

The Dignity Limited Trust Fund

Solvency Assessment Report
as at 24 September 2022

November 2022



Important Notice

This report has been prepared by PricewaterhouseCoopers LLP based on the instructions provided by the Trustees of the Dignity Limited Trust (“the Trust”) (“the Trustees”) and, where appropriate, incorporates the advice of the responsible Actuary, Emma Morton, who is an employee of PricewaterhouseCoopers LLP, for the sole purpose that is set out in the Executive Summary.

We do not, in providing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Should any other person access and read this report, by reading this report such person accepts and agrees to the following terms:

- 1 The reader of this report understands that the work performed by PricewaterhouseCoopers LLP was performed in accordance with instructions provided by our addressee client and was performed exclusively for our addressee client’s sole benefit and use.
- 2 The reader of this report acknowledges that this report was prepared at the direction of our addressee client and may not include all procedures deemed necessary for the purposes of the reader.
- 3 The reader agrees that PricewaterhouseCoopers LLP, its partners, employees and agents neither owe nor accept any duty or responsibility to it, whether in contract or in tort (including without limitation, negligence and breach of statutory duty), and shall not be liable in respect of any loss, damage or expense of whatsoever nature which is caused by any use the reader may choose to make of this report, or which is otherwise consequent upon the gaining of access to the report by the reader. Further, the reader agrees that this report is not to be referred to or quoted, in whole or in part, in any prospectus, registration statement, offering circular, public filing, loan, other agreement or document and not to distribute the report without PricewaterhouseCoopers LLP’s prior written consent.

A copy of this report has been sent to Dignity Funerals Limited (“the Company”) as set out in our agreement with them dated 1 November 2022. Under the basis of that agreement, the Company accepts that the work we have carried out is for the Trustees only and we do not accept any responsibility to any other party for it. In particular, we note that the Company will share this report with the FCA and will place it on its website as required by the FCA but PricewaterhouseCoopers LLP accepts no responsibility to anyone who may view the report other than the Trustees.

Contents

1	Executive summary	4
2	Description of plans	5
3	Summary of membership data	6
4	Assets	7
5	Valuation method and assumptions	8
6	Valuation results	12
7	Sensitivity analysis	13
8	Risks and uncertainty	14
9	Analysis of Surplus	15
10	Conclusion	16

1. Executive summary

The purpose of this Solvency Assessment Report (“SAR”) is to advise the Trustees of the Dignity Limited Trust Fund (“the Trust”) (“the Trustees”) of the results of a Solvency Assessment completed with an effective date of 24 September 2022 (“the valuation date”). This report is produced in line with the latest FCA regulations that took effect on 29 July 2022, and follows the requirements set out by the FCA in the FCA handbook and specifically FPCOB 3.2.

The solvency assessment values a “cover level” for each plan held by the Trust. The cover level is the amount the Company will withdraw from the Trust to provide a funeral for the plan holder. The cover level is determined by the Company and provided to us for the purpose of carrying out a valuation.

In valuing the liabilities of the Trust we have only considered the plans in force at the valuation date, and have made no allowance for any financial support that may be available from the Company.

The FCA requires that liabilities are measured on a “best estimate” basis, which is a basis where there is an equal chance that actual results will be either better or worse than assumed. The FCA’s definition of the “solvency level” (used in this report) is the ratio of trust assets over trust liabilities, measured on a best estimate basis.

The market value of the Trust’s assets as at 24 September 2022 has been calculated to be £1.852 million. The best-estimate liabilities of the Trust were calculated to be £1.439 million, which results in:

A **surplus** - i.e. assets less liabilities
- of more than **£0.413m**

A **solvency level** (as defined by the
FCA) of more than **129%**

This is the first year that a best-estimate valuation of the Trust has been carried out. In our valuation of the Trust at 24 September 2021 on a prudent basis, the Trust had a surplus of £0.21m, corresponding to a solvency level of 110%.

This report, taken together with all associated letters and emails, has been prepared in accordance with the Technical Actuarial Standards, issued by the Financial Reporting Council, that are relevant to the scope of this work insofar as they apply. These are TAS 100 (Principles for Actuarial work) and TAS 400 (Funeral plan trusts). The latest TAS 400 publication does not yet reflect the upcoming FCA regulation, and we have therefore applied TAS 400 to the extent considered relevant to the SAR rules prescribed by the FCA.

