Celebration of Life Trust
Solvency Assessment Report
as at 30 June 2024

Date: 16 October 2024

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Solvency Assessment Report of the Celebration of Life Trust as at 30 June 2024

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Introduction and Executive Summary

I have been requested by Celebration of Life Planning Limited ("the Plan Provider") to perform an actuarial valuation of the Celebration of Life Trust ("Trust") and to provide a Solvency Assessment Report ("SAR") as required by the Financial Conduct Authority ("FCA") under section 3.2.2 of the Funeral Plan: Conduct of Business sourcebook ("FPCOBS"). The Trust is for the pre-arrangement and prefunding of funeral services.

This report, in accordance with the Financial Services and Markets Act (Regulated Activities) Order 2001 act. 60(1)(b)(v), covers the determination, calculation and verification of the assets and liabilities of the Trust as at 30 June 2024 (the "Valuation Date"). The report is addressed to the Plan Provider but contains information that is also relevant to the Trustees. It describes the financial condition of the Trust at the valuation date and considers the funding appropriate to the Trust after the valuation date.

It is expected as required by the FCA for this report to be published on the Plan Provider's website.

In preparing this report we have complied with the Technical Actuarial Standard (TAS) - TAS 100 covering Principles for Technical Actuarial Work and TAS 400 (covering Funeral Plans).

We have also taken account of the following items produced by the Institute and Faculty of Actuaries:

- APS Z1 (version 2) "Duties and responsibilities of actuaries working for UK Trust-based Pre-Paid Funeral Plans (effective 19.11.2023);
- APS X2 "Review of Actuarial Work" (effective 01.07.2015);
- Guide for Actuaries on UK Trust-Based Pre-Paid Funeral Plans;
- Guide for Trustees on UK Trust-Based Pre-Paid Funeral Plans.

The last SAR of the Trust was undertaken as at 30 June 2023 and was dated 21 November 2023. The period under review is therefore twelve months.

This valuation does not take account of any future new business that may be written after the effective date of this valuation.

The results of the valuation show that the Trust has a Best Estimate funding level of 134.2% with an accrued surplus of £949,000. Further sensitivities to the above results are demonstrated under Appendix 4.

Purposes of the Report

The main purpose of this SAR is to advise the Plan Provider of the position of the Trust relative to the liabilities as required by the FCA and also as required under clause 17 of the deed and this is purely a "valuation exercise". The purpose is also to establish the level of security from within the Trust for a Plan Holder's contracted funeral service and to identify, as far as possible, the development of the Trust and the risks and issues that might affect the various stakeholders in the Trust in the future.

For this actuarial valuation, the liabilities have been calculated based on the settlements and disbursements due to be paid to the funeral directors that have contracted to conduct the funerals of policyholders.

The report includes elements required by FCA, namely :-

- the determination, calculation and verification of both the assets and liabilities of the Trust under a best estimate basis;
- the liabilities are to be measured against the amounts needed to provide the funeral
- the funeral plan Trust data should be shown into the following subcategories of payment method:

  o paid in full or single payments;

  o instalment payments fully paid;

  o instalment payments not fully paid.

- where the funeral costs increase with inflation this may be allowed for.

The purposes of the valuation are described above and the report is produced for the use of the Plan Provider and the Trustees. Neither WBR Actuarial, nor I accept any liability to any third party in respect of the contents of this Report for its use for any purpose other than those set out as above.

Trust and Operational Provisions

The Trust was set up by a deed dated 8 July 2020 (“the Trust Deed”) and as subsequently updated, providing pre-paid direct cremation funeral services in accordance with the provisions of the Plan.

At the effective date of this SAR the Trust was managed by Guardian Professional FPT Limited and SML Governance Limited.

All Capital Prepayments paid by clients are paid directly into the trust – the Plan Provider then claims from the trustees all sums due, i.e. funeral plan fees and disbursement costs and other authorised fees. . However, since the FCA regulation came into effect on 29 July 2022, all funds flow into the Trust in accordance with the FPCOBs.

Plan holders are entitled to an appropriate funeral on their death. Post July 2022, Plan holders who pay by way of instalments are fully covered after 2 years in accordance with the FPCOBs.

