The Plan with Grace Funeral Payment Trust Solvency Assessment Report on the Actuarial Valuation as at 30 September 2023

Date: 5 February 2024

Prepared by: David Downie BSc FIA

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Solvency Assessment Report of the Plan with Grace Funeral Payment Trust as at 30 September 2023

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 trust.

This report, in accordance with the Financial Services and Markets Act (Regulated Activities) Order 2001 act. 60(1)(b)(v) covers the determination, calculation and verification of the assets and liabilities of the Trust as at 30 September 2023 (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) - 100 covering Principles for Technical Actuarial Work and TAS 400 (covering Funeral Trusts).

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 previous SAR on the scheme was carried out as at 30 September 2022 and my final report was dated 10 February 2023. The period under review is therefore twelve months.

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 149.4%. The investments held by the Trusts were invested in a broad range of assets and the Trust as a whole has produced an overall investment return over the year estimated at 5.6%.

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 ultimately fall to PwG's balance sheet. PwG will also need reserves 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 overall funding level from PwG's perspective is 124.7%.

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 SAR 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 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 maintain reserves in the Trust 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.

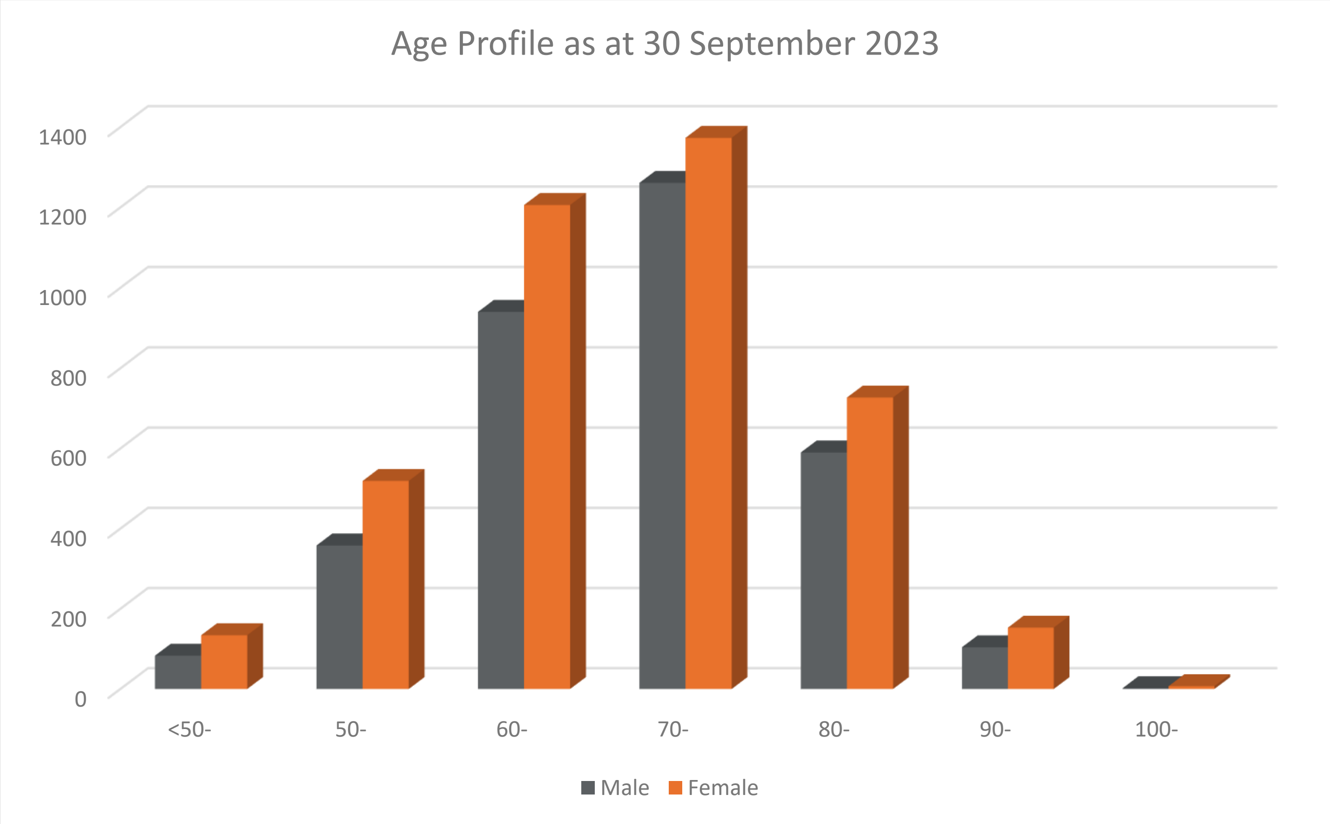
	30 September 2023			
	Single Payment	**Instalments Fully Paid**	**Instalments Active**	**Total**
Number of Male Plan Holders	2,137	417	784	3,338
Number of Female Plan Holders	2,527	482	1,110	4,119
Total Plan Holders	**4,664**	**899**	**1,894**	**7,457**
Total Settlement £' 000's	8,262	1,309	358	9,928
Average Settlements £'s	1,770	1,460	190	1,330

