Freeman Brothers Funeral Trust
Freeman Brothers

Solvency Assessment Report as at 31 March 2022

Barnett Waddingham LLP

21 October 2022

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 renew its authorisation by 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 2022 ("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 Funeral Plan Code of Business Sourcebook

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.

Subcontracted liabilities to funeral service providers

Freeman Brothers are both the Plan Provider and the Funeral Services Provider. Accordingly there is no sub contracting of any liabilities to other funeral services providers.

Deductions from the Trust

Deductions of £31,878 were made from the Trust in the twelve month period to the Review Date, representing professional fees and taxes.

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?

Previous valuation

The previous valuation was carried out as at 31 March 2021 ("the Previous Review Date").

Using a discount rate of 5.0% and a plan inflation protection assumption of 2.0% the financial position of the Trust was as follows:

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%

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
1,115	£4,071,992	£3,652

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 2022 based on audited accounts was £3.98m. The assets were invested as follows:

Assets	Review Date	
	£	%
Equities	£3,868,938	97%
Fixed Interest Gilts/Bonds	£0	0%
Property	£0	0%
Cash	£113,518	3%
TOTAL:	**£3,982,456**	**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 a long term assumption of 2.5% per annum.

Tax rates and expenses

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

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beyond the expected

Discount rate as at 31 March 2022

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.

We understand the long term investment strategy is to get to a position of 70% in equities and 30% in cash/bonds from the current position. The discount rate is then derived as follows:

		31 March 2022	
	Return	**Allocation**	**Contribution**
Equities	7.3%	70%	5.1%
Cash/bonds	1.8%	30%	0.5%
Gross return			5.6%
less tax			(0.7%)
less trust expenses			(0.8%)
Discount rate (rounded)			4.2%

Mortality assumptions

We have reviewed the mortality assumptions adopted at this valuation. The previous assumptions adopted were based on an analysis of funeral planholder mortality across the UK previously carried out by ourselves and were a function of the standard population ELT17 table.

The revised assumptions are still a function of the ELT17 tables but with resulting slightly lighter mortality assumptions to reflect more recent mortality experience (adjusted for COVID). Overall we are assuming planholders will live slightly longer than previously assumed.

The following table shows the underlying life expectancies at ages 65 and 85 using the assumptions adopted in the valuation.

	Life expectancy at age 65	Life expectancy at age 85
Males	17.8	6.0
Females	20.9	7.0

The average age of planholders at the Review Date was 80.3 years.

Mortality experience

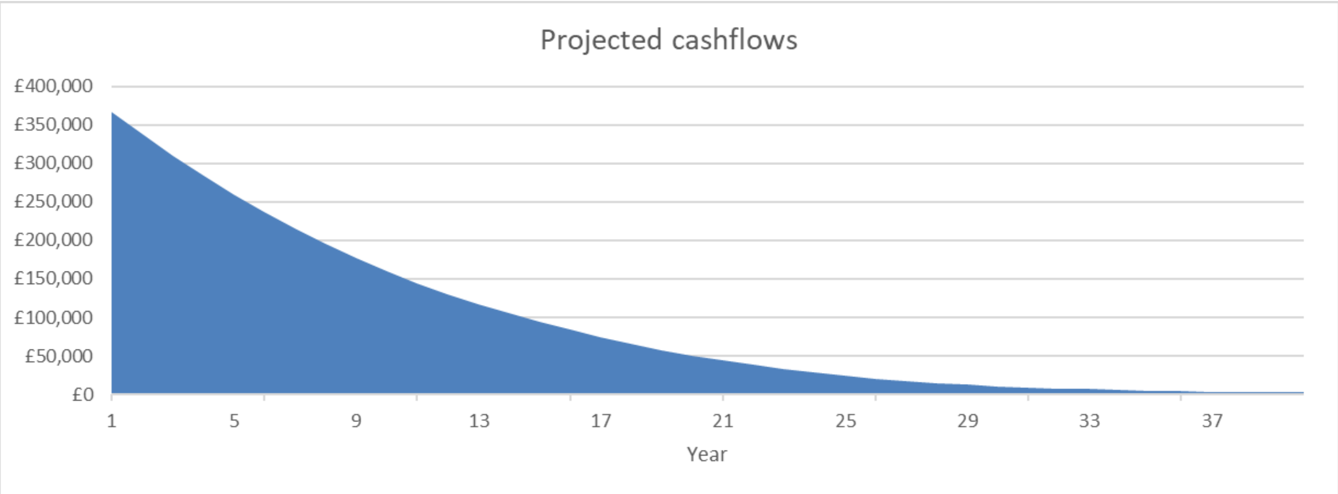
A comparison of the actual and expected deaths over the last 4 years on the previous and new assumptions is set out below:

Year to	Actual deaths	Expected deaths - previous assumption	% diff	Expected deaths - new assumption	% diff
31 March 2019	90	114	(21%)	91	(2%)
31 March 2020	*127*	*115*	*11%*	*92*	*38%*
31 March 2021	*105*	*110*	*(4%)*	*88*	*19%*
31 March 2022	79	105	(25%)	85	(7%)
Total	**401**	**444**	**(10%)**	**356**	**13%**
Total (excl *covid yrs*)	**169**	**219**	**(23%)**	**176**	**(4%)**

As we see the table shows the impact of the COVID-19 pandemic in the *middle two years* before reverting to more normal levels in the final year. On the revised assumptions the actual and expected deaths in the non COVID years are much closer.

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 40 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 to determine their net present value. We then include an allowance for potential capital gains tax on accrued capital gains if any assets have to be sold in order to meet the Trust's obligations 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 £3,572.

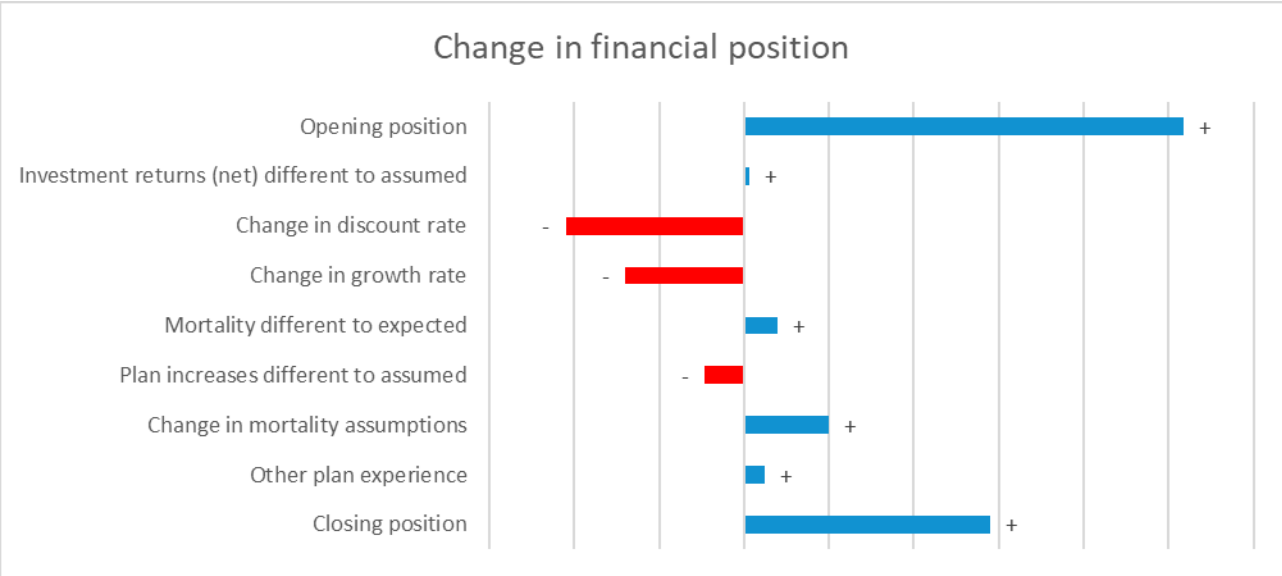
Funding position at 31 March 2022

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.

Scenario	Inflation protection	No inflation protection	Customer cancellation
Liabilities	£3,692,471	£3,088,347	£3,513,429
Assets	£3,982,456	£3,982,456	£3,982,456
Surplus	£289,985	£894,109	£469,027
Funding level	108%	129%	113%

A broad analysis of the change in the inflation protection position since the previous Review Date is set out below:



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 including any capital gains tax payable. The assets at the valuation date are therefore 113% 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 2022 is that on the ongoing best estimate basis and allowing for future growth in plan values of 2.5%, the funding level is 108%. On a full cancellation basis the funding level is 113%.

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 2023.

Graeme D Muir FFA

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