Funeral Director’s Fees and Services are guaranteed to be paid under the Plan, provided that the funeral is carried out by a Funeral Director appointed/selected by the Plan Provider. All fees and disbursements shall be covered to the current level of such charges at the Plan Start Date and will (as required) cover any inflationary increase in the Disbursements and Funeral Director’s Fees at the rate of the Consumer Price Index (“CPI”) for the month immediately preceding the death of a Plan Holder.

There is a discretionary cancellation charge that could be deducted from the Funeral Plan Subscription should the plan be cancelled after 60 days. A full refund is made if the cancellation takes place within the first 60 days. It is important for the Trustees to note that the entitlement of plan holders and therefore the true liability of the Trust, relates to the actual cost of the promised funeral. This valuation has been calculated assuming that the liabilities of the Trust are the settlement payments (and disbursements).

Summary of Data

Celebration of Life Planning Limited has provided the data to enable me to perform this valuation. Although I have taken all reasonable steps to ensure that the data is of adequate quality for the purposes of this valuation, I have relied on the accuracy of the information provided by the Plan Provider. The responsibility for the accuracy of the data for the valuation is therefore ultimately that of the Plan Provider. I have no material uncertainty about the accuracy of the data.

	30 June 2024			
	Single Payment	**Instalment Fully Paid**	**Instalments Active**	**Total**
Average Age	74	72	64	72
Number of Male Plan holders	1,520	112	227	1,859
Number of Female Plan holders	1,806	154	319	2,279
Total Plan holders	3,326	266	546	4,138
Total Settlement £' 000's	2,661	213	437	3,310
Average Settlement £'s	800	800	800	800

The payment from the Trust is assumed to be sufficient to ensure the funeral purchased by the plan holder is provided. If this is not the case and if there is an ultimate responsibility to ensure the appropriate funeral is provided, then additional liabilities could be incurred on the plan provider.

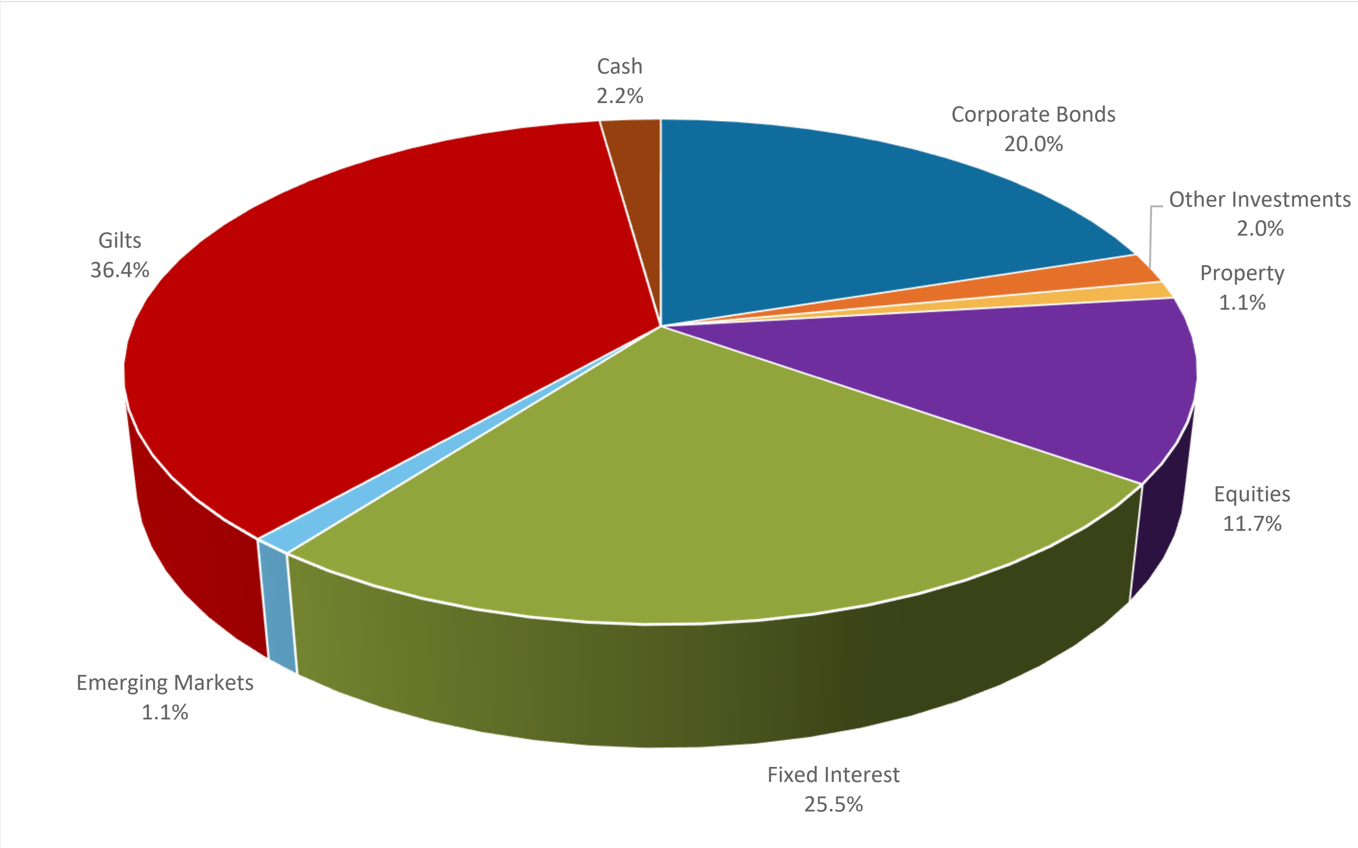
At this valuation there is a total of 812 instalment plans and 3,326 single payment plans. Corresponding figures at the last valuation were 449 instalments plans and 1,909 single payment plans.

