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FAMILY FUNERALS PRE-PLANNED FUNERALS TRUST (OPEN) ACTUARIAL VALUATION AS AT 31 DECEMBER 2021

FAMILY FUNERALS TRUST LIMITED

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Executive Summary

Introduction

FTI Consulting LLP ("FTI") has been instructed by Family Funerals Trust Limited ('FFTL') to carry out an actuarial valuation on both the Open and Closed schemes as at 31 December 2021 ("valuation date"). We have investigated the adequacy of the combined assets of the two funds backing the Scheme, on the valuation basis and a real liability basis.

Membership data

As at 31 December 2021, there were 4,058 members. This represents a decrease in membership compared to the previous valuation when there were 4,159 members and is a result of 282 new members, 34 lapses and 349 deaths.

Mortality

As in previous valuations we have set the mortality assumption by considering the experience of the Open Scheme and Closed Scheme in aggregate. The mortality experience of the combined Schemes relative to the English Life Tables No. 17 ("ELT 17") mortality tables was calculated to be 119% over the 5 year period to the valuation date (1 January 2017 to 31 December 2021).

A margin for prudence of 10% was applied leading to the valuation assumption of 131%.

Expenses

We have assumed that the Open Scheme will meet 75% of Rathbone's Custodian fee of £8,000 p.a. plus VAT, giving expenses for the Open Scheme of £5,450 p.a. A corporation tax rate of 24.30% was used, reflecting the change from 19% to 25% in April 2023. We have inflated the expenses at 4.91% p.a. for future years which includes a margin of 1% p.a. above future expected inflation derived from Bank of England data.

Assets

As at 31 December 2021, the total book value of the assets was £16.8m and the total market value of the assets of the Scheme stood at £19.7m which is a £2.9m gain to their acquisition value.

The average running yield for the Open Scheme was 2.93% p.a. Netting for corporation tax, asset management charges of 0.4% p.a., grossing up for VAT, and allowing for prudence margins, produces a valuation interest rate of 1.5% p.a.

The inflation assumption for the future revaluation of the Dignity plan benefits was based on the Bank of England's implied spot inflation rate as at 31 December 2021, with the addition of 0.25% p.a. for prudence.

Valuation results

On the central basis, the assets of the scheme amounted to £16.8m and the liabilities were equal to £15.4m as at 31 December 2021. The Scheme, therefore, had a surplus of £1.4m, representing 9.3% of the liabilities, at the year-end.

The surplus increased over the year from £1.1m as at 31 December 2020 (7.1% of the liabilities) and was the result of:

- An increase in surplus of £0.3m due to membership and asset movement
- An increase in surplus of £0.4m due to an increase in valuation interest rate
- A decrease in surplus of £0.4m as a result of rolling forward the liabilities and updating the RPI inflation assumption

The surplus is most sensitive to a change in the valuation interest rate – if the rate of interest were to decrease by 1% p.a., the surplus would decrease by £1.5m to produce a deficit of £0.05m.

The reserves established for the 282 new business policies was less than the corresponding mandated payments received. We calculate that for every £100 of new business sold the surplus increased by about £10, all other things being equal.

From 29 July 2022, pre-paid funeral plan trusts will need to conduct an annual actuarial valuation, which includes a Solvency Assessment Report (“SAR”), in line with the FCA’s new regulations for these trusts.

The regulation allows providers to withdraw funds where the SAR solvency level is over 110% on a best estimate basis and requires that a 12-month recovery plan be submitted should the solvency level fall below 100% on a best estimate basis.

Funeral plan trust providers will need to apply for authorisation in order to continue their operations.

We have estimated the surplus on a post FCA authorisation basis, when the pre-emption agreement in clause 22 of the Trust Deed is removed, to be £4.4m, an increase of £2.9m relative to the central basis. The exact figure will depend on finalising the calculation methodology expected by the FCA for the liability figures.

Underlying liability to provide funerals to the plan holders

The real liability, which reflects the amount needed to carry out the funerals and the expected payments from the Trust, was calculated to be £12.6m.

The real liability is £2.7m lower than the valuation liability (excluding the expense reserve) and £4.2m lower than the Scheme’s book value of the assets.

This means that there are sufficient assets in the Scheme to cover the expected costs of providing the future funerals.

Regulatory guidance

As at 31 December 2021, the present value of the Scheme’s future liabilities, on a neutral basis, amounted to £14.8m.

1. Introduction

1.1 Purpose of this report

FTI Consulting LLP ("FTI") has been instructed by Family Funerals Trust Limited ('FFTL') to carry out an actuarial valuation on both the Open and Closed schemes. FFTL and the trustees will be the main users of this report. Section 9 sets out important reliances and limitations in relation to the work undertaken to prepare this report. The investigation relates to the Open Scheme (the "Scheme") of Family Funerals Trust Limited as at 31 December 2021.

