

National Funeral Trust

Solvency Assessment Report
as at 14 August 2023

25 September 2023



Important Notice

This report has been prepared by PricewaterhouseCoopers LLP based on the instructions provided by the Trustees of the National Funeral Trust (“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.

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 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.

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 National Funeral Trust (“the Trust”) (“the Trustees”) of the results of a Solvency Assessment completed with an effective date of 14 August 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 14 August 2023 has been calculated to be £604.6 million (including £49.1 million for the discounted value of outstanding instalments for existing plans). The best-estimate liabilities of the Trust were calculated to be £409.0 million, which results in:

A **surplus** - i.e. assets less ongoing liabilities - of **£195.6 million**

A **solvency level** (as defined by the FCA) of **148%**

As at 24 September 2022 the Trust had a surplus of £138.5m on a best estimate basis corresponding to a solvency level of 130%.

This report, taken together with our data letter, assumptions paper [and supplementary 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. Instalment payment plans are payable over a term of up to 25 years.

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.

Since 2019, some instalment plans have been taken out alongside an insurance product offered by L&G to cover any instalments outstanding on the death of the plan holder. For older plans without insurance we have assumed that any outstanding instalments must be paid on the death of a plan holder in order for the funeral to be provided.

On cancellation of a plan the plan holder receives back the instalments paid to date, less a cancellation fee (noting that all plans were sold prior to the FCA regulations coming into effect on 29 July 2022).

The Trust was closed to new business from 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 plan holder data used in our valuation is effective as at 14 August 2023. We were provided with data on outstanding instalments effective as at 31 July 2023, together with details of instalments received between 31 July 2023 and 14 August 2023 which we have adjusted for.

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.

3. Summary of membership data

Membership data for the valuation of the Trust's liabilities was supplied in electronic format by the Company on 18 August 2023, and outstanding instalment data was provided on 21 August 2023.

The cover level is paid to the Company on death of a plan holder. This includes plans which have lapsed provided the unpaid instalments are paid by the estate of the deceased or covered by insurance.

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	156,201	296,701,481
FDS discretionary – non-group	14,166	27,426,636
FDS linked to RPI	11,956	43,237,851
Disbursements – discretionary	160,475	178,150,107
Disbursements linked to RPI	21,848	27,212,772
Total	182,323	572,728,847

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 Company has granted the following increases to discretionary cover levels (i.e. those not linked to RPI) over the period to 14 August 2023:

FDS – group:
5.0%

FDS – non-group*:
5.0%

Disbursements:
6.8%

**Excluding a small number of non-group plans where the cover has remained fixed.*

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

	Number of plans	Total cover level* (£)	Average cover level* (£)
Lump Sum	116,988	373,551,969	3,193
Instalment (fully paid)	39,138	125,272,626	3,201
Instalment (outstanding)	26,197	73,904,252	2,822
Total	182,323	572,728,847	3,141

* 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 2,054 lapsed plans and 159 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

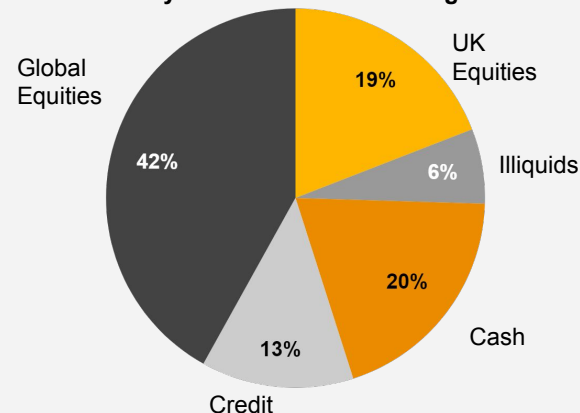
Details of the assets held by the Trust were provided by the Company on 24 August 2023 and 6 September 2023. We have also been provided with unaudited management accounts dated 30 June 2023 and 14 August 2023. Audited accounts are not available at these dates and so these figures have not been independently verified. Invested assets are held with LGIM and Mercer at the valuation date.

As at 14 August 2023	£000s*	Notes
Investments	567,234	
Cash & net current liabilities	(4,985)	1
Adjusted value of Trust assets	562,249	
Receipt of outstanding instalments	49,076	2
Marketing expenses due to Company from outstanding instalments	(2,165)	3
Marketing recoveries due to Company	(4,581)	4
Total assets for valuation	604,580	

1. This is made up of: £1,352k of short term deposits and cash, plus prepayments of £500k, less accruals of £6,837k.
2. The present value of outstanding instalments, discounted at assumed rate of investment return shown on page 10.
3. The amount of outstanding acquisition costs due to be reimbursed to the Company. On cancellation, the Company returns some of these marketing expenses to the Trust.
4. Present value of the amount due to the Company in respect of marketing expenses for some plans, payable as future instalments are received.

