Freemen Brothers Funeral Trust
Freeman Brothers
Solvency Assessment Report as at 31 March 2021

Barnett Waddingham LLP

21 October 2021

Contents

Introduction

This is the Solvency Assessment Report as required by the Financial Conduct Authority "(FCA") and is provided to Freeman Brothers in order for Freeman Brothers to submit its application to the FCA to be a regulated provider of pre-paid funeral plans.

To prepare this Solvency Assessment Report we have completed a valuation of the Freeman Brothers Trust's assets and liabilities as at 31 March 2021 ("Review Date).

At the time of preparing this report there are ongoing discussions between the FCA and the Institute and Faculty of Actuaries ("IFoA") in relation to actuarial guidance on the preparation of Solvency Assessment Reports. This report complies with the Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100). We have also considered the actuarial guidance included in existing Technical Actuarial Standard 400: Funeral plan trusts and incorporated some of the principles where we believe they are appropriate in terms of meeting the FCA's requirements.

Our interpretation of the FCA's requirements in terms of funeral plans backed by a trust are to ensure that:

- primarily that adequate arrangements are in place so that funerals are carried out in accordance with the funeral plan purchased by the planholder from the plan provider
- should a planholder cancel their plan they will receive a refund in line with the cancellation terms
- should the plan provider fail and it does not prove possible to find another provider to take on the plans, then it is important that the arrangements put in place by the plan provider do not adversely affect the interests of customers and covered individuals

This report may be shared with other interested parties including the Trustees of the Freeman Brothers Funeral Trust but it does not constitute advice to them.

Purpose of the valuation

The FCA have set out their requirements for the preparation of a Solvency Assessment Report in their Policy Document PS21-8. The relevant section is included in the Appendix.

The key aspects are

- An actuarial valuation of the Trust is required to determine, calculate and verify the assets and liabilities of the Trust on a best estimate basis;
- The liabilities are to be assessed against the amounts the provider puts into trust to be sufficient for the purpose of providing the agreed funeral
- The data and liabilities should be categorised into:
    - single payments;
    - instalment payments fully paid; and
    - instalment payments not fully paid.
- Details of any liability subcontracted to funeral services providers may include inflation.

Inflation protection

Each live plan in the Trust has a plan value. This is the amount that was initially retained in the Trust to be paid to Freeman Brothers as the appointed funeral services provider who will carry out the funeral increased in line with the growth applied each year.

There is no contractual obligation to increase plan values but Freeman Brothers' desired aim is to increase plan values to provide a level of inflationary protection.

Planholder cancellation

Not all plans will reach maturity. Plans can be cancelled and planholders will receive a refund of the amounts paid.

Valuation scenarios

We have assessed the liabilities on a number of scenarios as follows:

- *Ongoing basis with future inflationary protection* - are the available assets sufficient to pay plan values to Freeman Brothers as the appointed funeral services provider at the expected time of the funeral assuming current plan values are increased with the desired aim of providing a level of inflationary protection?
- *Ongoing basis no growth in plan values* – as the forward inflation risk contractually lies with Freeman Brothers as the appointed funeral services provider, are there enough assets in the Trust to meet the current plan values with no future growth?
- *Cancellation basis* - are there enough assets available in the Trust to meet the amounts required if all planholders cancelled their plans at the Review Date?

Planholder data

A summary of the valuation data provided to us by Freeman Brothers as at the Review Date is set out below:

Planholders	Plan Values	Average
1,140	£4,029,557	£3,535

We understand that all the plans have been paid with single lump sums.

Assets

The market value of the assets of the Trust Fund as at 31 March 2021 based on audited accounts was £3.9m. The assets were invested as follows:

Assets	5 April 2021	
	£	%
UK Equities	£781,157	20%
Overseas Equities	£2,275,238	58%
Fixed Interest Gilts/Bonds	£0	0%
Property	£0	0%
Cash	£835,550	21%
TOTAL:	**£3,891,945**	**100%**

All the investments above are managed by Raymond James Investment Services.

Assumptions

Future inflationary protection and projected plan growth

We have discussed with Freeman Brothers the assumption to be adopted for inflationary protection for appointed funeral services providers and have agreed an assumption of 2% per annum.

Tax rates and expenses

We have adjusted the assumed level of future investment returns to reflect the expenses met by the Trust Funds (investment management fees and trust costs) and the expected amount of tax.