The previous investigation was carried out as at 31 December 2020.

We have investigated the adequacy of the combined assets of the two funds backing the Scheme. The No.1 Fund represents all the Mandated Payments and the No 2 Fund consists of all income earned on the funds.

1.2 Operation of the Scheme

Through the pre-emption agreement in clause 22 of the Trust Deed, capital gains and losses for both the No.1 and No.2 Fund are passed onto FFTL, a wholly owned subsidiary of Lodge Bros. (Funerals) Limited.

1.3 Method of valuation

Data was supplied by FFTL and the investment managers, Rathbone Brothers Plc ("Rathbones"), by e-mail in March 2022. We have made our own reasonableness checks on the data but have relied upon the accuracy of the data supplied.

For the purpose of the valuation, there are two different types of plans in the Scheme:

- "Dignity plans" – 637 plans

  These plans are valued on an RPI-linked basis. They were originally sold by funeral directors in Wiltshire and Cambridgeshire which were later acquired by Dignity. The Mandated Payment is rolled up with RPI from the plan start date until maturity, which involves a two-part calculation:

  I. The Mandated Payment is rolled up from the plan start date using historical RPI data sourced from the Office of National Statistics

  II. The amount calculated above is then accumulated at the market expected inflation rate for the plan holder's expected future lifetime

- "Non-Dignity" plans – 3,421 plans

  In line with previous years' valuation methodologies, the liability for these plans is valued according to a fixed uplift of the Mandated Payment. The Scheme is being operated with a limit on the amounts of the Certified Sums which become payable under clause 22 of the Trust Deed. The limit agreed after the 2015 Trustee meeting, and still in operation, is 105% of the Mandated Payments. We have therefore valued the liabilities on this basis.

For instalment plans, the liability has been based on the Mandated Payment paid to the valuation date, as opposed to the total Mandated Payment due.

The liabilities have been discounted at a rate of interest which does not allow for any capital gains or losses in asset values as the Scheme is immune from such changes. An allowance for mortality of members has been made in calculating the reserves. No allowance has been made for refunds. For the underlying liabilities discussed in Section 7, the rate of interest takes account of capital growth as this is an asset of FFTL.

2. Membership Data

The membership data was supplied by FFTL by e-mail in March 2022. We have relied upon the accuracy of the data supplied but have also carried out reasonableness checks. Although we have not found any material issues, we have highlighted, in Appendix A, the minor data issues encountered and the steps taken to rectify the data.

We have reconciled the membership as at 31 December 2021 with that at the last year-end using movement data provided, as shown in the table below.

	Male	Female	Joint	Total
Number of members as at 31 December 2020	1,427	2,650	82	4,159
Refunds/Lapses	11	22	1	34
New Members	96	178	8	282
Deaths	150	192	7	349
Adjustments	1	0	-1	0
Number of members as at 31 December 2021	1,363	2,614	81	4,058

The "Adjustments" line in the table reflects the corrections made to member data as a result of more complete information on joint policies being made available. The database used in the calculation of the reserves shows total Mandated Payments of £15,309,605.

3. Mortality

3.1 Setting the mortality assumption

We have retained the same approach as that used at the last valuation in setting the mortality assumption.

The valuation of the liabilities allows for the expected future timing of plan holder deaths, using the English Life Tables No. 17 ("ELT 17") mortality tables. The ELT 17 tables are based on the mortality experience of the population of England and Wales during the years 2010, 2011 and 2012. The mortality tables are adjusted to reflect the experience of the Scheme relative to population mortality and to include a margin for prudence. This adjustment is calculated in an experience investigation.

The valuation does not allow for future mortality improvements as the average life expectancy of the Scheme is relatively short and the impact would therefore be insignificant.

3.2 Experience investigation

The investigation compares the actual number of deaths observed to those expected using the ELT 17 tables over the 5 year period to the valuation date (1 January 2017 to 31 December 2021). The actual versus expected ("A/E") ratios calculated at the last five year-ends all exceeded 100%, reflecting a higher mortality experience than that of the general population, as described by the ELT 17 tables. This would be expected as some plans will be purchased when people are in ill health and the socio-economic demographics of the average purchaser will exhibit higher mortality than the average sample from the population. There is no obvious effect from additional pandemic deaths.

Investigation period	A/E ratio
2017 – 2021	120%
2016 – 2020	119%
2015 – 2019	123%
2014 – 2018	135%
2016 – 2017	127%

3.3 Valuation assumption

We calculated the valuation mortality assumption by combining the experience of the Open and Closed schemes together and including a margin for prudence.

