked to retail prices inflation. Most elements of the plan increase in line with funeral price inflation but this risk is borne by the Funeral Directors and not the Trust.

Appendix 4 - Actuarial Assumptions - Life Expectancy

For the purposes of the RAO, we have adopted the English Life Table 17 (with suitable adjustments) which are graduated life tables that give statistics on national life expectancy for England and Wales as published by the Office for National Statistics.

The table below sets out the life expectancies of Plan Holders at different ages.

	ELT 17
Males	
65	18.3
75	11.2
80	8.2
Females	
65	20.9
75	13.0
80	9.7

Appendix 5 - Risks associated with Funeral Plans

Funding risks – general

Before looking at the assumptions to be used in a valuation, the Trustees should consider the risks related to the funding of the Trust. The following are some of the key risks. No allowance is made for these risks within the valuation as their impact cannot be quantified in advance.

Funeral director risk

On the death of a policyholder, the Trust guarantees to pay PwG the customer fund and PwG provides the additional money to allow full payment in relation to the policyholders' burial/cremation. PwG has contractual agreements in place with the funeral directors that on the death of a policyholder, in return for the appropriate payment (received from PwG) the funeral director will provide the agreed funeral services. Where the combined payment from the Trust and PwG exceed the marginal funeral cost the funeral director would make a gain, however, when the marginal funeral costs exceed the payment the funeral director will make a loss (or potentially refuse to conduct the funeral, which would most likely be in breach of contract).

We understand that currently the payments from PwG significantly exceed the marginal cost of undertaking a funeral, however it is of course possible that funeral inflation at high rates in the future could reverse this position. If this were the case, and if the funeral director ceased to trade (or refuse to conduct the funeral – which would be a breach of contract), then the PwG would need to appoint another funeral director to conduct proceedings, at a price which could exceed the payment that PwG is reserving for. In that case PwG and the Trust would suffer a reserving loss. If this happened for many policyholders then the Trust could experience a severe funding strain.

In summary, the Trustees and PwG are exposed to the risk of funeral directors ceasing to trade (or breaking their contract and refusing to conduct a funeral) and therefore PwG should consider the strength of the covenant of the funeral directors contracted by PwG, and the extent to which current combined payments exceed funeral costs.

Funeral inflation risk

As stated above, we understand that currently the payments significantly exceed the marginal cost of the appropriate funeral. However, there is no guarantee that this will always be the case, and high funeral inflation could give rise to a shortfall in the payment from the Trust to the funeral director.

Failure to price the policies accurately at the outset

If policies are under-priced at the outset, there is the potential for a shortfall to emerge between the premiums paid to the Trust and the cost of the appropriate funeral. I understand that a survey of funeral director costs is carried out on a regular basis to aid pricing.

Data risk

For a funeral plan to function effectively, accurate data is required concerning policyholders/funeral directors etc. Failure to do so could result in unnecessary payments or refusal to pay valid claims creating reputational risks.

Legislative and tax risk

There is always the risk that new legislation or court rulings could change how the Trust is run and/or the way in which settlements must be funded. It could also increase the costs of administering the Trust by imposing more stringent requirements.

The Trust also faces the risk that changes in taxation could have an adverse effect, for example an increase in the taxation of investment returns.

On a similar line, the Trust is also exposed to the risk of one off events that could significantly increase the cost of funerals. For example, health and safety legislation associated with either cremations or burials that have not been factored into the calculation of the original contributions paid to the Trust.

Pandemic risk

The Trust is exposed to the risk that a pandemic that could result in a substantial number of deaths in a relatively short period of time. The increase in demand for funeral services caused by a pandemic could lead to an increase in funeral costs if that demand outstrips supply. Should contracted funeral directors refuse to conduct funerals at agreed prices, then it is possible the Trust could make a loss if there is a need to source alternative funeral suppliers at a cost in excess of that reserved for. However, a pandemic event could see changes to how funerals are conducted, possibly mass burials/cremations or simply a change in the way that funerals take place, so reducing funeral costs.

Investment Related Risks

The fundamental investment risk is that the assets underperform the investment return required in the valuation. There may be many different reasons for such underperformance, examples being:

- investment market risk (i.e. investment markets can fall as well as rise and the value of liabilities may change as a result of changes in investment markets); and

- investment manager risk (i.e. individual investment manager performance is not guaranteed and may be worse than the overall market in which the manager invests).

If the assets fail to achieve the investment return required, then a funding strain could result.

As well as considering asset returns in isolation, it is important to consider whether the value of assets will move in tandem with the value placed on the liabilities. The more the Trust invests in assets that do not ‘match’ its liabilities, the greater the risk of volatility in the Trust's funding (as the value of the assets may change substantially relative to the liabilities). This mismatch of assets and liabilities may come about either as a deliberate decision on the part of the Trustees or because there are no assets that match the liabilities exactly, but in either case may lead to volatility in the valuation.

A third key point to consider is whether your valuation assumptions and investment strategy are properly aligned. Given that the discount rate for the valuation has been partially derived from the net yield available on the Trust's bond investments as at the valuation date, then it is possible the discount rate will move with an inverse relationship to movements in the Trust’s assets, meaning the liabilities could partially move in the same direction as certain asset movements. However, this will not be the case with all the Trust’s assets (i.e. equity type investments), meaning that there is a degree of mismatching between the Trust’s assets and liabilities.

Valuation Related Risks

There is also risk (both upside and downside) for every other assumption used in the valuation as in reality (even on average) it is unlikely that the assumed value will prove to be correct. For example, the following circumstances will worsen the valuation position:

- If policyholders die earlier than assumed
- If RPI inflation is above the assumed rate and this is not offset by correspondingly higher investment returns; and
- If the administration costs of the Trust exceed that assumed in the valuation.

Resource & Environment ("R&E") issues

R&E risks may affect the company, the Trust's investments and/or the wider economy (with implications for the funding assumptions). Examples of such risks are rising energy prices, changes to energy supplies, crop yields and property damage from, for example, flooding and large-scale migration.

The trustees should consider the following:

- If a covenant assessment is carried out the covenant adviser should consider the extent to which R&E risks impact on their view of the strength of the company's covenant;
- R&E commentators have commented that markets are not pricing R&E risks correctly and so are underestimating the downside risk. We may wish to consider whether it is appropriate to adopt a greater margin for prudence when setting the financial assumptions;

R&E risks may be relevant also to future mortality assumptions. Some factors might be expected to lead to lower mortality, for example rising temperatures (reducing cold-related deaths) while other factors may lead to higher mortality, for example macroeconomic impact of R&E issues.