2. Description of plans

Details of plans



Funeral plans are paid for by either a single payment at the outset or monthly instalments. All instalment plans in the Trust are now fully paid up and no further instalments are due.

The cover level valued includes:

- Funeral Director Services or “FDS” cover covering the cost of providing the funeral; and
- Disbursements covering additional services such as Doctors and Ministers fees.

We understand the FDS cover exceeds the marginal cost of providing a funeral and therefore includes an element to cover administration and profit.

On cancellation of a plan (sold prior to the date of this valuation) the plan holder receives back the instalments paid to date, less a cancellation fee.

The Trust is closed to new business.

Valuation of liabilities



The liabilities valued in this valuation are the liabilities of the Trust, rather than the Company, which are based on the funeral cover levels that the Company has instructed us to use.

The membership data used in our valuation is effective as at 30th September 2022 (6 days after the valuation date), as this was the closest date where data was available. We do not consider the short gap between the data date and valuation date to lead to any material errors in the valuation of liabilities.

We have not considered the effects of any potential extra costs that may be borne by the Company should the actual funeral costs for guaranteed funeral plans exceed the cover levels provided.

Neither have we considered how the cover levels compare to the cost of providing a funeral on the open market or otherwise how the plans could be provided if the Company is unable to provide the funeral, including on insolvency.

3. Summary of membership data

Membership data for the valuation of the Trust's liabilities was supplied in electronic format by the Company on 7th October 2022.

The cover level is paid to the Company on death of a plan holder.

The cover levels are either subject to discretionary increases or, in a limited number of cases, increased in line with increases in RPI, as set out below.

Group plans are those where Dignity is responsible for providing the funeral, non-group plans are those where an independent party is responsible.

	Number of plans (including lapses)	Total cover level (£)
FDS discretionary – group	1,277	1,169,519
FDS discretionary – non-group	84	130,390
Disbursements - linked to RPI	1,342	54,230
Total	1,361	1,354,139

The Company has granted the following increases to discretionary cover levels (i.e. those not linked to RPI) over the year to 24 September 2022:

FDS – group:
6.1%

FDS – non-group:
6.0%

A summary of plans split by payment type is given below:

	Number of plans	Total cover level* (£)	Average cover level* (£)
Lump Sum	690	694,605	1,007
Instalment (fully paid)	671	659,534	983
Total	1,361	1,354,139	995

* FPCOB 3.2 requires disclosure of 'plan value' in this report. 'Plan value' is not defined by the FCA and so we have interpreted it to refer to cover levels (as defined in this report). However, we believe that other interpretations are possible.

Included within the figures on this page are 68 lapsed plans and 8 plans flagged as either "Moved away" or "Awaiting cancellation". These plans have been valued as active plans with the cover level valued in full.

Whilst we carry out reasonableness checks on the data we are not in a position to independently verify it and so we rely on what has been provided by the Company. For a relatively small number of plans the data was incomplete or invalid. After consultation with the Company we have made appropriate estimates. Any error caused by the estimates is unlikely to be material.

4. Assets

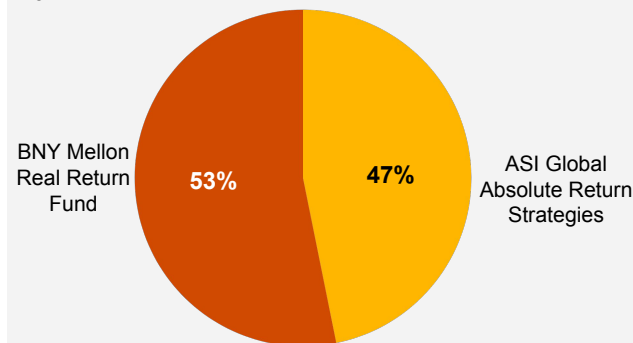
Details of the assets held by the Trust have been provided by the Company on 7 October 2022. We have also been provided with unaudited management accounts dated 26 August 2022. A copy of the management accounts at 24 September 2022 was not available at the time the results were calculated, so 26 August 2022 accounts were used. We are comfortable that any movement between the two dates will not be material. Audited accounts are not available at this date and so these figures have not been independently verified. Invested assets are held with either BNY Mellon or Aberdeen Standard Investments at the valuation date.