	Open	Closed
Investigation result (2017 – 2021)	120%	110%
Weighted average of both Schemes	119%	119%
Margin for prudence	+10%	+10%
Valuation assumption	**131%**	**131%**

For the Open Scheme, prudence is achieved by increasing mortality rates – this leads to less inflationary increases to the Dignity Plan payments, which is more than offset by less discounting of liabilities as a result of earlier deaths. The overall impact is an increase in liabilities. Therefore, we have retained the prudence loading of 10% in the mortality assumptions.

4. Expenses

Rathbones' charges are 0.40% p.a. plus VAT of the Scheme's funds. This is allowed for implicitly in the valuation assumptions by reducing the valuation interest rate.

A separate reserve is required to cover other future expenses. Both the actuarial and audit fees are borne by FFTL and are not reclaimed from the Scheme. Therefore, the only expense borne by the Scheme (excluding fund management charges and any taxes payable) is Rathbones' Custodian fee of £8,000 p.a. plus VAT.

We have retained the assumption that 25% of these fees are met by the Closed Scheme and 75% are met by the Open Scheme. Netting the expenses down for corporation tax at 24.30% p.a. means that we have assumed expenses for the Scheme to be £5,451 p.a. The corporation tax rate quoted is a weighted average which reflects the forecast increase from 19% to 25% in 2023.

We have inflated these expenses at 4.91% p.a. for future years which includes a margin of 1% p.a. above future expected inflation derived from Bank of England data. Allowing for discounting over the duration of the liabilities, the expense reserve is £56,392.

This expense reserve is slightly higher than the 2020 valuation reserve of £55,103. This is primarily due to the effect of a higher expense inflation being applied.

The expense reserve for the Open Scheme is, pro-rata, higher than that of the Closed Scheme as the average membership age is younger and hence the average future duration of the liabilities is longer (9 years for the Open Scheme compared to 6 years for the Closed Scheme).

5. Assets

5.1 Summary of funds

The Scheme's assets are held in two separate funds. The No.1 Fund represents all Mandated Payments, while the No.2 Fund consists of all income from the funds. A further asset (liability) of the Scheme is any net Mandated Payments due to (from) the Scheme. Together, the values of the No. 1 Fund and No. 2 Fund represents the book value or acquisition value of the assets.

The acquisition values of the assets as at 31 December 2021 and 31 December 2020 were:

	31 December 2021 (£)	31 December 2020 (£)
No. 1 Fund	13,854,288	13,981,725
Cash	643,298	610,670
TOTAL	**14,497,586**	**14,592,395**
No. 2 Fund	2,144,461	1,913,704
Cash	138,957	108,859
TOTAL	**2,283,418**	**2,022,563**
Adjustment	9,921	(14,051)
COMBINED TOTAL	**16,790,925**	**16,600,907**

The "Adjustment" line represents Mandated Payments paid into or out of the Scheme in December, which are only reflected in Rathbones' records after the year-end.

On 31 December 2021, the total market value of the assets of the Scheme stood at £19,726,171 which is a £2,945,166 gain to their acquisition value. Under the rules of the Scheme, this difference is an asset of FFTL and Lodge Bros. (Funerals) Limited.

At the valuation date the assets, at acquisition value, were distributed as follows:

	Acquisition Value (£)	Proportion	31 December 2021 Yield[1]	31 December 2020 Yield
Cash and Net Mandated Payments	792,176	5%	0.00%	0.00%
Fixed Interest	2,709,043	16%	1.70%	1.89%
Equity	11,751,029	70%	3.44%	2.88%
Alternatives	1,538,677	9%	2.73%	2.36%
Total	**16,790,925**	**100%**	**2.93%**	**2.54%**

[1]Yields represent the estimated running yield from the groups of assets

The average running yield for the Open Scheme was 2.93% p.a. for 2021 (2020: 2.54% p.a.). This increase is mainly due to the increase in income relative to the acquisition cost for Equities and Alternatives.

5.2 Valuation interest rate

The derivation of the valuation rate of interest is shown in the table below.

31 December 2021 Valuation Interest Rate Calculation (p.a.)	
Weighted average running yield	2.93%
Risk adjusted yield	2.86%
Less asset management charge (Inc. VAT)	(0.48%)
Less tax at 24.30%	(0.58%)
Less margin	(0.25%)
Valuation interest rate (rounded down)	**1.50%**

The risk adjusted yield is calculated using a reduction of 2.5% from the running yield. Asset management charges of 0.4% p.a. grossed up for VAT are deducted along with tax. Finally, a 25-basis point deduction is made for prudence in the interest rate. Except for the corporate tax rate, all of these are unchanged from the last valuation. The corporation tax rate has changed to reflect that the change in the valuation date relative to 1 April 2023, when it is due to go up to 25% (see below).

