Freeman Brothers Funeral Trusts

Solvency Assessment Report as at 31 March 2023

Barnett Waddingham LLP

21 October 2023

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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 Trusts' assets and liabilities as at 31 March 2023 ("Review Date"). At the previous Review Date, 31 March 2022, there was only one Trust – the Freeman Brothers Trust ("Trust 1"). In the last 12 months however a new Trust – the Freeman Brothers Trust 2 - was established. All new plans sold after 1 July 2022 are put into Trust 2 and the Trust 1 is now closed to new plans.

This report complies with the Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 400: Funeral plan trusts (TAS 400).

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 Trusts 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 Trusts is required to determine, calculate and verify the assets and liabilities of the Trusts 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 Trusts 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 £82,187 were made from the Trust in the twelve month period to the Review Date, representing professional fees and taxes. This compares with £31,878 in the previous 12 month period and reflects, in part the additional costs associated with changes to the Trust arrangements during the year and a capital gains tax bill incurred as a result of a change in the investment strategy as required by the FCA.

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 Trusts to meet the current plan values with no future growth?
- *Cancellation basis* - are there enough assets available in the Trusts 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 2022 ("the Previous Review Date").

Using a discount rate of 4.2% and a plan inflation protection assumption of 2.5% the financial position of Trust 1 was as follows:

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%

Planholder data at the Review Date

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

Trust	# Planholders	Plan Values	Average Plan Value	Average age
Trust 1	1,010	£3,655,846	£3,620	80.6
Trust 2	30	£109,948	£3,665	79.6
Total	**1,040**	**£3,765,795**	**£3,621**	**80.6**

All the plans have been paid with single lump sums with the exception of 3 recently taken out plans in Trust 2 where the instalment period is less than 12 months.

Assets

The market value of the assets of the Trusts as at 31 March 2023 based on accounts provided was as follows.

Assets	Trust 1		Trust 2		Total	
	£	%	£	%	£	%
Equities	£2,413,195	70%	-	-	£2,413,195	67%
Gilts	£761,377	22%	£88,838	74%	£850,215	24%
Property	-	-	-	-	-	-
Cash	£288,384	8%	£30,539	26%	£318,923	9%
TOTAL:	**£3,462,956**	**100%**	**£119,377**	**100%**	**£3,582,333**	**100%**
Assets per plan	**£3,429**		**£3,979**		**£3,445**	

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 the appointed funeral services provider and have agreed a long-term assumption of 2.5% per annum.

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beyond the expected

Tax rates and expenses

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

Discount rate as at 31 March 2023

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 long term investment strategy for the trusts is as follows:

Trust	Gilts	Equities
Trust 1	**30%**	**70%**
Trust 2	**50%**	**50%**

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 gilts is based on the FTSE 5-15 year gilt yield index as at the Review Date. The expected investment return for each trust is then a weighted average of the different returns from the different asset classes and then adjusted for tax and expenses.

The discount rate is then derived as follows:

31 March 2023		Trust 1		Trust 2	
	Return	Allocation	Contribution	Allocation	Contribution
Equities	7.6%	70%	5.3%	50%	3.8%
Gilts	3.6%	30%	1.1%	50%	1.8%
Gross return			6.4%		5.6%
less tax			(0.8%)		(0.5%)
less trust expenses			(0.8%)		(0.8%)
Discount rate (rounded)			4.8%		4.3%

Mortality assumptions

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

Mortality experience

A comparison of the actual and expected deaths over the last 5 years on the current assumptions for both trusts is set out below:

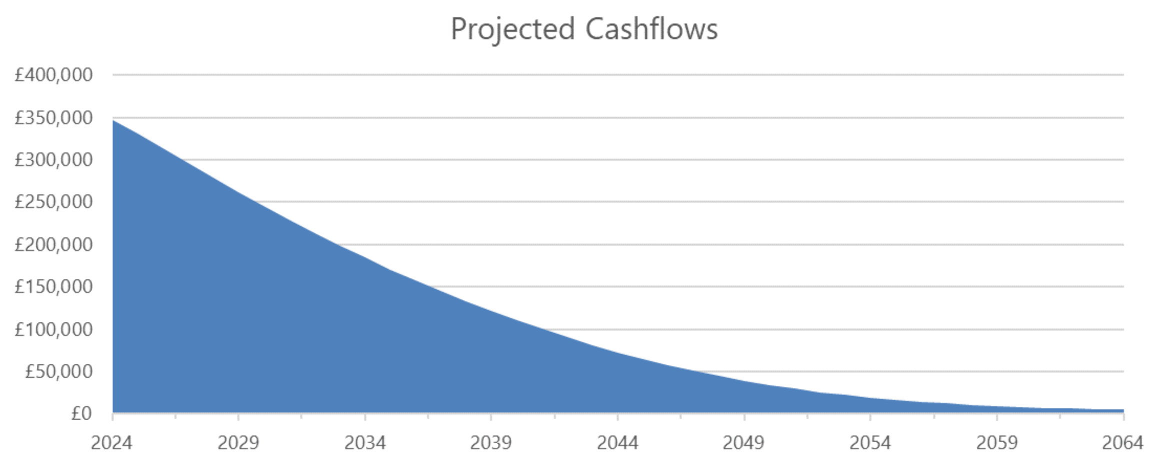
	Actual deaths	Expected deaths	Actual/ Expected
31 March 2019	90	91	**99%**
31 March 2020	127	92	**138%**
31 March 2021	105	88	**119%**
31 March 2022	79	85	**93%**
31 March 2023	112	84	**134%**
Total	**513**	**440**	**117%**

As we see the table shows the variability in the actual number of deaths from year to year.

However the number of planholders is not particularly large and so we would expect some statistical variation from year to year. We will continue to monitor mortality experience and review assumptions at future valuations.

Valuation method

The valuation method is to project future payments from the Trusts using the mortality and plan growth assumptions described above. The projected cash flows from the Trusts (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.

Funding position as at 31 March 2023

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

Trust 1

Scenario	Inflation protection	No inflation protection	Customer cancellation
Liabilities	£3,142,500	£2,652,500	£3,171,500
Assets	£3,463,000	£3,463,000	£3,463,000
Surplus	£320,500	£810,500	£291,500
Funding level	110%	131%	109%

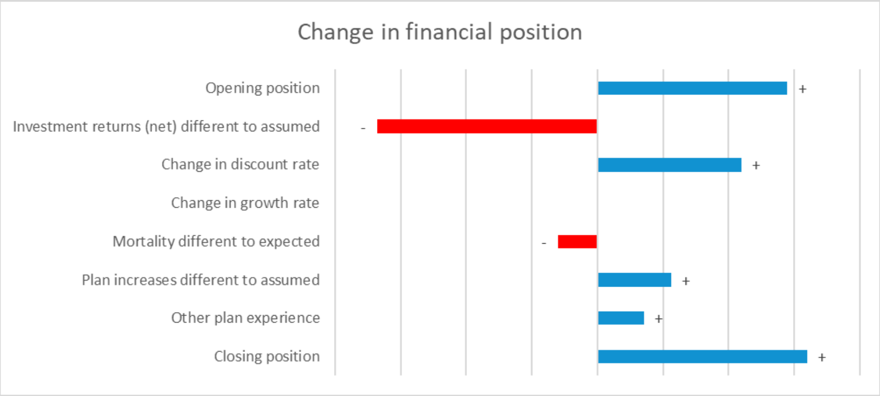
Trust 2

Scenario	Inflation protection	No inflation protection	Customer cancellation
Liabilities	£92,950	£76,200	£106,000
Assets	£119,400	£119,400	£119,400
Surplus	£26,450	£43,200	£13,350
Funding level	128%	157%	113%

Aggregate Position

Scenario	Inflation protection	No inflation protection	Customer cancellation
Liabilities	£3,235,450	£2,728,700	£3,277,500
Assets	£3,582,400	£3,582,400	£3,582,400
Surplus	£346,950	£853,700	£304,850
Funding level	111%	131%	109%

A broad analysis of the change in the inflation protection position for Trust 1 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%.

If planholder mortality rates are 10% lighter/heavier than assumed then this will reduce/increase the valuation of the liabilities by around 1.5% under the inflation protection scenario.

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 planholders will receive a full refund of the amounts paid. At the valuation date, the total liability that would be payable from both trusts on that basis would be c.£3.3m including any capital gains tax payable. This compares with assets at the valuation date of c£3.6m for both trusts. 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 2023 is that on the ongoing best estimate basis and allowing for future growth in plan values of 2.5%, the funding levels for both Trusts are 110% or more. On a full cancellation basis, the funding level is 109%.

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 2024.

Graeme D Muir FFA

Barnett Waddingham LLP