Asset Valuation

The following summarises the unaudited value of the Trust assets held at the valuation date.

	2024 £000's	**2023 £000's**
Invested Assets	2,402	578
Cash at bank balance	755	1,285
Net Current Assets	21	62
Total	3,178	1,925

The asset allocation at the review date is below:-



Valuation Assumptions

The construction of the valuation basis involves consideration not only of current economic factors and fund experience but also as to future trends in mortality, investment yield and the rate of growth in funeral costs. The basis adopted should be viewed with regard to relationships between the assumptions rather than to the absolute value of any components. Most importantly, the relationship between the investment return and the assumed level of inflation gives an indication of the real yield (before tax) expected to be earned on the investments held within the Trust.

Allowance must also be made of the tax payable by the Trust as the actual return earned on the money held in the Trust will be net of tax and net of expenses. The Actuarial basis may be subject to change over time.

Details of the valuation method used for the determining the liabilities in the Trust are given in Appendix 1 and a summary of the assumptions adopted for the Best Estimate valuation is shown below. Further details can be found in the separate report on the assumptions dated 16 October 2024.

	2024	**2023**
Net of Tax Discount Rate	4.1%	4.8%
CPI inflation	2.4%	2.9%
Expense allowance	1.0%	1.0%
Tax allowance	19.1%	19.1%
Mortality Allowance	ELT 17	ELT 17
Mortality Adjustment	100%	100%
Average Cancellation rates	10% in year one reducing to 0% in year 4.	10% in year one reducing to 0% in year 4

