

The Dignity Limited Trust Fund

Solvency Assessment Report
as at 24 September 2021

July 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.

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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 16 July 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 PwC 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	Conclusion	15

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 2021 (“the valuation date”). This report follows the requirements set out by the FCA in the FCA handbook and specifically FPCOB 3.2.

This is the first SAR produced for the Trust, in anticipation of the upcoming FCA regulations taking effect on 29 July 2022. We expect the content of future reports to be developed over time.

The results provided in this SAR were previously provided to the Trustees in our valuation report dated July 2022.

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. For this valuation, in order to sustain the solvency of the Trust, the Company has set the cover level as one expected to be consistent with 110% solvency on a prudent basis and this is reflected in the 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.

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.

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.

For the purpose of this first SAR, we have shown the liabilities valued on a prudent basis, as described on page 10, because this was the basis of the valuation carried out as at the valuation date earlier this year. If we had instead used a best estimate basis, the funding level would have been higher than that shown below. For this reason, we have not re-run the valuation using best estimate assumptions.

The market value of the Trust’s assets as at 24 September 2021 has been calculated to be £2.26 million. The liabilities of the Trust were calculated to be £2.05 million, which results in:

A surplus - i.e. assets less liabilities
- of more than **£0.21m**

A solvency level (as defined by the
FCA) of more than **110%**

Note that we have not included prior year results as this is the first SAR we have produced for this Trust but would expect to do so in future years.

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.

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 2021 and cover levels were updated following instruction from the Company on 7 June 2022. 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.

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	1,417	1,226,034
FDS discretionary – non-group	93	134,650
Disbursements - linked to RPI	1,488	48,652
Total	1,510	1,409,336

The Company has granted the following increases to discretionary non-group cover levels (i.e. those not linked to RPI) over the year to 24 September 2021:

FDS – non-group:
3.0%

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

	Number of plans	Total cover level* (£)	Average cover level* (£)
Lump Sum	776	730,544	941
Instalment (fully paid)	734	678,792	925
Total	1,510	1,409,336	933

* 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 9 plans flagged as either "Moved away" or "Awaiting cancellation". These plans have been valued as active plans with the cover level valued in full.

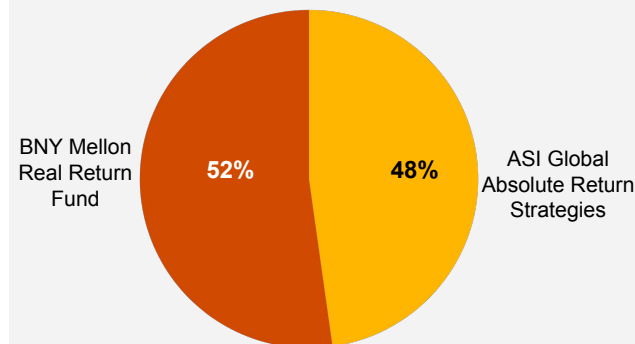
4. Assets

Details of the assets held by the Trust and deductions have been supplied in the form of unaudited management accounts for the quarter ending 24 September 2021 provided by the Company on 22 October 2021. Audited accounts are not available at this date and so these figures have not been independently verified. All invested assets are held with either BNY Mellon or Aberdeen Standard Investments at the valuation date.

As at 24 September 2021	£000s	Notes
Investments	2,918	
Cash & net current liabilities	(657)	1
Adjusted value of Trust assets	2,261	
Receipt of net outstanding instalments	0	2
Total assets for valuation	2,261	

1. This is made up of: £129k of short term deposits and cash, plus other debtors of £10k, less accruals of £796k.
2. The present value of outstanding instalments, discounted at assumed rate of investment return shown on page 10.

Trust assets by asset class as at 24 September 2021



Monies deducted from Trust over year to 24 September 2021 (£000s)

Cancellation payments	9
Payments on death during the year	220

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.