The valuation interest rate has increased to 1.50% p.a. (2020: 1.20% p.a.), primarily due to an increase in the average running yields of the assets.

5.3 Inflation

Dignity plans are valued on an RPI-linked basis. We have used the implied spot inflation curve as at 31 December 2021 from the Bank of England to accumulate the market expected inflation rate over the plan holders' expected future lifetime. We have added a margin of 0.25% p.a. to the inflation curve for prudence. A table showing the RPI assumption is in Appendix C.

The expenses in relation to the custodian fee are also subject to inflationary increases. To set the expense inflation, we have used the spot inflation rate from the Bank of England at 7 years (the duration of the expense reserves) – this was equivalent to 3.91% p.a. at 31 December 2021. A margin of 1% p.a. has been added to the expense assumption for prudence.

The Treasury and the UK Statistics Authority ("UKSA") announced that from February 2030 RPI will be calculated using the data and methods of CPIH – the Consumer Prices Index including owner occupiers' housing costs. As such, the RPI index will continue to exist after 2030 but the way it is calculated will change to be consistent with the calculation of the CPIH index. We also anticipate that the Bank of England's implied spot inflation curve will account for this change in the fitting process around this point.

Therefore, we anticipate the continued use of the RPI index for the past revaluation of Dignity plan benefits, and the Bank of England's implied spot inflation curve for future revaluation of mandated payments.

5.4 Corporation Tax

The U.K Government announced in March 2021 that corporation tax would rise from 19% to 25% from 1st April 2023. To allow for this, we have taken a weighted average of the expected future corporation tax rate. We have used the expected expense cashflows for each year for the weighting as they represent the survivorship of the Scheme going into the future. Using this method, we obtained an average corporation tax rate of 24.30% p.a.

6. Valuation results

6.1 Central basis results

The results of the 31 December 2021 valuation are shown in the table below along with the corresponding 31 December 2020 figures:

	31 December 2021	31 December 2020
Assets (£)		
No. 1 Fund	14,497,586	14,592,395
No. 2 Fund	2,283,418	2,022,563
Adjustment	9,921	(14,051)
Total Assets	**16,790,925**	**16,600,907**
Liabilities (£)		
Present value of certified sums:		
Dignity plans	2,900,206	2,829,531
Non-Dignity plans	12,399,414	12,610,299
Expense Reserve	56,392	55,103
Total Liabilities	**15,356,012**	**15,494,933**
Surplus/(Deficit)	**£1,434,914**	**£1,105,974**
Surplus/(Deficit) as % of liabilities	9.3	7.1
Withdrawal	TBC	0
Surplus after withdrawal	**£1,434,914**	**£1,105,974**
Surplus/(Deficit) as % of liabilities after withdrawal	**9.3**	**7.1**

As at 31 December 2021, the assets of the Scheme amounted to £16.8m and the liabilities were £15.4m, leaving a surplus of £1.4m (equivalent to 9.3% of the liabilities). The solvency position of the Scheme has increased slightly since 31 December 2020 with surplus increasing by nearly £329k.

The Trust Deed was amended in 2017 to allow us to consider whether the aggregate of the No. 1 and No.2 Funds meets the Trust's liabilities in total. However, this may only be done if the assets of the No.1 fund cover the liabilities of that fund (the Mandated Payments) in isolation; this is the case for this valuation.

A summary of the assumptions underlying the central basis as at 31 December 2021 and 31 December 2020 is shown in Appendix B.

6.2 Projecting liabilities into the future

All liabilities are reserved for prudently which means that margins are built into each assumption used in the valuation, such as the 0.25% margin in the valuation interest rate, the 10% loading on the mortality assumption and the 1% margin in expense inflation.

If actual future experience turns out to be exactly as expected (i.e. before the application of any margins), then the surplus in the Scheme will gradually increase as the margins in the assumptions are released, excluding the effect of new business (considered in Section 6.8).

The Scheme's surplus position at each of the last five valuations is shown in the table below. Over this period the Scheme has always been in surplus, demonstrating a sound financial position.