Items 1, 3 and 4 are as at 28 July 2023 as no data was available at 14 August 2023. We do not expect the impact of using data at 28 July 2023 to be materially different to 14 August 2023.

Trust assets by asset class as at 14 August 2023



Monies deducted from Trust over period from 24 September 2022 to 14 August 2023 (£m)

Cancellation payments	14.6
Payments on death during the year	31.8
Maintenance and admin fees	1.7
Repayment of marketing expenses	4.0

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.

For instalment plans, if there are any outstanding instalments due when the plan holder dies, we have assumed that they are paid from the plan holder's estate, or where applicable, an insurance policy held by the Company.

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 based on expenses over recent years
- 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 which has been designed to more accurately reflect expected future expenses.

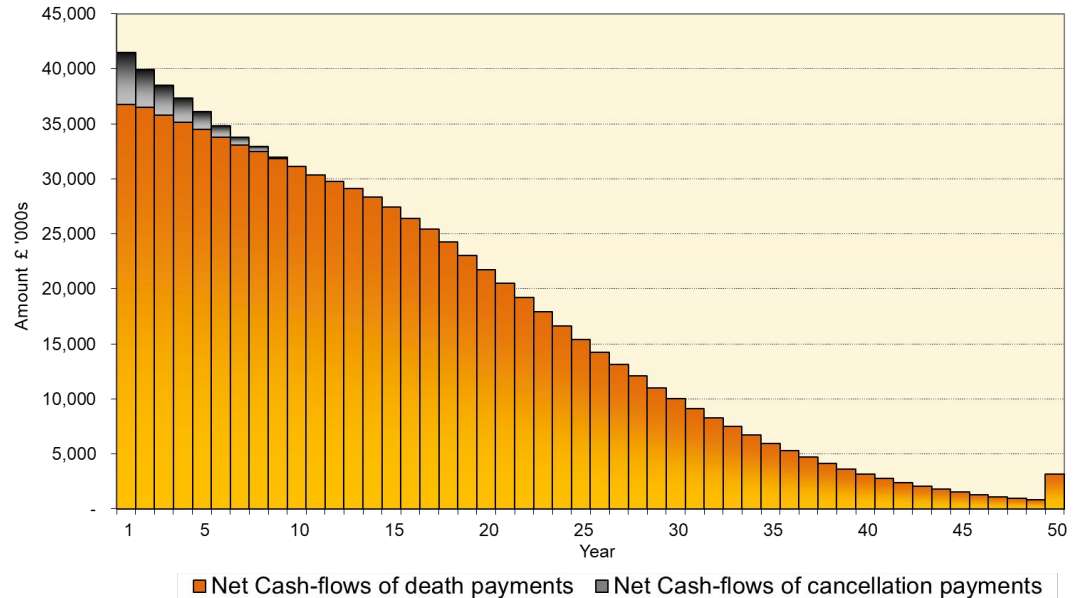
Assets

We have valued assets at their market value, with the exception that outstanding premium instalments due from existing plan holders have been valued by discounting the payments due in future years in line with the best estimate investment return.

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.

The current asset holdings are shown on page 7. As at 14 August 2023 the Trustees' best estimate is that the current investment strategy will be de-risked shortly after the valuation date and the portfolio will be rebalanced as follows:

- UK Equities (16%)
- Global Equities (34%)
- Sterling Credit (31%)
- Cash (19%)

This is the asset portfolio that we have used to derive the discount rate. Until the new investment strategy is implemented, there will be a mismatch between the Trust's actual asset allocations and the long-term allocations used to set the discount rate assumption.

Further details on the methodology are set out in the assumptions paper that we have prepared for the Trustees.

RPI and CPI inflation

The RPI assumption is set using the Bank of England inflation curve, applying a deduction of 0.25% p.a. to allow for supply and demand distortions in the market.

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

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

Where increases are discretionary, both FDS cover and Disbursement cover are assumed to increase in line with the CPI assumption. This is a change from the last valuation where RPI inflation 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	2022
		% p.a.	% p.a.
Investment return / discount rate		6.75	6.70
RPI linked cover increases	Year 1	5.90	9.75
	Year 2 onwards	3.25*	3.65
Discretionary cover increases	Year 1	4.40	11.30
	Year 2 onwards	2.70*	3.65
Expense inflation		4.70*	4.15