For male Plan Holders the average age is 72, while for 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 total number of plan holders at the last 2022 review was 3,690.

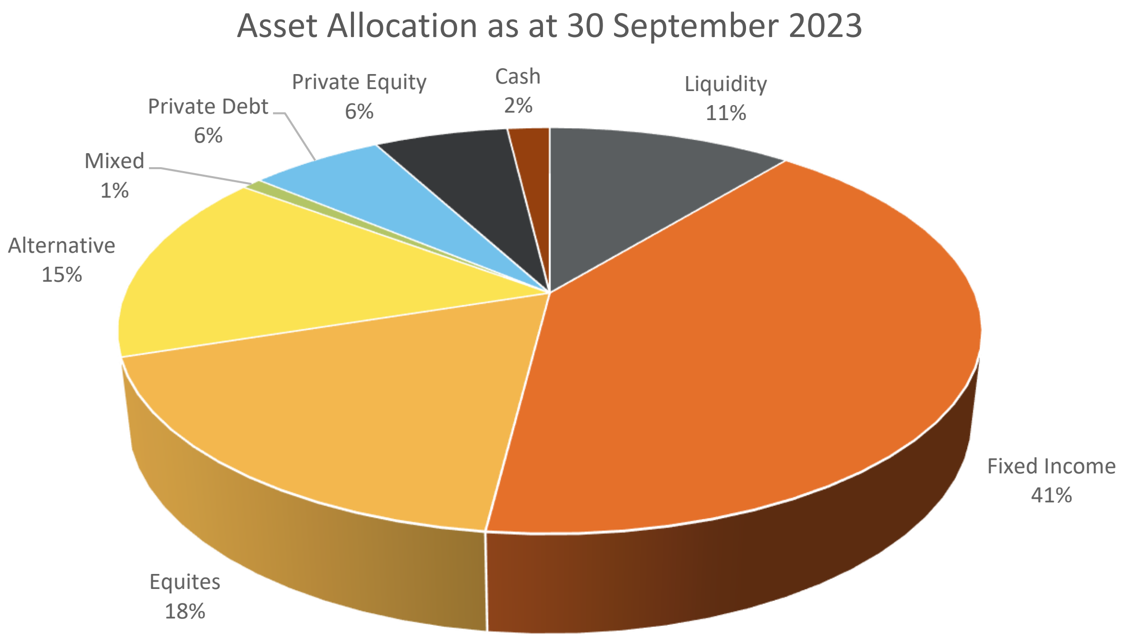
The chart below sets out the age distribution of Plan Holders at the valuation date:



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	**2023**	**2022**
Liquidity Investments	1,032	1,833
Fixed Interest	3,867	1,343
Equities	1,700	1,537
Alternative Investments	1,435	1,135
Mixed Investments	84	73
UBP Private Debt	565	587
UBP Private Equity	565	303
Cash	179	83
Total	**9,427**	**6,894**



The estimated net investment return on the Trust earned over the year was 5.6% which equated to a gain of £444,000.

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 has increased from 5.0% to 7.6% p.a. after investment charges.

