The Dignity Limited Trust Fund

Solvency Assessment Report
as at 24 September 2023

2 November 2023

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Contents

Important Notice

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

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A copy of this report has been sent to Dignity Funerals Limited (“the Company”) as set out in our agreement with them dated 22 September 2023. 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, in its entirety only, as required by the FCA but PricewaterhouseCoopers LLP accepts no responsibility to anyone who may view the report other than the Trustees.

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 2023 ("the valuation date"). This report is produced in line with the 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 2023 have been calculated to be £1.489 million. The best-estimate liabilities of the Trust have been calculated to be £1.069 million, which results in:

A **surplus** - i.e. assets less ongoing liabilities - of **£0.420 million**

A **solvency level** (as defined by the FCA) of **139%**

As at 24 September 2022 the Trust had a surplus of £0.413m on a best estimate basis corresponding to a solvency level of 129%.

This report, taken together with our data letter and assumptions paper, 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 V2.0 (Principles for Actuarial work, dated March 2023) and TAS 400 V3.0 (Funeral plan trusts, dated July 2023).

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.

The cover levels are increased each year either by a discretionary increase, where the plan holder’s funeral is guaranteed by the Company to be provided at no extra charge, or in line with increases in the Retail Prices Index (“RPI”). The Company informs us of the discretionary increases applied to cover levels each year. The split of plans between discretionary and RPI increases is shown in the table on page 6.

On cancellation of a plan the plan holder receives back the instalments paid to date, less a cancellation fee.

The Trust closed to new business prior to the FCA regulations coming into effect on 29 July 2022.

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 provided in the data provided to us.

The membership data used in our valuation is effective as at 22nd September 2023, the last business day prior to the valuation date.

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.

Nor 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 9 October 2023. All plan instalments have been fully paid by plan holders.

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	**1,162**	**1,118,383**
FDS discretionary – non-group	**76**	**124,042**
Disbursements - linked to RPI	**71***	**62,449**
Total	**1,238**	**1,304,874**

*This figure reflects plans where the disbursement cover is non-zero. The previous Solvency Assessment Report showed the total number of plans categorised as having disbursements, regardless of the disbursement cover level.

The Company has granted the following increases to discretionary cover levels (i.e. those not linked to RPI) over the year to 24 September 2023:

FDS – group:
5.0%

FDS – non-group:
5.0%

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

	Number of plans	Total cover level* (£)	Average cover level* (£)
Lump Sum	611	648,679	1,062
Instalment (all fully paid)	627	656,195	1,047
Total	**1,238**	**1,304,874**	**1,054**

* 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; for these plans we have made appropriate estimates. Any error caused by the estimates is unlikely to be material.

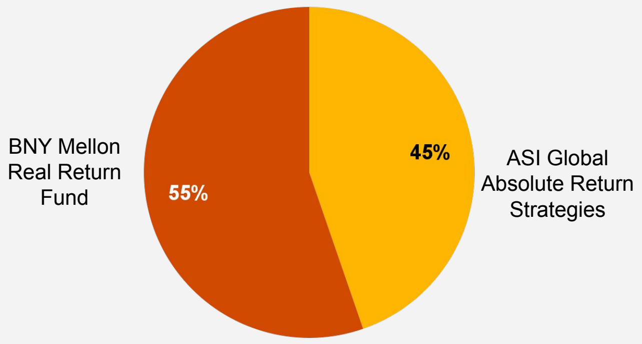
4. Assets

Details of the assets held by the Trust, and the net current liabilities, were provided by the Company on 2, 4, 17, 20 and 25 October 2023. This included unaudited management accounts for the quarter ending 24 September 2023. 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 Abrdn plc at the valuation date.

As at 24 September 2023	£000s	Notes
Investments	2,252	
Cash & net current liabilities	(763)	1
Adjusted value of Trust assets	**1,489**	
Receipt of outstanding instalments	0	2
Total assets for valuation	**1,489**	

1. This is made up of: £238k of short term deposits and cash, less accruals of £1,001k.
2. All plan instalments have been fully paid by plan holders, so there are no future receipts of outstanding instalments expected.

Trust assets by asset class as at 24 September 2023



Monies deducted from Trust over period from 24 September 2022 to 24 September 2023 (£000s)	
Cancellation payments	14.5
Payments on death during the year	119.1

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.

An expense reserve is included in the value of liabilities, which has been calculated as the capitalised value of future expenses taking into account:

- An expected annual expense amount for the Trust reflecting the expected pattern of future expenses
- The expected number of existing plan holders remaining in the Trust in each future year
- Increases in expenses at a rate of CPI+2% p.a. and discounting future expenses at the rate of assumed investment return.

