The Dignity Limited Trust Fund

Solvency Assessment Report
as at 31 December 2024

11 February 2025

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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. It has been prepared 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 25 September 2024. 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 31 December 2024 ("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 previous solvency assessment was completed with an effective date of 31 December 2023.

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 31 December 2024 have been calculated to be **£1.606 million**. The best-estimate liabilities of the Trust have been calculated to be **£0.973 million**, which results in:

A **surplus** - i.e. assets less ongoing liabilities - of **£0.633 million**

A **solvency level** (as defined by the FCA) of **165%**

As at 31 December 2023 the Trust had a surplus of £0.526m on a best estimate basis corresponding to a solvency level of 148%.

This report, taken together with our 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 solvency assessment carried out at 24 September 2023 was based on a full actuarial valuation, calculating the liability for each individual plan holder. The solvency assessments at 31 December 2023 and 31 December 2024 were carried out by adjusting the 24 September 2023 liabilities using approximate, 'roll-forward' actuarial techniques, taking into account movements in market conditions and known deaths and cancellations between the respective dates.

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 plan holder data

Plan holder data for the valuation of the Trust's liabilities was supplied in electronic format by the Company 9 October 2023, with information on deaths and cancellations since that date supplied on 22 January 2024. 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	1,035	1,042,262
FDS discretionary – non-group	68	115,600
Disbursements - linked to RPI	64	59,469
Total	**1,103**	**1,217,331**

We have estimated the cover levels and split between different plan holder types at 31 December 2024 using the plan holder data from 24 September 2023, adjusted for known deaths and cancellations, and expected cover increases, between the two dates.

The Company has granted the following increases to discretionary cover levels (i.e. those not linked to RPI) over the year to 31 December 2024:

FDS – group:
4.6%

FDS – non-group:
4.6%

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

	Number of plans	Total cover level* (£)	Average cover level* (£)
Lump Sum	545	605,160	1,111
Instalment (all fully paid)	558	612,171	1,096
Total	**1,103**	**1,217,331**	**1,104**

* 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 67 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.

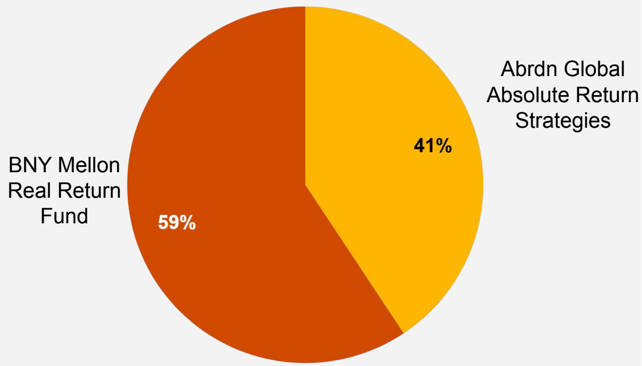
4. Assets

Details of the assets held by the Trust, including the cash held and net current liabilities, were provided by the Company on 22 January 2025. Audited management accounts are not available at this date and so these figures have not been independently verified. Invested assets were held with either BNY Mellon or Abrdn plc at the valuation date.

As at 31 December 2024	£000s	Notes
Investments	1,653	
Cash & net current liabilities	(47)	1
Adjusted value of Trust assets	**1,606**	
Receipt of outstanding instalments	0	2
Total assets for valuation	**1,606**	

1. This is made up of cash of £26k, minus accrued costs and expenses of £73k.
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 31 December 2024



Monies deducted from Trust over period from 31 December 2023 to 31 December 2024 (£000s)	
Cancellation payments	17
Payments on death during the year	110

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.

4

We adjust the liabilities to allow for market movements and known deaths and cancellations since the last valuation date to 31 December 2024 using approximate actuarial techniques. 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.