Intervaluation Experience

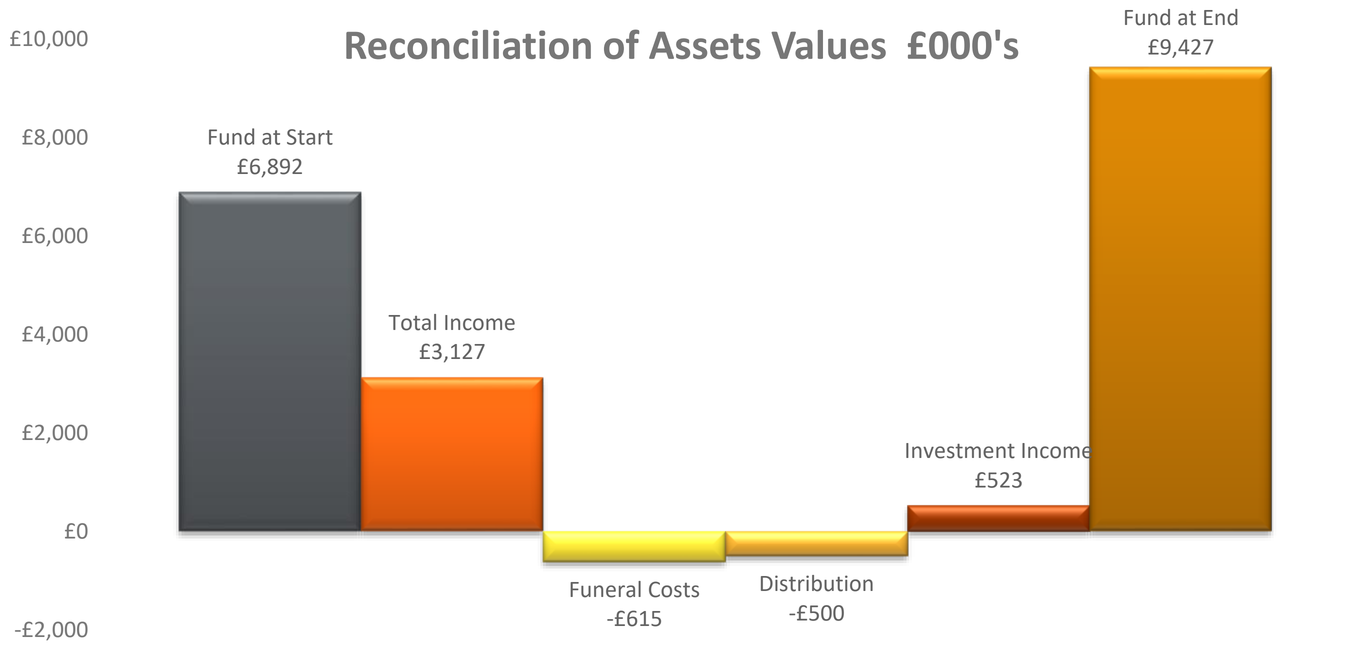
The membership of the Trust continues to grow, and this is reflected in the growth in assets held.

For this review, we have analysed the mortality experience of the Plan Holders who were in force at the 2022 review. There were 205 funerals paid over the year compared to an expected number of 235 deaths (87% of the expected rate). This lower expected death rate is more beneficial to the Trust. We will continue to keep this experience under review at future valuations but for this review we have removed the previous adjustments to revert to 100% of the standard table ELT 17 without any age rating which we expect to be a better fit for the overall basis.

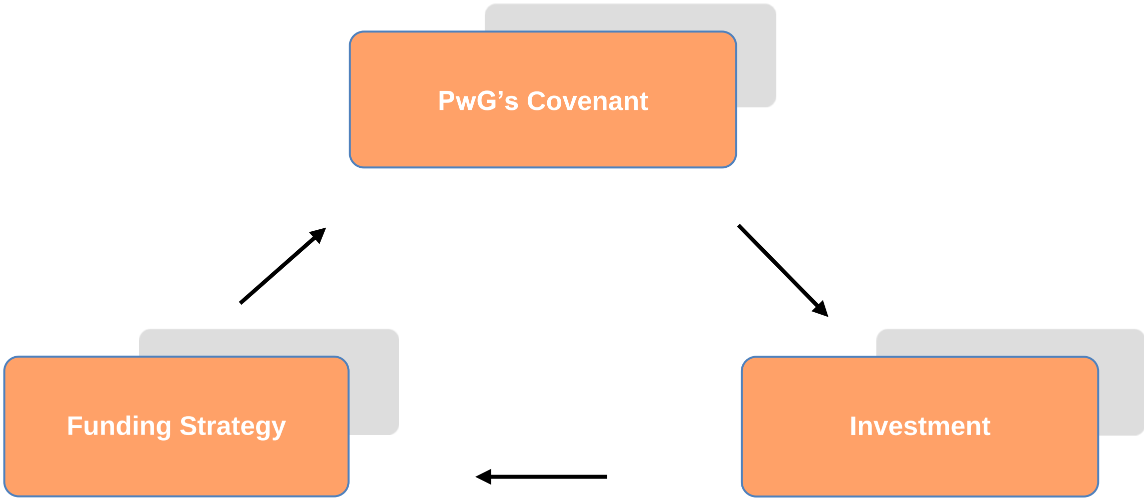
The estimated net of tax annual investment return earned on the assets as shown in the investment statements over the year to 30 September 2023 has been calculated to be 5.6% p.a. compared to the rate of 3.7% p.a. assumed at the 2022 review.