Discount rate as at 31 March 2021

The derivation of the discount rate is firstly to determine the expected return from each asset class on a best estimate basis and then adjust for tax and expenses.

The assumed return from equities is based on dividend yields plus expected long term inflation plus expected real long term dividend growth at the Review Date. The expected return from cash is based on the Merrill Lynch UK (swap) yield curve as at the Review Date. The expected investment return is then a weighted average of the different returns from the different asset classes and then adjusted for tax and expenses to obtain the discount rate as follows:

	31 March 2021		
	Return	Allocation	Contribution
Equity return	7.2%	90%	6.5%
Cash	0.9%	10%	0.1%
Gross return			6.6%
less tax			(0.8%)
less trust expenses			(0.8%)
Discount rate			5.0%

Mortality assumptions

The mortality base tables adopted in the valuation were the ELT17 tables with separate age related scaling factors at each age up to age 100 based on the report on the mortality review dated 18 July 2017. For ages above 100, due to experience being unreliable at very old ages, we have used the ELT17 tables without adjustment.

The following table shows the underlying life expectancies at 60, 70 and 80 implied by the mortality tables described above.

	Life expectancy (years)	
Age	Males	Females
60	18.3	21.9
70	13.4	16.1
80	7.8	9.5

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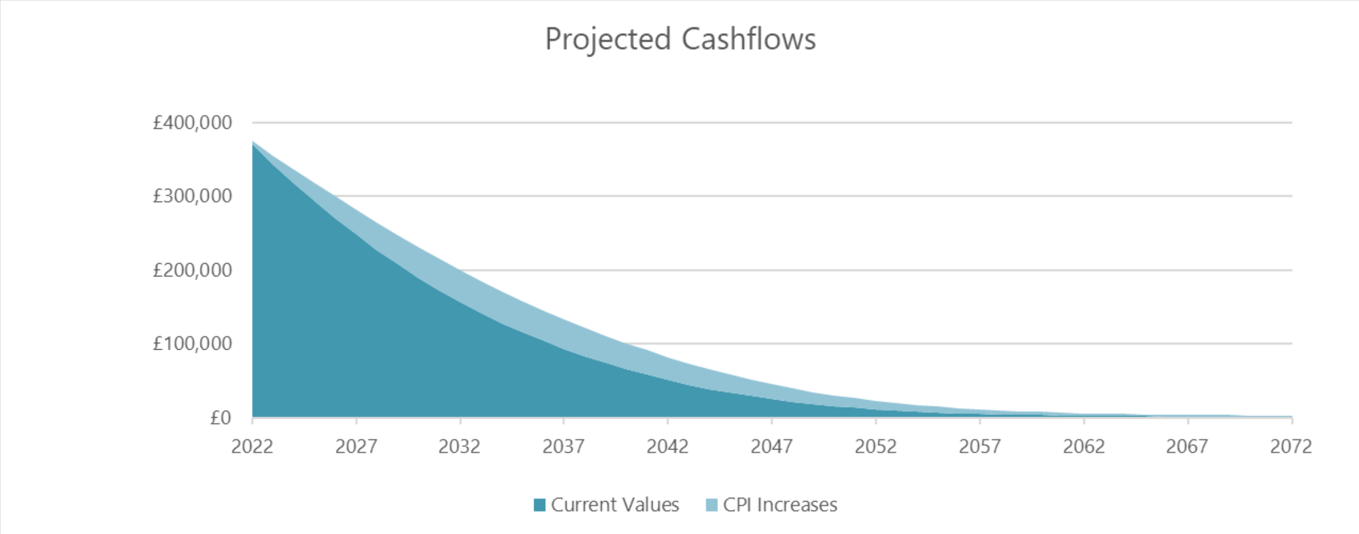
beyond the expected

Valuation method

The valuation method is to project future payments from the Trust using the mortality and plan growth assumptions described above. The projected cash flows from the Trust (assuming the full plan value is paid out) are set out below.



The above graph shows the projected cashflows for each year following the Review Date over the next 50 years by which time most of the cashflows from existing plans are expected to have ceased.

We then discount these projected payments using the discount rate and deduct the net present value of future instalments to obtain the capital value of the liabilities. We then compare the value of the liabilities with the value of assets.