31 December 2021	2017	2018	2019	2020	2021
Surplus (£)	541,252	1,456,258	1,312,430	1,105,974	1,434,914
Surplus as % of liabilities	3.7	9.9	8.7	7.1	9.3
Withdrawal (£)	-	570,000	-	-	-
Surplus after withdrawal	541,252	886,258	1,312,430	1,105,974	1,434,914
Surplus as % of liabilities after withdrawal	3.7	6.0	8.7	7.1	9.3

6.3 Analysis of change in surplus

We have conducted an analysis of surplus to assess the main drivers behind the change in surplus:

	Surplus (£)	Change (£)
Surplus as at 31 December 2020	**1,105,974**	
Updated membership and asset data	1,414,613	308,639
Roll forward and updated RPI	1,018,859	(395,751)
Updated mortality	1,017,937	(922)
Updated expense inflation	1,014,905	(3,032)
Updated valuation interest rate	1,434,914	420,008
Surplus as at 31 December 2021	**1,434,914**	

The major impacts on the surplus are described below:

- Updating policy information and the Scheme's investments increased the surplus by £308,639
- Rolling forward the liabilities to 31 December 2021, and updating RPI decreased the surplus by £395,751
- Increasing the valuation interest rate from 1.2% p.a. to 1.5% p.a. increased the surplus by £420,008

6.4 Surplus sensitivity to the valuation assumptions

We have investigated the sensitivity of the surplus to changes in some of the key assumptions. The table below sets out the results of our analysis:

Sensitivity	Surplus (£)	Change (£)	Surplus (as % of liabilities)
Central Basis	**1,434,914**		**9.3**
Mortality +10%	1,397,763	(37,150)	9.1
Mortality -10%	1,471,180	36,266	9.6
RPI assumption +1% p.a.	1,176,711	(258,202)	7.5
RPI assumption -1% p.a.	1,665,658	230,744	11.0
Interest rate +1% p.a.	2,694,129	1,259,216	19.1
Interest rate -1% p.a.	(54,093)	(1,488,952)	(0.3)

We have reduced the sensitivity margin applied to the mortality assumptions in this year's valuation. The margin of +/- 10% which has been used is more realistic compared to the +/- 20% which had been used in the past.

The surplus is most sensitive to a change in the valuation interest rate – if the rate of interest were to decrease by 1% p.a., the surplus would decrease by £1,488,952 to produce a deficit of £54,093. We note that if this situation were to arise and the Scheme fell into deficit, action could be taken to reduce the fixed uplift paid out for Non-Dignity plans to increase the surplus.

6.5 Surplus sensitivity to scenario-based stress tests

In addition to varying key assumptions (interest rate, mortality and RPI) in isolation, we have assessed the combined impact of changes in two or more assumptions at the same time. The table below shows the impacts of the most onerous changes for each possible combination of assumptions.

Scenario	Surplus (£)	Change (£)	Surplus (as % of liabilities)
Central Basis	**1,434,914**		**9.3**
Mortality and interest rate both decreased	(77,058)	(1,511,972)	(0.5)
Mortality and RPI both increased	1,152,710	(282,203)	7.4
RPI increased and interest rate decreased	(350,124)	(1,785,037)	(2.0)
Mortality and interest rate both decreased while RPI increased	(393,179)	(1,828,093)	(2.3)

The most onerous scenario is where all three parameters are stressed at the same time; this causes the surplus to decrease by £1,828,093 to a deficit of £393,179. We note that if this situation were to arise and the Scheme fell into deficit, action could be taken to reduce the fixed uplift paid out for Non-Dignity plans to reduce the deficit.

6.6 Risk and uncertainties

The Scheme is exposed to three key risks:

- **Mortality risk** – the Scheme is exposed to mortality experience being different than expected. We have applied a margin of 10% to the mortality assumption to produce a prudent liability value

- **Market risk** – due to the structure of the Scheme, it is not exposed to any changes in the market value of its asset holdings. It is, however, exposed to the income received from assets falling and we have therefore applied a margin of 0.25% p.a. to the valuation interest rate
- **Dignity RPI risk** – the Scheme is exposed to the risk that the RPI increases that apply to the Dignity liabilities are greater than expected. In the calculation of this liability, we have therefore added a margin of 0.25% p.a. to the expected future RPI rate. It should be noted that although in the short term RPI is expected to increase our assumption here is a long term assumption.

6.7 Impact of the Coronavirus

We have not made any specific adjustments to the calculations as a result of the COVID-19 pandemic. The standard approach implicitly allows for the impact of COVID-19 on mortality in the last 12 months as our mortality calculations use a 5-year rolling average. There are numerous theories and studies on the long-term impact of COVID-19 on long-term mortality, many of them suggesting different outcomes. We are comfortable that the methodology used is prudent for the Scheme.