This is a change in approach from last year.

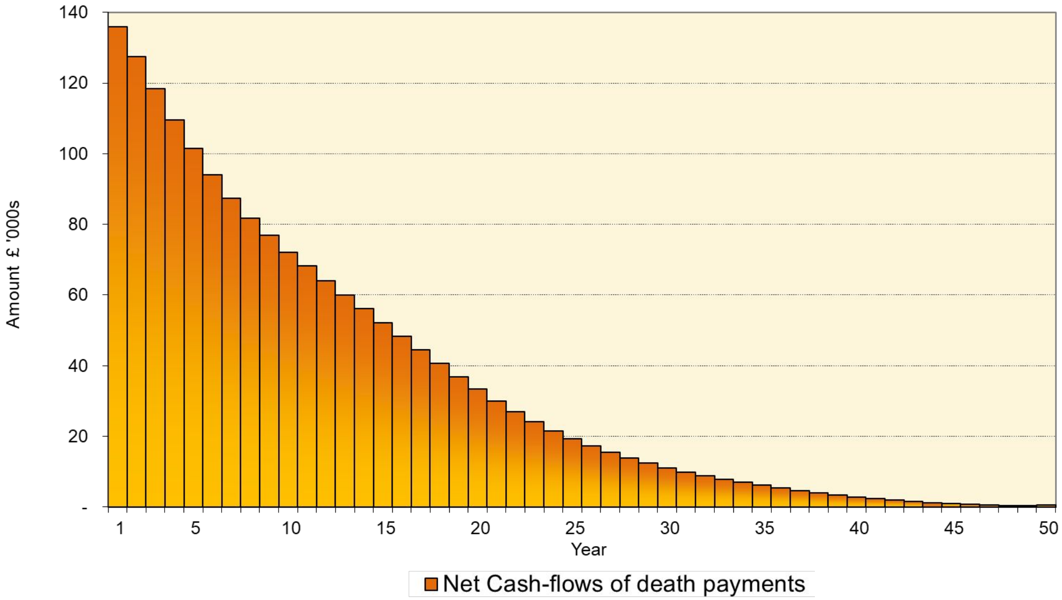
Assets

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, as the annual cash flows past this point are not material.

5. Valuation method and assumptions

Financial assumptions

Discount rate

Consistent with last year, the discount rate has been derived using a deterministic, asset-led approach, and represents a best estimate of the expected long-term returns on Trust assets. At 24 September 2023, this gives an assumed return of 7.55% pa.

Further details on the methodology have been set out in our assumptions report to the Trustees dated 13 October 2023.

RPI and CPI inflation

The RPI assumption is set using the Bank of England inflation curve.

The CPI assumption is based on the RPI inflation curve described above, with further deductions of 1% p.a. pre-2030 and nil post-2030 to allow for the anticipated difference between RPI and CPI.

This is consistent with the 2022 valuations.

Cover increases

For Disbursement cover, which is contractually linked to RPI, funeral cover is assumed to increase in line with the RPI assumption.

For FDS cover, where increases are discretionary, cover is assumed to increase in line with the CPI assumption. This is a change from the last valuation where RPI inflation plus a fixed margin of 0.50% pa was used.

We have adjusted each inflation curve in Year 1 to allow for the impact that recent high levels of inflation could have on the Trust's cover levels over the next year.

The valuation model uses the full inflation curves, applying the relevant spot yield from the curves to the future cash flows. The 'Year 2 onwards' rates shown in the table are single equivalent rates shown for presentational purposes only.

Expenses

Expenses are assumed to increase at a rate 2% p.a. higher than the assumed rate of CPI (excluding the increased inflation allowance in year 1). At the last valuation they were assumed to increase in line with RPI + 0.5% p.a.

Tax

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

Financial assumptions summary		2023 % p.a.	2022 % p.a.
Investment return / discount rate		7.55	5.25
RPI linked cover increases	Year 1	6.10	9.90
	Year 2 onwards	3.70*	3.95
Discretionary cover increases	Year 1	4.50	11.45
	Year 2 onwards	3.00*	4.45
Expense inflation		5.00	4.45

* Single inflation rates shown for presentational purposes only. The full inflation curves are used in practice.

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.