Assets per plan

Another useful indicator of the ability of the Trust to be able to meet funeral costs is to determine the assets per plan – we divide the assets by the number of in force plans.

At the Review Date the assets per plan was £3,520.

Funding position at 31 March 2021

Below we have set out the funding position as at the Review Date using the assumptions described above where applicable for the three scenarios previously outlined:

We have shown the results under each scenario split by plans that were paid for by a single payment, instalments that have been fully paid and instalments that are not yet fully paid.

Scenario	Inflation protection	No inflation protection	Customer cancellation
Liabilities	£3,374,295	£2,998,826	£3,508,173
Assets	£3,891,945	£3,891,945	£3,891,945
Surplus	£517,650	£893,119	£383,772
Funding level	115%	130%	111%

An allowance has been included in the liabilities for tax potentially payable on accrued capital gains in the future if any assets have to be sold in order to meet the Trust's obligations.

Sensitivity analysis and risks

The results of the valuation are also sensitive to some of the key assumptions adopted, in particular the discount rates used and the mortality assumptions adopted.

A 1% increase/decrease in the discount rate will decrease/increase the valuation of liabilities by around 7%.

There is the risk that the funding position will change in a potentially material way if actual investment returns are significantly different to the assumed returns underlying the discount rate without any compensating changes in market yields.

On cancellation, the liability is a cash sum equal to the amount paid. Whilst the market value of the assets at the Review Date was more than sufficient to meet the amounts required should all plans cancel, this may not be the case should there be significant falls in the market value of assets.

Should the provider fail and it does not prove possible to find another provider willing to take on the plans, then Freeman Brothers would expect that plan-holders will receive a full refund of the amounts paid. . At the valuation date, the total liability that would be payable on that basis would be £3.5m. The assets at the valuation date are therefore 111% of the potential liability that would be payable in an insolvency situation. If this position crystallised then this would allow paying more than a full refund to customers over and above the amounts that they have paid for their funeral plan.

Conclusions

The financial position of the Trust Fund at the Review Date of 31 March 2021 is that on the ongoing best estimate basis and allowing for future growth in plan values of 2.0%, the funding level is 115%. On a full cancellation basis the funding level is 111%.

The key risks in terms of a deterioration in the financial position from current levels on the ongoing basis in the short term are:

- Actual investment returns are significantly less than the assumed returns underlying the discount rate without any compensating changes in market yields.
- Actual mortality rates being materially different to expected.
- New money being invested on less favourable terms compared to market conditions at the Review Date.

We would be pleased to answer any questions arising from this report.

We would recommend that the next valuation is carried out as at 31 March 2022.

Graeme D Muir FFA

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Appendix - Extract from FCA document PS21-8

3.2 Trusts: solvency assessment, remediation and other requirements

Application

3.2.1 R This section applies to a *funeral plan provider* in relation to *funeral plan contracts* (including *subsisting funeral plans*) under which sums paid by the *customer* are held on trust for the purpose of providing the funeral.

Solvency assessment report

3.2.2 R A *funeral plan provider* must arrange for a *solvency assessment report* to be produced at least once every 12 *months* by an actuary who is a fellow of the Institute and Faculty of Actuaries.

Contents of solvency assessment report

3.2.3 R The solvency assessment report must:

(1) within 12 *months* of the:

(a) last report obtained by the *funeral plan provider*; or

(b) trust being established,

determine, calculate and verify the assets and liabilities of the trust by applying a *best estimate* basis;

(2) include, as a minimum, the following information:

(a) the actuarial valuation date;

(b) an actuarial valuation of the assets and liabilities of the trust;

(c) the solvency level of the trust (ratio of trust assets over trust liabilities as a percentage) on a *best estimate* basis;

(d) the assumptions adopted with respect to the valuation of the trust assets and trust liabilities;

(e) the number of undrawn or live plans categorised by payment method;

(f) the total plan values in relation to undrawn or live plans categorised by payment method;

(g) the average plan value categorised by payment method;

(h) the investment of trust assets at fair value by asset class at the actuarial valuation date;

(i) the investment of trust assets at fair value by investment manager at the actuarial valuation date;

(j) the level of all monies deducted from the trust over the period and identification of how the deductions have been spent; and

(k) the details of any liability sub-contracted to funeral services providers;

(3) be produced taking account of any relevant actuarial professional and technical standards, guidance and codes;

(4) be published by the *funeral plan provider* on its website within 30 *days* of the date on which the actuary completes the valuation and, in any case, no later than 6 weeks from the date an actuary is appointed to produce a *solvency assessment report*; and

(5) be made available free of charge on request.