6.8 New business strain

New business strain occurs when the amount paid into the fund on the sale of a plan, the Mandated Payment, is less than the reserve established to pay out on the death of the member. However, the fixed uplift is now so low that new business strain no longer arises. In fact, a small profit flows from each new plan sold.

In 2021, 282 new plans were written with £1.21m worth of Mandated Payments. The reserves attributed to these plans at the year-end were £1.10m. As the reserves are lower than the mandated payments, there was no new business strain for the year. On the contrary, we calculate that for every £100 of new business sold the surplus increased by about £10, all other things being equal.

6.9 New regulations of funeral plans

From 29 July 2022, the FCA's new regulation of pre-paid funeral plan trusts will be effective and therefore the trust will come under the supervision of the FCA . Going forward the trust will need to conduct an annual actuarial valuation, which includes a Solvency Assessment Report ("SAR"). In addition, SARs will need to be published online.

If the solvency level shown in the SAR is below 100% on a best-estimate basis, the provider will need to present remediation plans to correct the deficit within a 12-month period. The regulation allows providers to withdraw funds where the SAR solvency level is over 110% on a best estimate basis, subject to the approval of an actuary.

6.10 Year-end 2021 Scheme results on a post FCA authorisation basis

The new FCA regulations provide no guidance on what constitute a best estimate basis of the liabilities and consideration will need to be given to the derivation of this basis in the next valuation.

Separately, we are aware that FFTL have decided to remove the pre-emption agreement in clause 22 of the Trust Deed ahead of the next valuation. This will mean that capital gains and losses for both the No.1 and No.2 Fund will be retained within the Scheme.

In light of the above, to obtain a view of what the Scheme's position would look like under the new FCA regulations, as at 31 December 2021, we have calculated the surplus using the valuation liabilities and the market value of the assets (instead of the book value). The results are shown below:

31 December 2021	Central basis	Post FCA basis (approximate)
Total Assets (£)	16,790,925	19,726,171
Total Liabilities (£)	15,356,012	15,356,012
Surplus (£)	1,434,914	4,370,159
Surplus as % of liabilities	9.3	28.5

As at 31 December 2021, the surplus on the post FCA basis is larger than on the central basis as the market value of the assets were £2.9m higher than their acquisition value.

7. Underlying liability to provide funerals to the plan holders

7.1 Approach and assumptions

In addition to valuing the liabilities of the Scheme, where payments are made according to specified formulae, we are required to analyse the "real" liabilities to the plan holders, i.e. the contract to provide a specific funeral. This highlights any difference between the actual amount needed to carry out the funerals and the expected payments from the Trust.

The calculation of this real liability is as follows:

- After discussions with Lodge Bros. (Funerals) Limited, the estimated marginal cost of providing a funeral is £2,127, which is made up of:
  - Average value of fees and disbursements: £1,417
  - Average budget purchases per funeral: £332
  - Other variable costs: £378
- The expected costs of providing funerals each year are projected based on our best estimate of mortality (i.e. excluding the valuation mortality margin) and the following price inflation assumptions provided by Lodge Bros. (Funerals) Limited which have been estimated based on the last five years' management accounts data:
  - Fees and disbursements inflation: 6% p.a.
  - Other funeral cost inflation: 5% p.a.
- From our general market knowledge, these figures appear reasonable. They were certified as reasonable by the board of Family Funerals Trust Limited.
- The real liability is calculated to be the discounted value of all these future payments using a discount rate, which reflects the total return expected to be achieved by Lodge Bros. (Funerals) Limited
  - The investment manager's current estimate is that a long-term net of fund charges return of 6.5% p.a. is expected on the Scheme's assets. This seems reasonable considering market expected returns on various asset classes. Nevertheless, for purposes of prudence, we have assumed a long term total net return of 3.5% p.a. We have then adjusted this for the management charge including VAT (0.48% p.a.) and corporation tax at 24.30% p.a. to produce a discount rate of 2.29% p.a.

7.2 Results

On this basis, the real liability is calculated to be £12.6m, which is £2.7m lower than the valuation liability of £15.3m (excluding the expense reserve). In most circumstances, we would highlight the differences in bases for calculating these two numbers, but given the starting points are different, this would be of limited value.

In addition, the real liability was £4.2m lower than the Scheme's book value of the assets of £16.8m. This means that there are sufficient assets in the Scheme to cover the expected costs of providing the future funerals.

7.3 Reverse stress test

Furthermore, we have conducted "reverse stress testing" on the real liability value by varying the initial estimate of fees and disbursements and its associated inflation assumption. This process investigates the level that each parameter would need to rise to in order to cause the real liability to exceed the valuation liability. The results are as follows:

- Starting fees and disbursements value: £1,857 or
- Fees and disbursements inflation: 8.00% p.a.