As at 24 September 2022	£000s	Notes
Investments	2,366	
Cash & net current liabilities	(514)	1
Adjusted value of Trust assets	1,852	
Receipt of net outstanding instalments	0	2
Total assets for valuation	1,852	

1. This is made up of: £345k of short term deposits and cash, less accruals of £859k.
2. The present value of outstanding instalments, discounted at assumed rate of investment return shown on page 10.

Items 1 and 2 are as at 26 August 2022 as no data was available at 24 September 2022. We do not expect the impact of using data at 26 August 2022 to be materially different to 24 September 2022.

Trust assets by asset class as at 24 September 2022



Monies deducted from Trust over year to 24 September 2022 (£000s)*

Cancellation payments	5.5
Payments on death during the year	173.0

*Data for 11 months to August 2022 has been scaled up to show annual figures

5. Valuation method and assumptions

Liabilities

For the valuation we have assumed that the Trust continues to fully support existing plans and does not wind up during the lifetime of any current plan holders. Liabilities have been valued by:

1

Projecting future cover levels allowing for discretionary or RPI increases (where appropriate) between the valuation date and the date of payment.

This part of the method applies only to benefits payable on the death of a plan holder, as the projected cancellation amount of a given plan does not change.

2

Identifying future cash flows by calculating the probability of a plan holder's death and cancellation in each future time period and multiplying this by the projected value of the cover level or cancellation payment in each instance.

3

Discounting each future cash flow from the date of projected payment back to the valuation date at the assumed best estimate rate of investment return to value liabilities.

The assumptions used are shown on pages 10 and 11.

Expenses: The costs of maintaining and terminating plans have been provided by the Company. We have valued these expenses in the same way as the liabilities, including allowing for an inflationary increase.

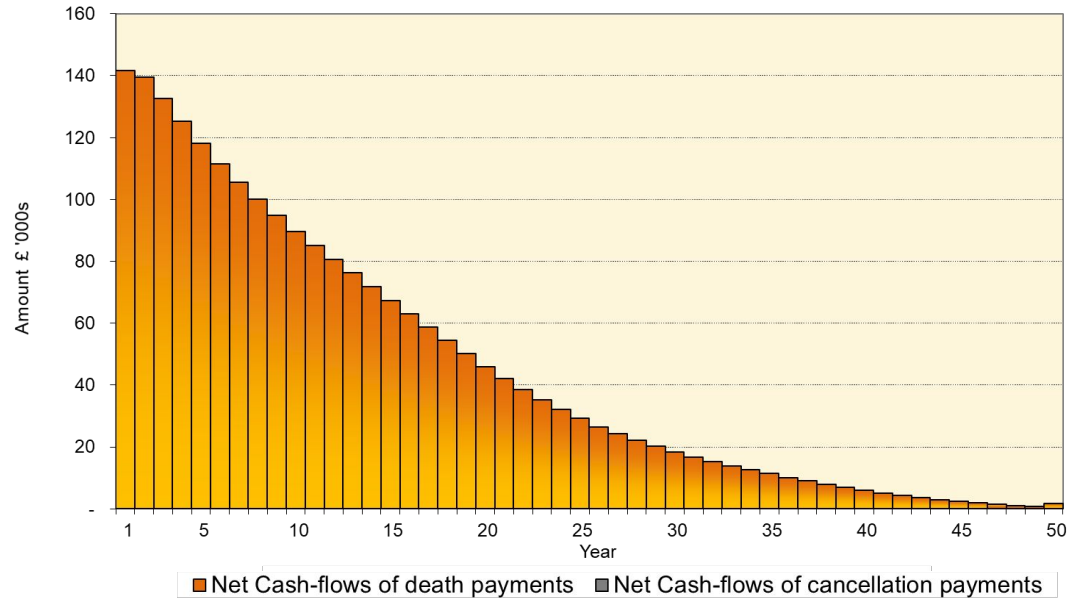
Assets

We have valued assets at their market value.

5. Valuation method and assumptions

Expected Trust cash flows

This chart shows expected cash flows over the next 50 years using the valuation model described on the previous page.



Please note that any cash flows projected to be paid beyond year 50 have been grouped into the year 50 cash flow above.

5. Valuation method and assumptions

Financial assumptions

Discount rate

The discount rate has been derived using a deterministic, asset-led approach, and represents a best estimate of the expected long-term returns on the long-term asset strategy. At 24 September 2022, this gives an assumed return of 5.25% p.a.

This is a change in approach compared to last year. Further details on the methodology and reasons for the change have been set out in our assumptions report to the Trustees dated October 2022.