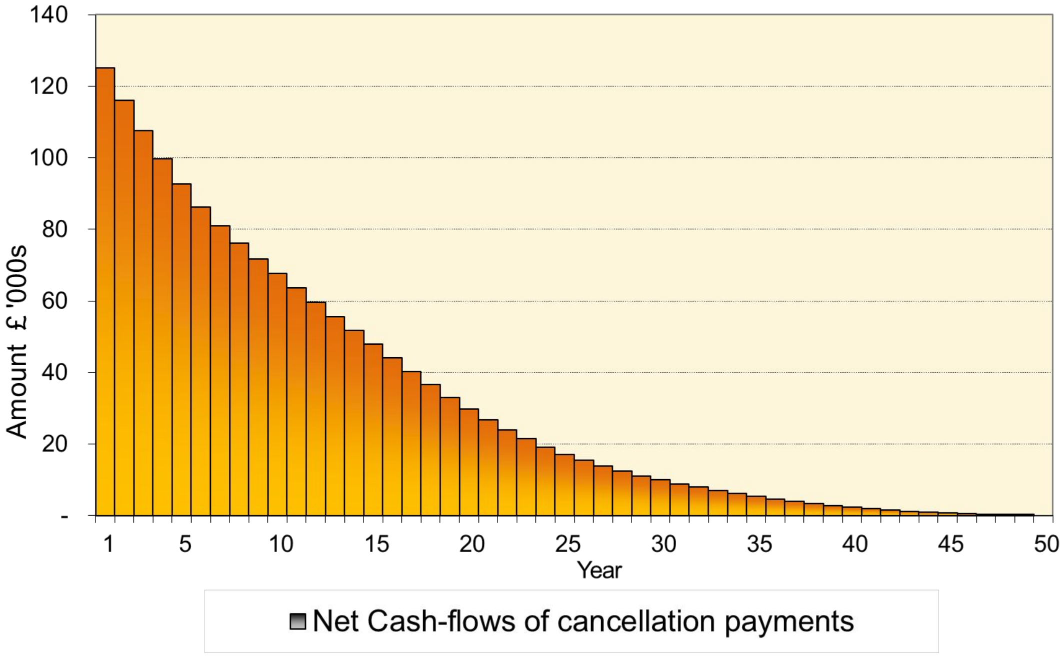
Assets

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.



5. Valuation method and assumptions

Financial assumptions

Discount rate

Consistent with 31 December 2023, 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 resulting assumption is equivalent to 3.00% pa above gilt yields. At 31 December 2024, this gives an assumed return of 7.85% pa.

Further details on the methodology have been set out in our assumptions report to the Trustees dated 25 November 2024.

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 31 December 2023 valuation.

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 consistent with the last valuation.

Expenses

Expenses are assumed to increase at a rate 2% p.a. higher than the assumed rate of CPI. This is consistent with the last valuation.

Tax

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

<table>
<tr><th colspan="2">Financial assumptions summary</th><th>Dec 2024 % p.a.</th><th>Dec 2023 % p.a.</th></tr>
<tr><td colspan="2">Gilt yield</td><td>4.85</td><td>3.85</td></tr>
<tr><td colspan="2">Investment return / discount rate</td><td>7.85</td><td>6.85</td></tr>
<tr><td rowspan="2">RPI linked cover increases</td><td>Year 1</td><td rowspan="2">3.55*</td><td>5.20</td></tr>
<tr><td>Year 2 onwards</td><td>3.45*</td></tr>
<tr><td rowspan="3">Discretionary cover increases</td><td>Year 1</td><td rowspan="3">2.85*</td><td>4.60</td></tr>
<tr><td>Year 2</td><td>2.45</td></tr>
<tr><td>Year 3 onwards</td><td>2.75*</td></tr>
<tr><td colspan="2">Expense inflation</td><td>4.85</td><td>4.75</td></tr>
</table>

* Assumptions shown are single-equivalent rates based on the full inflation curves.

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 31 December 2024	Best Estimate Results (£000s)
Funeral Director Services and Disbursements	859
Expense reserve	114
Total Liabilities	**973**
Market value of Trust assets	1,606
Total Assets	**1,606**
Surplus / (deficit)	**633**
Solvency level	**165%**

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	-	633	-	165%
Discount rate	+ 1% p.a.	700	66	177%
Inflation assumption[2]	+ 1% p.a.	560	(74)	154%
Life expectancy[3]	+ 1 year	674	40	172%

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

As well as the risks highlighted in this paper, the Trusts are exposed to the following risks which need to be managed appropriately:

Investment risk: the risk that the actual asset returns on each Trust's assets are lower than the assumed rate of return over the long term. Specifically, whichever investment strategy the Trust follows, there may be a number of investment risks to consider, including:

- **Mismatching risk**: the risk that differences between the characteristics of the liability cash flows and each Trust's 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 each Trust's 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 each Trust's funding position and / or the risk that cover levels are insufficient to cover the cost of providing funerals.