A distribution of £500,000 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 4.

Investment Growth

At the date of the review the annualised yield available under UK Government 10 Year Gilt is 4.5% 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 5.5% p.a. The dividend yield on the FTSE All-Share was 3.8%.

The Statement of Investment Principles agreed by the Trustees aims for medium risk with the focus on growth investments. The weighted average gross discount rate assumed for the valuation net of investment charges is 6.6% p.a.

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 used by PwG in the trust 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 assumed to run at 1% p.a. as advised by the Company and this is in addition to the administration fee that is deducted. There is therefore an implicit allowance of 1% p.a. for administration expenses.

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 and the annual expense allowance above.

I have therefore taken the gross investment return of 6.6% and reduced it to 4.1% to reflect an after tax position at the assumed rate of 23% tax and the 1% expense reserve. The net average discount rate for valuing the liabilities for the Company is therefore taken as 4.1% 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).

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. Some allowance has been made for the cancellation rates over the first 5 years.

Comparison of Basis

A summary of the assumptions adopted for the 2023 review is shown below along with a comparison of the basis adopted for the 2022 review:

	2023	**2022**
Discount Rate (Net of Investment charges)	6.6%	4.1%
Net of Tax Discount Rate	5.1%	3.7%
Tax Allowance	23%	10%
Expenses	1% p.a.	Nil
Mortality	100% of ELT 17	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 2022 results is also shown.

Trust

	2023 £000's	2022 £000's
Value of Assets	**9,427**	**6,893**
Value of PwG Liabilities	6,312	5,291
Investment Allocation to PwG	-	-
Actuarial Surplus for Trust	3,115	1,602
Total Funding - Trust	**9,427**	**6,893**
Funding Level – Trust	**149.4%**	**130.3%**

PwG

	2023 £000's	2022 £000's
Value of Assets	**9,427**	**6,893**
Value of PwG Liabilities	6,312	5,291
Investment allocation to PwG	-	-
Actuarial Surplus allocation for PwG	1,557.5	801
Actuarial Bonus Reserve for Funeral Directors	1,557.5	801
Total Funding - PwG	**9,427**	**6,893**
Funding Level – PwG (excluding FDs)	**124.7%**	**115.1%**

The available assets for Plan with Grace Limited are £7,869.5,000 which is the assets of £9,427,000 less PwG surplus allocation of £1,557,500 which gives a funding level of 124.7% of the total liability of £6,312,000 as at 30 September 2023.

The funding level for the Trust has increased over the year from 130.3% to 149.4%. The main reasons for the increase in the funding level are the overperformance of the assets against the expected net of tax rate of 3.7% assumed last year and the change in the valuation assumptions.

Reconciliation of Results

In order to obtain a greater understanding of the ongoing results, I have carried out an analysis to reconcile the surplus emerging at this valuation date with the previous year's results. The table below shows a reconciliation of the surplus with the position disclosed by the previous valuation and quantifies the financially material items of actuarial gain or loss.

	Favourable/(Unfavourable) £000's
Surplus at previous valuation plus Interest	1,661
Investment Return higher than expected return	228
Membership Experience Gains / (Losses)	846
Distribution	(500)
Change in valuation assumptions	724
Cashflow Experience Gains / (Losses)	157
Surplus at this valuation	3,116

A profile of the liability of the funeral plans is shown in Appendix 2. The profile highlights the age distribution of the funeral plans and the distribution of the liability of the Trust spread over the age range of the plan members. This will be useful information when considering and reviewing the investment strategy of the Trust.

Funding Position - Sensitivity Analysis

Net Discount Rate

The Best Estimate funding position above allows for a net discount rate of 4.1% 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	**9,427**	**9,427**
Value of PwG Liabilities	6,021	6,627
Investment allocation to PwG	-	-
Actuarial Surplus for Trust	3,406	2,800
Total Funding - Trust	**9,427**	**9,427**
Funding Level – Trust	**156.6%**	**142.3%**

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 £7,215,000.

This leads to a funding level of 130.7% at the review date.

Discontinuance

The actuarial cost to the Trust of providing funerals for all Plan Holders at the valuation date is £6,312,000. 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.

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 cashflows, 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 3. 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	354	545
Year 2	348	493
Year 3	342	471
Year 4	336	460
Year 5	331	451

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 4.1% p.a. on average 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 6.