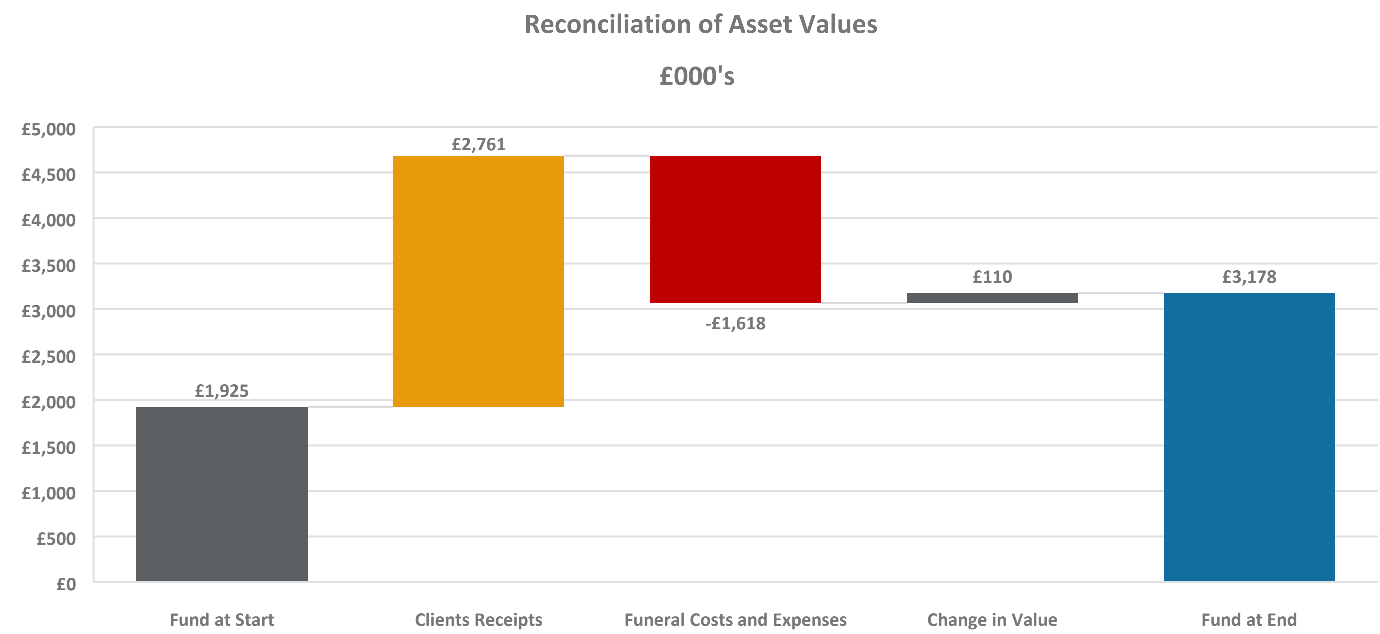
Inter-valuation Experience

We have carried out a mortality investigation on the deaths of all policyholders of the Trust over the period to 30 June 2024. This investigation revealed that the number of deaths was approximately in line with the number that would have been expected if experience had been in accordance with the English Life Table number 17 (ELT17), although as the Trust is extremely small there was insignificant data to draw any firm conclusions. For the purposes of this review, I have used 100% of the mortality table ELT 17.

The estimated annual investment return earned on the assets as shown in the Trust accounts to 30 June 2023 was 4.4% for the year compared to 4.8% p.a. assumed net of tax at the previous valuation. This has not been favourable to the Trust and reflects market movements during the inter valuation period.

The average level of the settlement costs has remained at £800 for the year compared to an increase of 2.9% p.a. assumed at the previous valuation. This has been beneficial to the Trust.

The expected total of future outstanding annual premiums from the existing active instalment plans has been calculated to be £640,000 as at the valuation date. The premiums to follow are a calculation based on the monthly premiums expected to be received from all Active plans over the remainder of the outstanding term of the plans. A reconciliation of assets during the 12 months to the Review Date is set out below:



Funding Position – Best Estimate Basis

The liability of the Trust fund arises from the two main categories of plans held, Instalment Plans and Single Payment Plans. Based on the membership data and assumptions set out elsewhere in this report, I calculate that the value of the liabilities for the funeral plans including future projected inflation increases is as summarised below.

	2024 £000's	2023 £000's
Value of Investments	3,178	1,925
Present Value of Future Instalments	549	364
Total Value of Assets (A)	**3,727**	**2,289**
Value of Funeral Costs	(2,778)	(1,431)
Total Value of Liabilities (L)	**(2,778)**	**(1,431)**
Surplus (A – L)	**949**	**858**
Funding Level (A/L)	**134.2%**	**160.0%**

The sensitivity of the above results due to changes in the actuarial assumptions and the impact due to future potential adverse events is highlighted in Appendix 4.

Funding Position – Previous Valuation Basis

The valuation assumptions we have used at this valuation are different to those used in the 2023 valuation. On the 2023 set of assumptions, the 2024 valuation result would have given a funding level of 146.9%. It is prudent to continue improving the funding level of the Trust and this can be achieved from improved investment returns as well as a cautious approach to the expenses being paid out of the Trust and the payments made from the Trust fund at the time of death.

Reconciliation of Results

In order to obtain a greater understanding of the ongoing results, I have carried out an analysis to reconcile the surplus emerging at this valuation date with the previous year's results. The table below shows a reconciliation of the surplus with the position disclosed by the previous valuation and quantifies the financially material items of actuarial gain or loss.