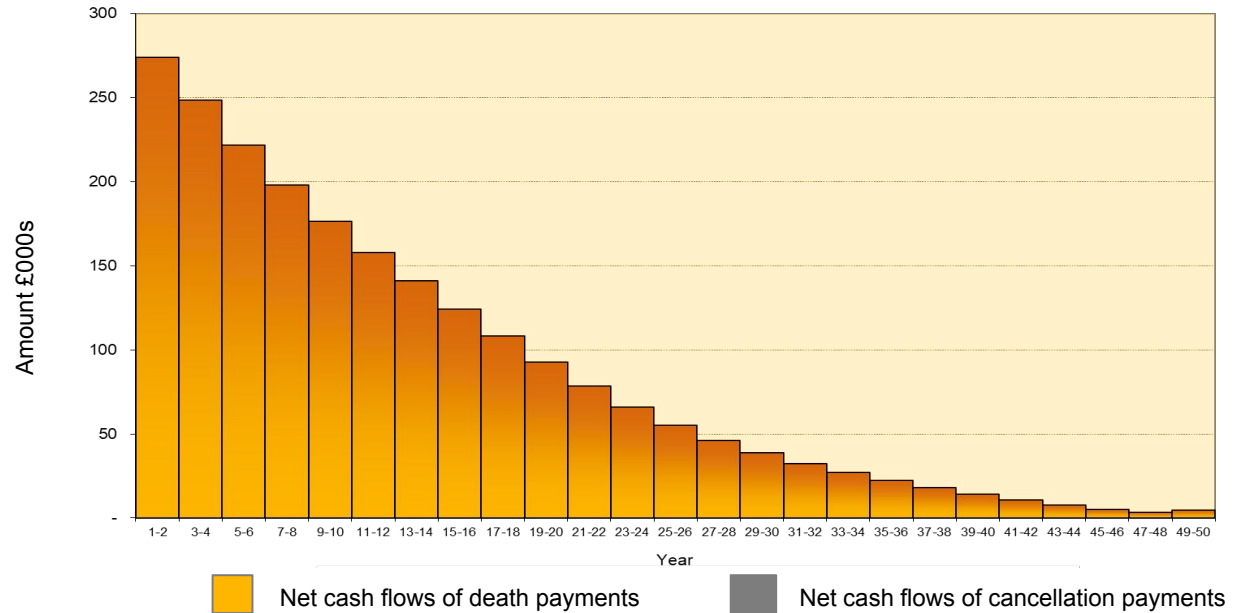
Assets

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 49-50 cash flow above.

We have used 2 year bands because these are the ones we already have. The 1 year bands are about half of the 2 year bands. We have not recalculated them so as to avoid unnecessary work, but will do so for future SARs.

5. Valuation method and assumptions

Financial assumptions

Discount rate

The discount rate has been derived by considering the Bank of England forward rates at different durations to get the risk-free real yield at durations of up to 40 years. Beyond 40 years, we have assumed that the yield is flat as per the rate at 40 years. Feeding these individual rates into our valuation model to calculate a value of liabilities, we then determined the single rate that would give the same value of liabilities.

As at 24 September 2021 this rate was 1.10% p.a..

We consider this to be a prudent discount rate. We are using this rate because this was the basis of the valuation carried out as at the valuation date earlier this year. If we had instead used a best estimate basis, the funding level would have been higher than that shown in this report. For this reason, we have not re-run the valuation using best estimate assumptions.

RPI inflation

The RPI assumption is calculated by using the Bank of England RPI curve and the Trust cash flows to derive a single equivalent RPI rate. As of 24 September 2021, this gives an RPI rate of 3.80% p.a..

We consider that it would be reasonable to make a deduction of 0.25% p.a. from the cash flow weighted yield to allow for supply and demand distortions in the market. However, we have not applied this deduction and this results in a prudent RPI assumption. In line with previous comments, we consider this approach to be proportionate for the purpose of this SAR.

Cover increases

Where linked to inflation, disbursements are assumed to increase at 3.80% p.a..

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 4.30% p.a..

Expenses

Expenses are assumed to increase at 4.30% 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.

Tax

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

Financial assumptions summary	2021 % p.a.
Investment return / discount rate	1.10
Funeral Director Services – discretionary	4.30
Disbursements – RPI linked	3.80
Expense inflation	4.30

Note that we have not included prior year assumptions as this is the first SAR we have produced for this Trust but would expect to do so in future years.

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 broadly reflect past experience of the Trust and is reviewed periodically.

No allowance is made for future improvements in longevity because the results are not particularly 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 2021	Best Estimate Results (£000s)
Funeral Director Services	1,853
Disbursements	62
Expense reserve	140
Total Liabilities	2,055
Market value of Trust assets	2,261
Total Assets	2,261
Surplus / (deficit)	206
Solvency level	110%

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.

Note that we have not included an analysis of surplus as this is the first SAR we have produced for this Trust but would expect to do so in future years.

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	Surplus (£000s)	Impact of change (£000s)	Solvency level
Base result	-	206	-	110%
Discount rate	+ 1% p.a.	411	205	122%
RPI inflation assumption	+ 1% p.a.	(32)	(238)	99%

Mortality

The results of the Trust are less sensitivity to the assumed future mortality rates. This is because the mortality assumption only affects the timing of a payment from the Trust, and not whether a payment is made at all.

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. Conclusion

This report sets out the results of the solvency assessment of the Trust as at 24 September 2021.

As measured on the assumptions and methodology set out in this paper, the results show a surplus of £0.21 million, equivalent to a solvency level of 110%.

As explained above, this is a more cautious assessment than the best estimate approach proposed by the FCA and hence that approach would show a higher solvency level. Given the small size of the Trust and that the prudent results were readily available, and clearly exceed the FCA solvency test, we consider that this is a proportionate approach to preparing this initial SAR, consistent with Technical Actuarial Standard 400 issued by the FRC.

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 2022.



Emma Morton

Fellow of the Institute of Actuaries

PricewaterhouseCoopers LLP

July 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 14 January 2010. 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.

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