RPI inflation

The RPI assumption is calculated using the Bank of England RPI curve and the expected Trust cash flows to derive a single equivalent RPI rate. This single rate is effectively a weighted average of the market's future inflation expectations, including an allowance for higher inflation in the short-term (because the curve is downward sloping).

As of 24 September 2022, this gives an RPI rate of 3.95% p.a.

In addition, we have made a one-off allowance for the impact that recent high levels of inflation could have on the Trust's cover levels over the next year.

Cover increases

Where linked to inflation, funeral cover is assumed to increase at 3.95% p.a. from year 2 onwards.

Where linked to discretionary increases, the Company has informed us that FDS cover is expected to increase at 0.5% p.a. above RPI. We have therefore used an assumption of 4.45% p.a. from year 2 onwards.

We have allowed for higher increases in year 1, which reflect recent known RPI movements and the way that cover levels have been increased to allow for RPI movements in recent years. These increases are shown in the table to the right.

Expenses

Expenses are assumed to increase at 4.45% p.a. This is 0.50% p.a. higher than assumed RPI and allows for the likelihood that expenses will increase at a greater rate than RPI inflation.

We have not allowed for higher expense inflation in year 1 for simplicity and because this would not have a material impact on the liabilities.

Tax

We have assumed no tax is payable other than on a refund of surplus, as advised by the Company.

Financial assumptions summary		2022	2021
		% p.a.	% p.a.
Investment return / discount rate		5.25	1.10
RPI linked cover increases	Year 1	9.90	3.80
	Year 2 onwards	3.95	
Discretionary cover increases	Year 1	11.45	4.30
	Year 2 onwards	4.45	
Expense inflation		4.45	4.30

5. Valuation method and assumptions

Demographic assumptions

Mortality

The mortality of plan holders is assumed to be in line with the English Life Tables No. 17 (“ELT 17”) tables, which has been set to reflect past experience of the Trust and is reviewed periodically.

No allowance is made for future improvements in longevity because the results are less sensitive to this assumption and any improvements would reduce the liabilities.

Cancellation

Cancellation assumptions are based on previous Trust experience. We use an assumption of nil cancellations on the basis that the Trust is closed to new business and all plans have been held for at least 10 years.

6. Valuation results

The results of the valuation on the best estimate basis as described on pages 10 and 11 are shown below.

As at 24 September 2022	Best Estimate Results (£000s)
Funeral Director Services	1,296
Disbursements	52
Expense reserve	91
Total Liabilities	1,439
Market value of Trust assets	1,852
Total Assets	1,852
Surplus / (deficit)	413
Solvency level	129%

Approximately **95%** of the Trust's liabilities relate to funeral plans where Dignity is responsible for providing the funeral, with a third party responsible for providing funerals for the remaining plans. See page 6 for further information and a split of the cover levels.

7. Sensitivity analysis

Financial assumptions

The results are sensitive to the valuation assumptions, in particular to the discount rate and RPI inflation assumption. The scenarios in the table below would have an impact on the Trust's surplus and solvency level, as shown.

Assumption sensitivity*	Change in assumption	Best estimate surplus (£000s)	Impact of change (£000s)	Solvency level
Base result	-	413	-	129%
Discount rate	+ 1% p.a.	517	104	139%
RPI inflation assumption	+ 1% p.a.	303	(110)	120%
Life expectancy**	+ 1 year	423	10	130%

* Results show the impact on the surplus of a change in the assumption in isolation. We have assumed the value of invested assets remain unchanged.

** Sensitivity to life expectancy based on the assumption that all plan holders live one year longer.

Cancellation

The Trust had sufficient assets at the valuation date to cover a scenario where every plan holder cancelled their plan.