The results show that the starting value of the fees and disbursements would need to be greater than £1,857 for the real liability to exceed the valuation liability, an increase of £440 over the current assumption of £1,417.

Alternatively, the fees and disbursements inflation assumption would need to be above 8.00% p.a. to cause the real liability to exceed the valuation liability, which is 2.00% p.a. higher than the existing assumption.

These results provide comfort that the valuation liability is sufficient to cover the real underlying liability, even in the event of the adverse circumstances identified above.

7.4 Expected payments

The chart below illustrates the smoothed run-off of the Scheme, based on the following:

- Realistic mortality assumption: 119% of ELT17
- Expected benefit outgo: 105% of Mandated Payments for Non-Dignity plans and future expected RPI for Dignity plans

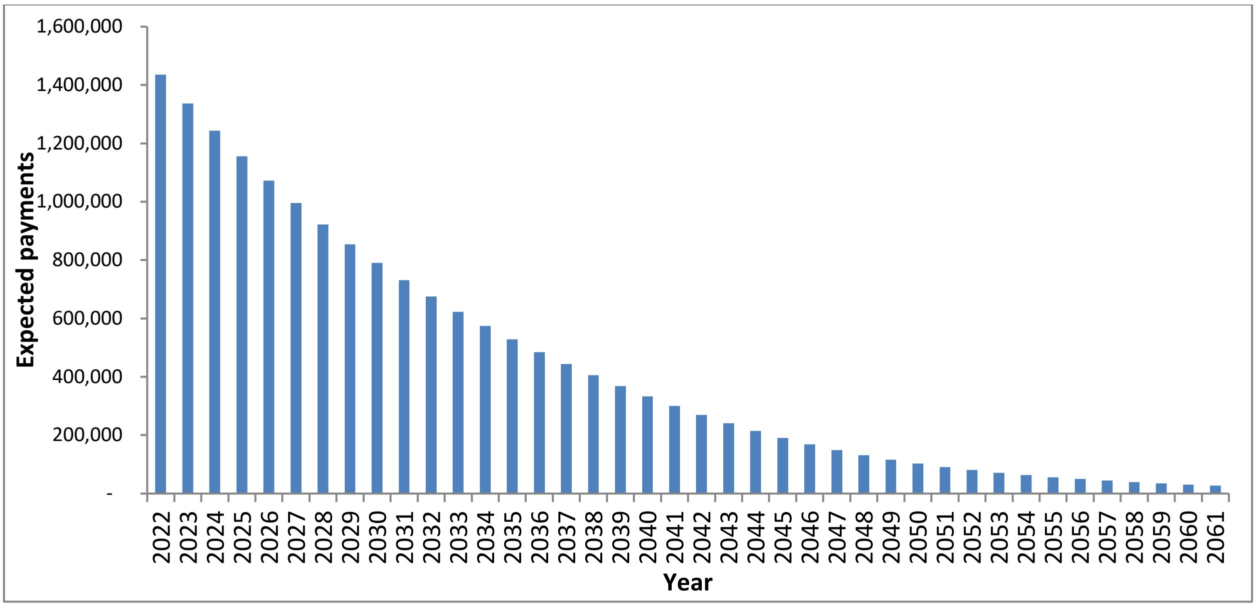

Figure 1: Expected benefit payments (£)

8. Regulatory guidance

8.1 Neutral estimate

The Funeral Plans TAS, guidance issued by the Financial Reporting Council, requires us to provide a neutral estimate of the present value of the future liabilities of the Scheme. Our analysis shows that, as at 31 December 2021, the present value of the Scheme's future liabilities, on a neutral basis, amounted to £14,755,706. It was calculated on the central basis assumptions with the margins for prudence removed:

- The mortality margin was removed and scheme specific A/E loading was used
- The neutral basis interest rate excluded the risk adjusted yield margin and the margin for prudence
- The RPI margin was removed
- The Dignity uplift margin was removed

8.2 Compliance with professional standards

The valuation has been performed in accordance with the Technical Actuarial Standards relating to Funeral Plans ("TAS 400"), as set by the Financial Reporting Council. We have complied with TAS 100 which covers the standards relating to modelling, data and reporting. We have also complied with the requirements of APS X1, APS X2 and APS Z1, set by the Institute and Faculty of Actuaries, which concern the application of appropriate standards, peer review of actuarial work and actuaries' duties and responsibilities when working with funeral plans respectively.