Liquidity risk: if the Trust experiences unexpected net cash outflows there could be liquidity risks within the current investment strategy. For example, this could occur if a high number of cancellations required significant refunds to be paid.

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

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

Covenant risk: the risk that the Company is no longer able to support each Trust or provide the funerals promised to plan holders as the agreed cover levels, and each Trust is unable to secure funerals from another provider at the cover levels valued. The Trustees commissioned Cardano to carry out a covenant review of Dignity in August 2023 which concluded that it would be reasonable to treat Dignity as a going concern at that point, recognising material uncertainty.

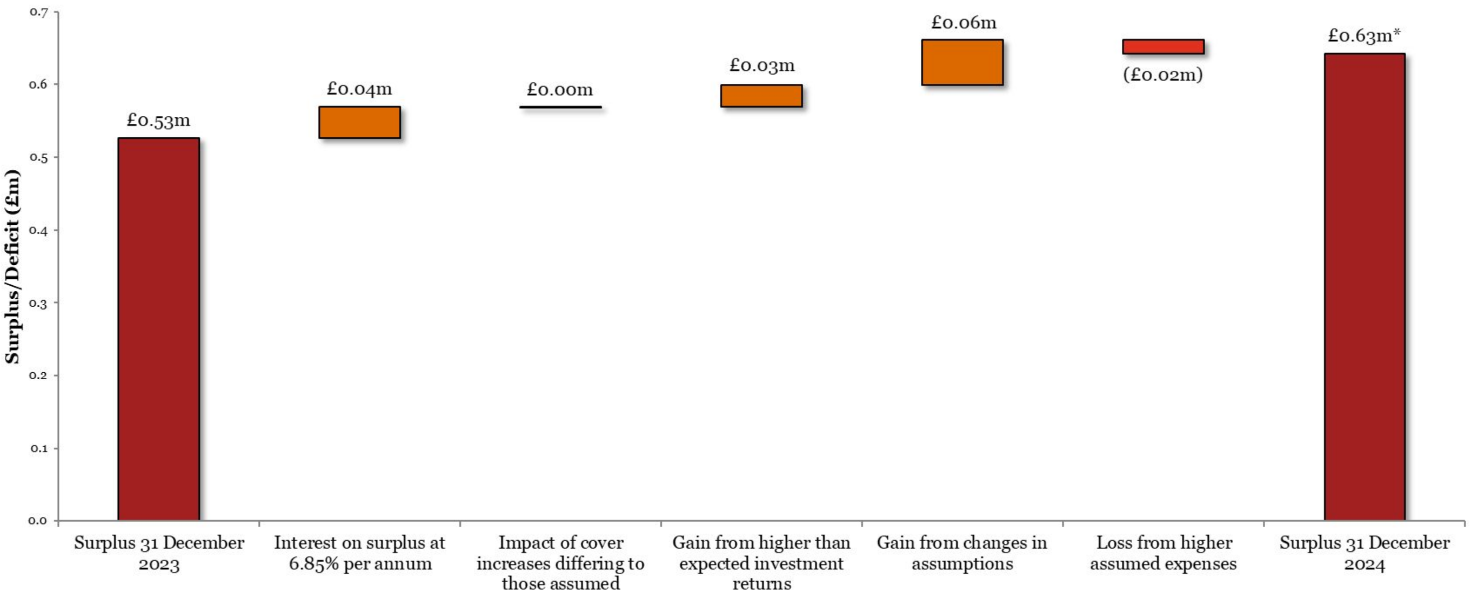
Reputational risk: the risk that Dignity's reputation deteriorates, resulting in a large number of unexpected cancellations.

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.

Regulatory risk: the risk that the current FCA regulated regime changes, resulting in higher than expected costs or increased liabilities for the Trust.

9. Analysis of surplus

The chart on this page sets out the key reasons for there being no change in surplus over the year.



*Values do not sum due to rounding.

10. Conclusion

This report sets out the results of the solvency assessment of the Trust as at 31 December 2024.

As measured on the the best estimate assumptions, the results show a surplus of £0.63m, equivalent to a solvency level of 165%.

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 31 December 2025.

Emma Morton

Fellow of the Institute of Actuaries

Partner at PricewaterhouseCoopers LLP

11 February 2025

This document has been prepared only for Trustees of 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.

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