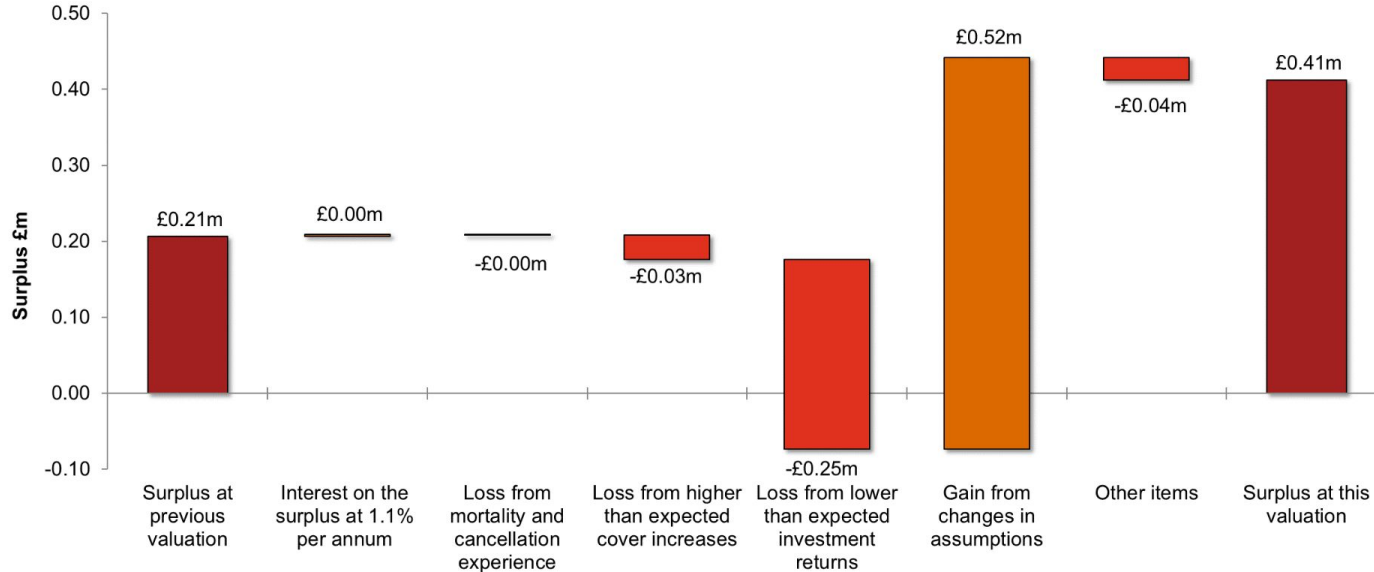
8. Risks and uncertainty

The Trust is exposed to the following risks which need to be managed appropriately:

- **Investment risk:** the risk that the actual asset returns on the Trust assets are lower than the assumed rate of return over the long term.
- **Mismatching risk:** the risk that differences between the characteristics of the liability cash flows and the Trust assets result in the value of liabilities increasing as a result of certain market conditions without a corresponding increase in the assets.
- **Currency risk:** the risk of unfavourable currency movements on any unhedged overseas assets, given the liabilities are all in GBP.
- **Manager risk:** the risk that the investment manager underperforms their given benchmarks or makes asset allocation decisions that lead to the Trust assets underperforming the liabilities.
- **Inflation risk:** the risk that a period of high inflation results in higher than expected increases to cover levels leading a deterioration of the Trust's funding position and / or the risk that cover levels are insufficient to cover the cost of providing funerals.
- **Data:** the risk of errors in the underlying data which would directly impact the valuation of the Trust's liabilities.
- **Mortality:** this risk that mortality may not to follow the assumptions made meaning that payments from the Trust assets follow a different pattern to expected.
- **Covenant risk:** the risk that the Company is no longer able to support the Trust or provide the funerals promised to plan holders.
- **Climate risk:** the risk that the physical consequences of climate change lead to earlier deaths than expected, and investment risk due to the effects of a transition to a lower carbon economy on the investment markets.

9. Analysis of Surplus

The chart on this page sets out the key reasons for the increase in surplus over the year. At 24 September 2021, the solvency level on a prudent basis was £0.21m, whilst at 24 September 2022 the solvency level on a best estimate basis was £0.41m. This improvement in solvency level is primarily due to the change in assumptions from a prudent basis to a best estimate basis (and in particular a higher discount rate assumption), partially offset by lower than expected investment returns.



9. Conclusion

This report sets out the results of the solvency assessment of the Trust as at 24 September 2022.

As measured on the assumptions and methodology set out in this paper, the results show a surplus of £0.41 million, equivalent to a solvency level of 129%.

For compliance with the documentation of the Trust and FCA regulations, we understand that the next assessment should be carried out with an effective date no later than 24 September 2023.



Emma Morton

Fellow of the Institute of Actuaries

PricewaterhouseCoopers LLP

November 2022

This document has been prepared only for Trustees of the The Dignity Limited Trust Fund and solely for the purpose and on the terms agreed with us as per our engagement letter dated 27 September 2022. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else without prior consent.

© 2022 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

RITM8942748