* 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 different assumed cancellation rates depending on the number of years since the plan was taken out, with an assumption of no further cancellations after a plan has been held for 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	247,768
Disbursements	138,916
Present value of outstanding instalments payable on death	(8,153)
Present value of payments payable on plan cancellation	14,407
Expense reserve	16,060
Total Liabilities	408,998
Market value of Trust assets	562,249
Receipts of outstanding instalments	49,076
Marketing expenses due to Company from outstanding instalments	(2,165)
Marketing recoveries due to Company	(4,581)
Total Assets	604,580
Surplus / (deficit)	195,582
Solvency level	148%

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

Financial 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	-	195,582	-	148%
Discount rate	+ 1% p.a.	224,054	28,472	159%
Inflation assumption ²	+ 1% p.a.	160,228	(35,354)	136%
Life expectancy ³	+ 1 year	210,294	14,712	153%

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. This is particularly relevant given the investment strategy of the Trust is in the process of being reviewed, and the scenario we have modelled only illustrates one possible investment strategy. 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.

Closure to new business: the closure of the Trust to new business in 2022 means the Trust will see lower levels of cash in-flow and new business profit than in previous years which may introduce liquidity risk and impact on the solvency level in future years.

Data: the risk of errors in the underlying data which would directly impact the valuation of the Trust's liabilities.

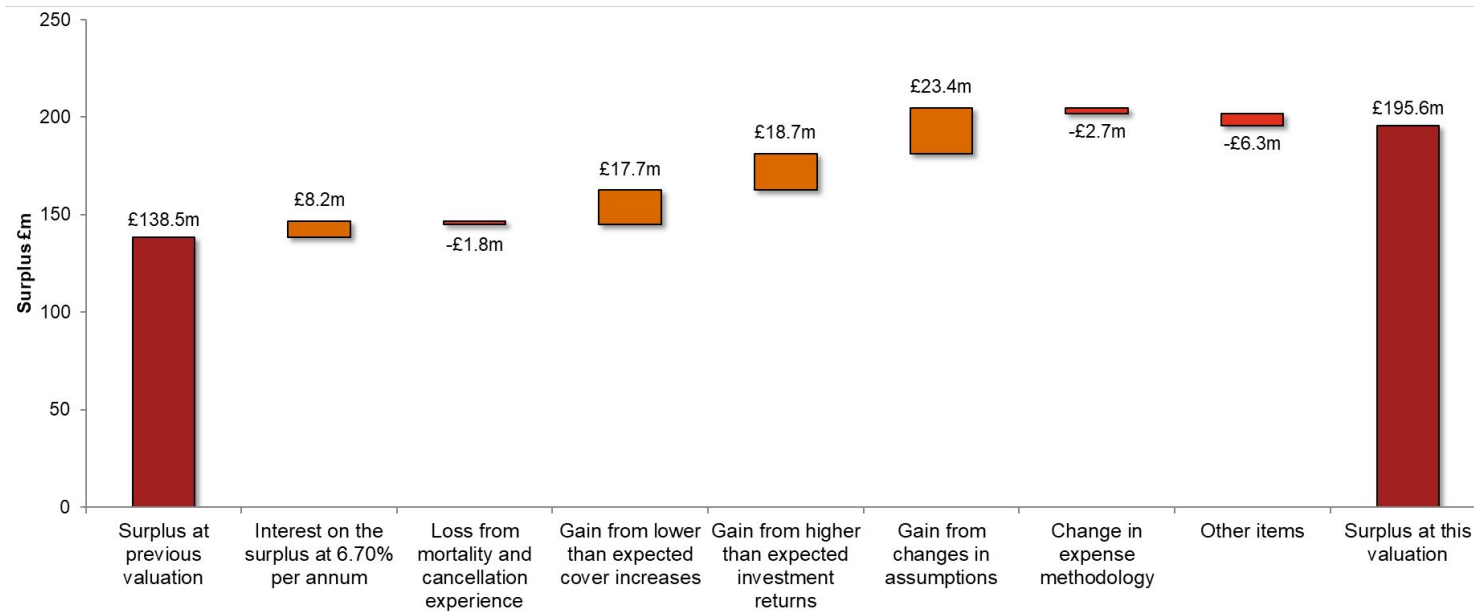
Mortality and cancellation: this risk that mortality and cancellation experience may not follow the assumptions made meaning that payments from the Trust assets could be required sooner than expected.

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 £138.5m at 24 September 2022 to £195.6m at 14 August 2023.



10. Conclusion

This report sets out the results of the solvency assessment of the Trust as at 14 August 2023.

As measured on the the best estimate assumptions, the results show a surplus of £195.6 million, equivalent to a solvency level of 148%.

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 14 August 2024.



Emma Morton

Fellow of the Institute of Actuaries

Partner at PricewaterhouseCoopers LLP

25 September 2023

This document has been prepared only for Trustees of the National Funeral Trust 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.

© 2023 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