Final Comments

At the Valuation Date, the Plan with Grace Funeral Payment Trust had a funding surplus of £1,557,500 from PwG's perspective and a bonus reserve held of £1,557,500 for the actuarial cost of future bonus declarations to the Funeral Directors.

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 2024.

David Downie BSc FIA
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5 February 2024

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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.

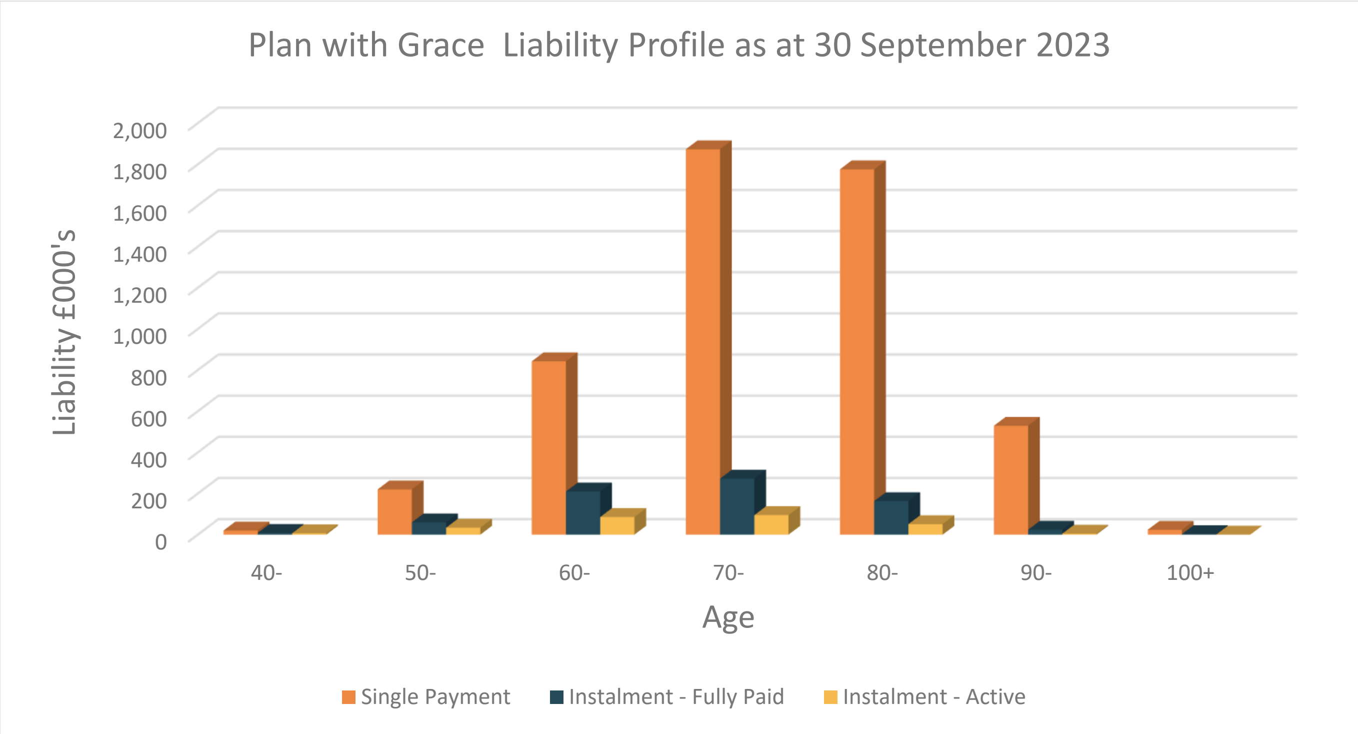
Valuation Method - Liabilities

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.