	Favourable/(Unfavourable)
	£000's
Surplus at previous valuation plus Interest	858
Expected investment return less interest on the liabilities	41
Investment Return lower than expected return	(10)
Membership Experience Gains / (Losses)	665
Change in valuation assumptions	(238)
Cashflow Experience Gains / (Losses)	(367)
Surplus at this valuation	949

A profile of the liability of the funeral plans is shown in Appendix 2. The profile highlights the age distribution of the funeral plans and the distribution of the liability of the Trust spread over the age range of the plan members. This will be useful information when considering and reviewing the investment strategy of the Trust.

Future Cashflows

The table below shows the future projected cashflow payments out of the Trust over the next five years. A full cashflow forecast is shown in Appendix 3. These cashflows represent the full payments expected from the Trust for the funeral plans held at the valuation date. No allowance is made for any future premiums due from the existing instalment plans.

	Total Future Expected Cashflows £ 000's
Year 1	£89
Year 2	£95
Year 3	£101
Year 4	£107
Year 5	£113

Risks

It is important to appreciate the various risks inherent in the valuation of the liabilities of the Trust. In particular, the main risk is that the valuation assumes a net real return of 0.7% p.a. will be earned on the investments within the trust after allowance for elements of inflation, expenses and tax.

Should any one of these elements increase at a higher rate than assumed thereby reducing the net real investment return earned on the assets then the level of future surplus will be lower and indeed the Trust could potentially emerge with a deficit. The degree of sensitivity of the results is shown in Appendix 4 and therefore due care is needed when agreeing any non funeral plan payments out of the Trust.

The Trust has incorporated up-to-date rates of mortality. Should plan members die sooner than assumed then the Trust will pay out before it is expected leading to a reduction in future levels of surplus.

The success of Celebration of Life Planning Limited to maintain its new business levels has a direct impact on the ability of the Trust fund to continue meeting the expenses of administering the funeral plans. Should there be a fall in new business without a corresponding reduction in the administration expenses will lead to lower levels of future surplus.

Investment Strategy

There is a requirement for the Trustees to have regular reviews of their investment strategy to ensure that it remains appropriate and reflects the nature and term of the Trust's liabilities.

The trust is currently invested in a Growth Investments (15.9%) Fixed Interest Investments (81.9%) and cash (2.2%). The requirement to match the need for the FD fees and disbursement costs to keep pace with inflation as measured by CPI will be paramount to the strategy. This combined with the average time for the funeral plan to pay out would dictate the strategy to pursue.

Furthermore, whilst the Trust is expanding with new plans being sold each year thereby giving rise to a positive cashflow, this could permit the Trustees to pursue a longer term investment strategy.

Conclusion

The Trust's assets are sufficient to cover 134.2% of the liabilities at the valuation date on the basis of the best estimate assumptions adopted.

The Trust's investment strategy should be kept under regular review.

Material Changes

I am not aware of any further changes that will have materially altered the results of this report at the date of signing.

Date of Next Review

The next formal valuation should be carried out as at 30 June 2025.

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16 October 2024

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Appendix 1 -Valuation Method

Valuation Method - General

The approach adopted for the valuation consists of projecting future cashflows of expected payments from the Trust and then discounting back these cashflows to produce a total net present value liability.