9. Reliances and limitations

This report has been prepared for FFTL and the trustees to set out the results of the actuarial valuation of the Scheme as at 31 December 2021 under our letter of engagement dated 12 January 2022. It may not be suitable for use by any other party or for any other purpose. FTI Consulting does not accept any responsibility, duty of care or liability for the use of this report by unintended parties or outside the scope of the purpose mentioned above. This report should not be disclosed to any third party other than with a written agreement from FTI Consulting.

The opinions expressed in this report are valid only for the purpose stated herein and as of the date of this report.

All decisions in connection with the implementation or use of advice or recommendations contained in this report are the sole responsibility of its users. This report does not represent investment advice, nor does it provide an opinion regarding the fairness of any transaction to any and all parties.

We have relied on data and information provided to FTI Consulting as set out in this report which takes no account of developments after that date. FTI Consulting is under no obligation to update the report for any such developments. In particular, reliance has been placed upon, but not limited to, the following:

- Membership data as at 31 December 2021 provided by FFTL
- Asset information as at 31 December 2021 provided by Rathbones
- Data on fees, disbursements and other expense-related items provided by Lodge Bros. (Funerals) Limited

Appendix A

We have made a few minor data corrections, as follows. For the 11 plan holders below with missing dates of birth, we have assigned the average date of birth of the remainder of the membership (20th September 1942).

Plan Code	
BRIN10	MZ1581
BRIN11	MZ1582
BRIN12	MZ1583
MZ1482	MZ1584
MZ1580	MZ1585
PZ1271	

Appendix B

The tables below set out the assumptions as at 31 December 2021 and 31 December 2020 for the central basis and the calculation of the real liabilities.

Central basis assumptions

	31 December 2021	31 December 2020
Fund annual expenses (incl. VAT, p.a.)	£5,451	£5,493
Expense inflation including margin (p.a.)	4.91%	4.09%
Valuation interest rate (p.a.)	1.50%	1.20%
Dignity plan inflation	Bank of England implied spot inflation curve as at 31 December 2021[1]	Bank of England implied spot inflation curve as at 31 December 2020
Dignity uplift margin (p.a.)[2]	0.25%	0.25%
Mortality proportion	131%	130%

Real liability assumptions

	31 December 2021	31 December 2020
Average value of fees and disbursements	£1,417	£1,333
Average budget purchases per funeral	£332	£282
Other variable costs	£378	£360
Fees and disbursements inflation (p.a.)	6%	5%
Other funeral cost inflation (p.a.)	5%	3%
Interest rate (p.a.)	2.29%	2.30%
Mortality proportion	119%	119%

[1] See Appendix C for the spot inflation curves
[2] Applied to the Dignity plan inflation

Appendix C

The Bank of England implied spot inflation curves as at 31 December 2021 and 31 December 2020 are shown below. The spot rates used for the valuation cover the term range 3-25.5 years.

Term	31 December 2021 (% p.a.)	31 December 2020 (% p.a.)
3.00	4.26	2.99
3.50	4.18	2.98
4.00	4.12	2.99
4.50	4.06	3.00
5.00	4.02	3.01
5.50	3.98	3.03
6.00	3.95	3.05
6.50	3.93	3.07
7.00	3.91	3.09
7.50	3.90	3.11
8.00	3.89	3.14
8.50	3.88	3.16
9.00	3.87	3.18
9.50	3.87	3.19
10.00	3.87	3.21
10.50	3.86	3.23
11.00	3.86	3.25
11.50	3.86	3.26
12.00	3.85	3.27
12.50	3.85	3.28
13.00	3.84	3.29
13.50	3.84	3.30
14.00	3.83	3.31
14.50	3.83	3.32
15.00	3.82	3.32
15.50	3.81	3.32
16.00	3.80	3.33
16.50	3.79	3.33
17.00	3.78	3.33
17.50	3.77	3.33
18.00	3.76	3.32
18.50	3.75	3.32
19.00	3.73	3.32
19.50	3.72	3.31
20.00	3.71	3.30
20.50	3.69	3.30
21.00	3.68	3.29

Term	31 December 2021 (% p.a.)	31 December 2020 (% p.a.)
21.50	3.66	3.28
22.00	3.65	3.27
22.50	3.63	3.26
23.00	3.62	3.25
23.50	3.60	3.24
24.00	3.58	3.23
24.50	3.57	3.22
25.00	3.55	3.21
25.50	3.53	3.19

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About FTI Consulting

FTI Consulting is an independent global business advisory firm dedicated to helping organisations manage change, mitigate risk and resolve disputes: financial, legal, operational, political & regulatory, reputational and transactional. FTI Consulting professionals, located in all major business centres throughout the world, work closely with clients to anticipate, illuminate and overcome complex business challenges and opportunities. Connect with us on Twitter (@FTIConsulting), Facebook and LinkedIn.

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