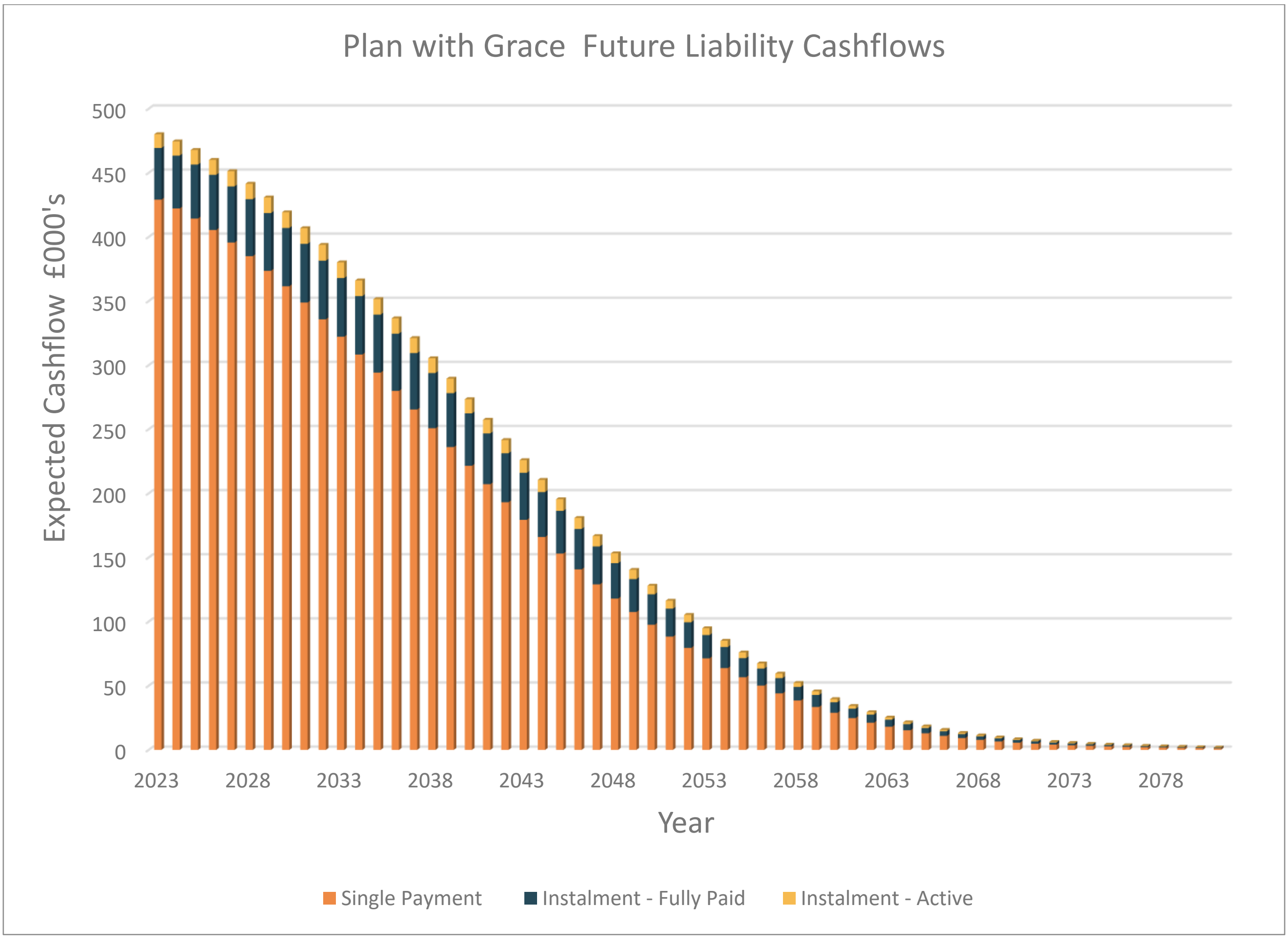
Valuation Method - Assets

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 - Liability Profile



Appendix 3 - Cashflow Profile



Appendix 4 - 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 SAR as at 30 September 2023. 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 current investment strategy of the Trust, the Trustees have advised that the net of investment charges targeted return can be measured as the yield on Gilts plus a margin of 2% p.a. A yield curve approach has therefore been adopted to reflect the forward gilt rates at the review date for all future cashflow durations of the Trust's liabilities. The appropriate rate at each future duration has then been adjusted for the 2% margin, the 23% tax rate and then the 1% annual expenses allowance. If this approach is simplified to show a single discount rate then the weighted average net discount rate emerging is 4.1%. p.a.

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. PwG mitigates the effects of inflation in two ways. Firstly, funeral plans are transferred to the Trust at retail costs rather than wholesale costs leaving this margin as a buffer against inflation. Secondly, it builds a reserve in the Trust to be able to make bonus payments to the Funeral Directors to meet their increased costs from inflation.

Appendix 5 - Actuarial Assumptions - Life Expectancy

For the purposes of the SAR, we have adopted the English Life Table 17 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	18.32
75	11.19
80	8.23
Females	
65	20.88
75	13.03
80	9.65

Appendix 6 - Risks associated with Funeral Plans

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.

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.

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 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.