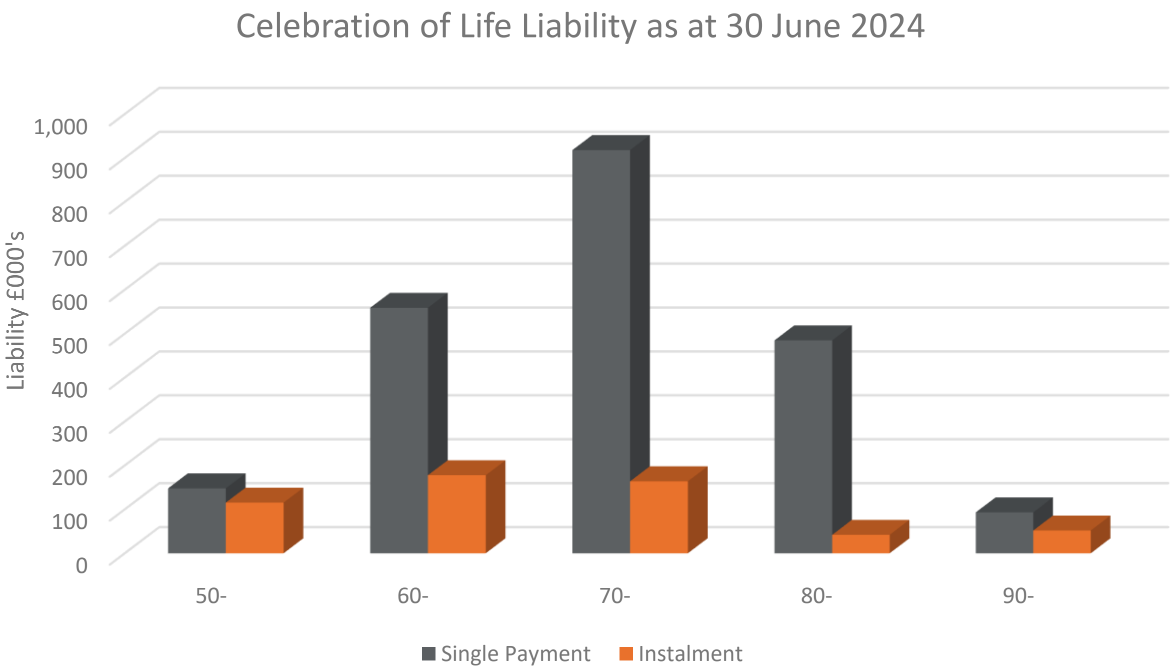
Valuation Method - Liabilities

For the purposes of my calculations, I have adopted a cashflow funding method to determine the value of the future expected funeral costs. This method involves projecting the funeral plan payments into the future until the assumed life expectancy of the plan holder. Allowance is also made of the possibility of the cancellation of the plans (where applicable) and the projection will allow for future increases on the funeral payments in line with the assumed rate of inflation. The funeral plan payments consist of both the Funeral Directors Fees and the Disbursement Costs. The individual projected expected funeral payments are then discounted back at the net of tax discount rate to the valuation date and then added together to give the total liability. The liability is then compared with the actuarially valued assets of the Trust to determine the level of any shortfall or surplus arising.