3.2.4 R (1) For the purposes of *FPCOB* 3.2.3R(2)(b), the liabilities of the trust should be assessed against *FPCOB* 3.1.6R(2).

(2) For the purposes of *FPCOB* 3.2.3R(2)(e), (f) and (g), the payment method should be categorised into:

(i) single payments;

(ii) instalment payments fully paid; and

(iii) instalment payments not fully paid.

(3) For the purposes of *FPCOB* 3.2.3R(2)(k), details of any liability subcontracted to funeral services providers may include inflation.

Sending the solvency assessment report to the FCA

3.2.5 R (1) A *funeral plan provider* must send a copy of the *solvency assessment report* to the *FCA* within 7 *days* of it being received by the *funeral plan provider*.

(2) If the *solvency assessment report* concludes that the assets of the trust are not sufficient to cover the liabilities of the trust, the *funeral plan provider* must provide a notification of that fact with the *solvency assessment report* at the same time as providing a copy of the *solvency assessment report*, in accordance with *SUP* 15.7.1R.

When a remediation plan is required

3.2.6 R If a *solvency assessment report* concludes that the assets of the trust are not sufficient to cover the liabilities of the trust, a *funeral plan provider* must prepare a *remediation plan* that is approved by an actuary who is a fellow of the Institute and Faculty of Actuaries.

Contents of the remediation plan

3.2.7 R The *funeral plan provider* must ensure the *remediation plan* sets out the following:

(1) how the deficit in the trust that has been identified by the *solvency assessment report* will be remedied before the next annual *solvency assessment report* is due; and

(2) any assumptions that have been made in relation to any of the remedial steps or actions that the *funeral plan provider* intends to implement to remedy the deficit in the trust.

Sending the remediation plan to the FCA

3.2.8 R The *funeral plan provider* must submit the *remediation plan* to the *FCA* for review, in accordance with *SUP* 15.7.1R, as soon as possible and no later than 30 *days* from the submission date of the relevant *solvency assessment report* to the *FCA*.

Implementing the remediation plan

3.2.9 The *funeral plan provider* must begin to implement the *remediation plan*:

(1) as soon as possible and in any event within 30 *days* of submitting it to the *FCA*;

(2) in accordance with the terms of the *remediation plan* (or any amendments agreed with the *FCA* or imposed by the *FCA* by *requirement*).

Failure of remediation plan: notification to the FCA

3.2.10 R A *funeral plan provider* that is in the process of implementing a *remediation plan* must:

(1) notify the *FCA*, in accordance with *SUP* 15.7.1R, as soon as it suspects that it will not be able to fully implement the *remediation plan* in accordance with its terms; and

(2) notify the *FCA*, in accordance with *SUP* 15.7.1R, immediately if the solvency level of the trust remains below 100% following the expiration of the *remediation plan*, which is the time at which the next *solvency assessment report* is due.

Obligation to remedy a trust deficit

3.2.11 R (1) If, following the expiration of the *remediation plan*, the assets of the trust remain insufficient to cover the liabilities of the trust, *the funeral plan provider* must remedy any shortfall using its own resources so that the solvency level of the trust is returned to 100% or more (when assessed on a *best estimate* basis).

(2) The obligation in (1) must be fulfilled as soon as practicable and in any case within 3 *months* of the date the expiration of the *remediation plan*.

(3) The *funeral plan provider* must notify the *FCA*, in accordance with *SUP* 15.7.1R, when the shortfall has been remedied.

Prohibition on the withdrawal of monies from a trust

3.2.12 R A *funeral plan provider* must not withdraw any surpluses from the trust except and only to the extent that:

(1) the solvency level of the trust is above 110% when calculated on a *best estimate* basis; and

(2) the withdrawal has been approved by an actuary who is a fellow of the Institute and Faculty of Actuaries.

Sending trust accounts to the FCA

3.2.13 R A *funeral plan provider* must send a copy of the annual accounts of the trust to the *FCA* as part of its next financial report.