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 14 August 2023	Best Estimate Results (£000s)
Funeral Director Services	915
Disbursements	49
Expense reserve	105
Total Liabilities	**1,069**
Market value of Trust assets	1,489
Total Assets	**1,489**
Surplus / (deficit)	**420**
Solvency level	**139%**

Approximately **90%** 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

Assumptions

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

Assumption sensitivity[1]	Change in assumption	Best estimate surplus (£000s)	Impact of change (£000s)	Solvency level
Base result	-	420	-	139%
Discount rate	+ 1% p.a.	482	62	148%
Inflation assumption[2]	+ 1% p.a.	355	(65)	131%
Life expectancy[3]	+ 1 year	464	44	145%

1. 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.
2. Sensitivity to a +1% p.a. increase to the RPI inflation assumption, applied to the full inflation curve, and including the subsequent impact on the CPI inflation assumption.
3. 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. There are number of investment risks to consider, including:

- **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.

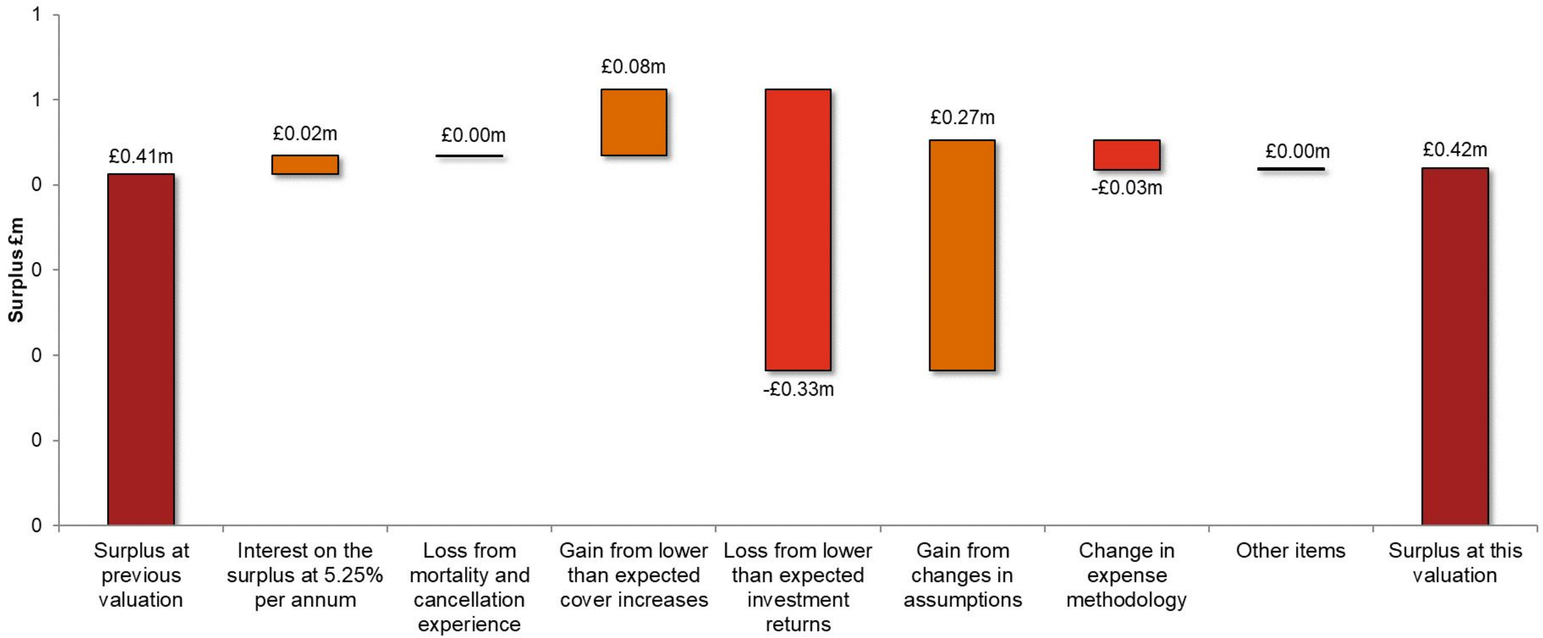
Mortality and cancellation: the risk that mortality may not to follow the assumptions made meaning that payments from the Trust assets follow a different pattern to expected.

Covenant risk: the risk that the Company is no longer able to support the Trust or provide the funerals promised to plan holders, and the Trust is unable to secure funerals from another provider at the cover levels valued.

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, from £0.413m at 24 September 2022 to £0.420m at 24 September 2023.



10. Conclusion

This report sets out the results of the solvency assessment of the Trust as at 24 September 2023.

As measured on the the best estimate assumptions, the results show a surplus of £0.42 million, equivalent to a solvency level of 139%.

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 2024.

Emma Morton

Fellow of the Institute of Actuaries

Partner at PricewaterhouseCoopers LLP

2 November 2023