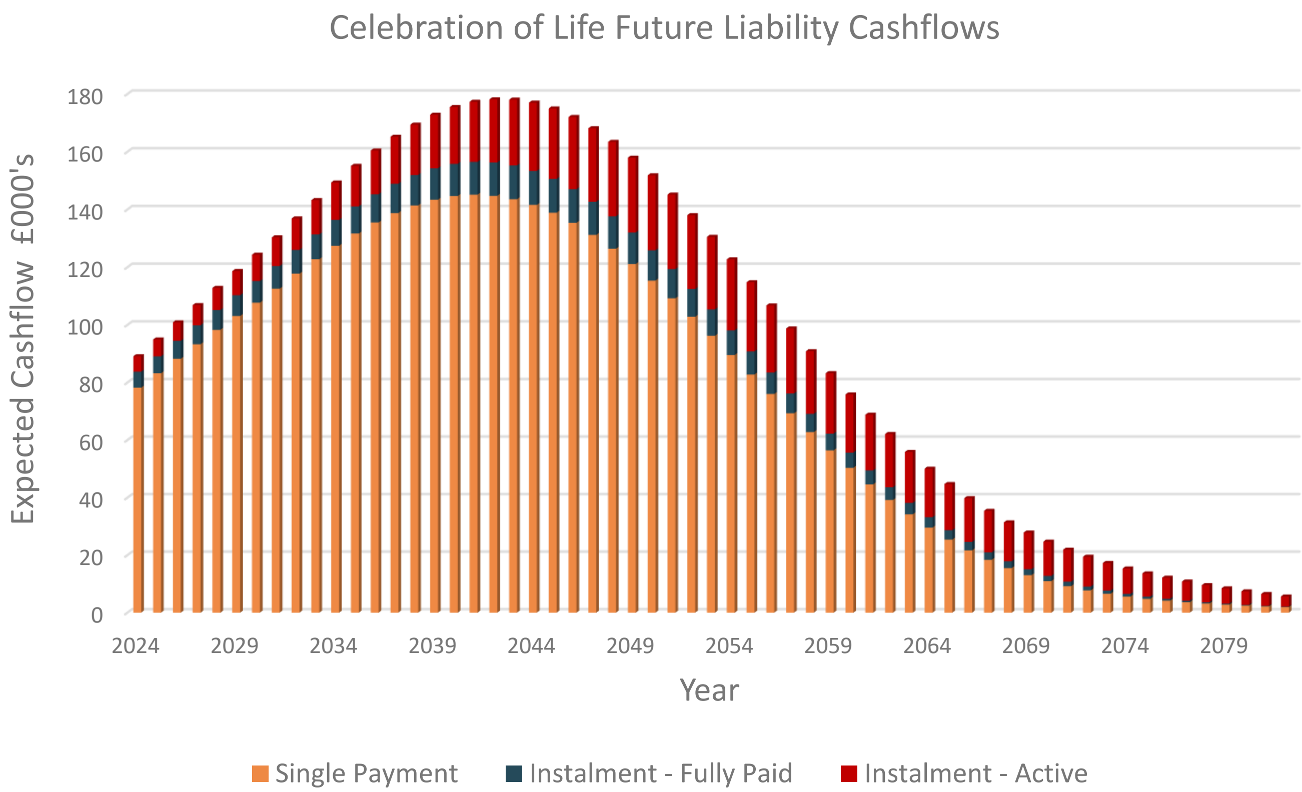
Valuation Method - Assets

For the purposes of this valuation the assets have been taken into account at their market value as shown in the Trust accounts. In addition, the discounted value of the future outstanding instalment payments (after allowing for both mortality and cancellation rates) is included as an asset value as these are needed to meet the future funeral costs.

Appendix 2 - Liability Profile



Appendix 3 - Cashflow Profile



Appendix 4 - Funding Position - Sensitivity Analysis

There is a requirement for enough information to be provided to the Trustees to demonstrate the sensitivity of the current financial position and development of the financial position of the Trust to risks arising from difference between the nature, term and characteristics of the liability cashflows and the assets of the Trust and any other material risks.

I have set out below details to demonstrate the sensitivity of the Best Estimate valuation of the Trust. It should be noted that the impact of the changes on the liabilities are considered in isolation. Changing more than one assumption at a time may not be equivalent to summing the changes below.

Net Discount Rate

The best estimate funding position above incorporates a net discount rate of 0.7% p.a. (after inflation, expenses and tax). Allowing for a change in the net discount rate by 0.5% p.a. will provide the following results:-

	Reducing by 0.5% p.a.	**Increasing by 0.5% p.a.**
	£000's	**£000's**
Value of Fund Assets (A)	3,731	3,723
Less Value of Liabilities (L)	(2,966)	(2,609)
Surplus (A – L)	**765**	**1,114**
Funding Level (A / L)	**125.8%**	**142.7%**

The above change in discount rate can reflect either a change in the future expected investment return on the Trust assets, a change in tax treatment of the Trust or a change in future expected inflation - each change being considered in isolation.

Mortality Sensitivity

The ongoing funding position above allows for mortality as measured by 100% of ELT 17. If allowance is made for the mortality adjustment by + / - 20% this will adjust the funding level to -1.9% / 2.5% respectively.

High Inflation combined with increased longevity

However, if we were to combine an increase in future expected inflation by 0.75% p.a. with an increase in longevity of 3 years on average then the net result will be a fall in the funding level to 123.0%.

Pandemic

The Trustees should be aware of the risk associated with any future pandemic and the effect it could potentially have on the financial position of the Trust. I have therefore considered a scenario whereby 25% of all plans become enacted and the cost of associated funeral plans are paid out immediately.

I have assumed that the claims will be spread evenly across all plans. The liability of the Trust will therefore fall by 25% but when added to the value of the potential claim payments the total liability becomes £2,770,000. This leads to a funding level of 127.4% at the review date.

Stress Testing – Inflation

If we assume future funeral inflation is 4.6% p.a. (compared to 2.4% p.a. in the best estimate assumptions) then the solvency of the trust fails at being just under 100%. Even though recent inflation rates have been higher than this, the long term aim of the Government's policy of targeting inflation at 2% p.a. suggests that this risk is currently at a low probability.

Stress Testing – Investment

The net of tax, real investment return assumed for the SAR is at 0.7% p.a. However, as the Trust has a high proportion in fixed interest investments at 81.9%, it has a significant degree of protection against sudden falls in the equity markets.