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SOLVENCY ASSESSMENT REPORT ("SAR") FOR FAMILY FUNERALS PRE-PLANNED FUNERALS TRUST (THE SCHEME) AS AT 31 DECEMBER 2023

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 and produce a Solvency Assessment Report ("SAR") on both the Scheme and Legacy Scheme as at 31 December 2023 ("valuation date"). We have investigated the adequacy of the combined assets of the two funds backing the Scheme, on a best estimate basis.

As from 29 July 2022, pre-paid funeral plan trusts need to conduct an annual actuarial valuation, which includes a Solvency Assessment Report ("SAR"), in line with the FCA's regulations for these trusts. Hence, we have valued the liabilities on a best estimate basis as at 31 December 2023, to comply with the FCA regulations. The liabilities were valued on a best estimate basis, in line with the FCA regulations, in the previous valuation for both the Scheme and Legacy Scheme. The previous investigation was carried out as at 31 December 2022.

Post our valuation date, on 16 February 2024, Lodge Bros. (Funerals) Limited has changed ownership and has sold all their remaining family owned shares to an Employee Ownership Trust (EOT). Lodge Bros. (Funerals) Limited has confirmed that this should make no difference to the administration or strategy of the prepaid funeral scheme or Family Funerals Trust. In terms of corporate structure Family Funerals Trust Limited is still owned by Lodge Bros. (Funerals) Limited. FCA approval has been obtained for this change of ownership.

Membership data

In the Scheme as at 31 December 2023, there were 3,477 members. This represents a decrease in membership compared to the previous valuation when there were 3,818 members and is a result of 37 lapses and 304 deaths during 2023. Out of the 3,477 members, 3,399 plans are based on a single payment and 78 are based on fully paid instalments. The Scheme wrote no new business during 2023, as it stopped writing new business in 2022 and is hence in run-off.

Mortality

As in previous valuations we have set the mortality assumption by considering the experience of the Scheme and Legacy 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 114% over the 5-year period to the valuation date (1 January 2019 to 31 December 2023).

Expenses

We have retained the assumption that 25% of the expenses are met by the Legacy Scheme and 75% are met by the Scheme. The investment manager's, Rathbones Brothers Plc, ("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. The actuarial, audit and custodian trustees fees are not borne by FFTL and are reclaimed from the Scheme. This has been reflected in the valuation as at 31 December 2023. Further details are set out in section 4 of this report.

Netting the expenses down for corporation tax at 25% p.a. means that we have assumed expenses for the Scheme to be £36,056 p.a. for 2024. The corporation tax rate quoted reflects the increase from 19% p.a. to 25% p.a. in April 2023. We have inflated these expenses at 3.38% p.a. for future years, which is based on the average expense reserves duration of 7 years derived from Bank of England website. Allowing for discounting over the duration of the liabilities, the expense reserve is £330,424.

Assets

As at 31 December 2023, the total book value of the assets was £14,334,904 and the total market value of the assets of the Scheme stood at £15,869,065 which is a £1,534,161 gain to their acquisition value.

The weighted average investment yield for the Scheme was 4.52% p.a. Netting for corporation tax, asset management charges of 0.4% p.a., grossing up for VAT, and retaining a 25 basis point margin for the Valuation Interest Rate (VIR), to reflect the use of weighted average target return over the period of 24 years, produces a valuation interest rate of 2.70% 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 2023 (Refer to Appendix B for the Inflation Spot Curve).

Valuation results

On the central basis, the assets of the Scheme amounted to £15,869,065 and the liabilities were equal to £12,723,269 as at 31 December 2023. The Scheme, therefore, had a surplus of £3,145,796, representing 24.7% of the liabilities, at the year-end. The Solvency Ratio, which is the total assets over liabilities, amounted to 125% as at 31 December 2023. At the Trustees meeting on 9 April 2024, a withdrawal of £600,000 was agreed by the Trustees of the Scheme. Hence, the surplus after withdrawal amounted to £2,545,796 (equivalent to 20.0% of the liabilities). The Solvency Ratio after withdrawal is, therefore, 120% as at 31 December 2023. Under the FCA regulations, the Trust needs to maintain a Solvency over 100%, and is able to withdraw surplus when this is over 110% with an actuary's approval. It should be noted that a drop in excess of 21.4% in the value of Equities and Alternatives would reduce the surplus after withdrawal to below zero. At the Trustees meeting, Michael Lodge, on behalf of Lodge Bros. Funerals) Limited agreed to inject money into the Trust should the Solvency Ratio drops below the required 100%.

The surplus changed over the year from £2,669,363 as at 31 December 2022 (20.0% of the liabilities) and was the result of:

- An increase in surplus of £575,405 due to membership movement (deaths and lapses) and the change in economic conditions
- An increase in surplus of £33,328 due to updating the mortality assumption
- A decrease in surplus of £132,300 due to an increase in expense and expense inflation assumptions, a small increase in corporation tax and a small decrease in valuation interest rates
- A surplus withdrawal of £600,000

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, after withdrawal, would decrease by £1,160,736 to produce a surplus of £1,385,060. A rise in the rate of interest by 1% p.a. would cause the surplus, after withdrawal, to increase by £993,047 to £3,538,843.

Since 29 July 2022, pre-paid funeral plan trusts need to conduct an annual actuarial valuation, which includes a Solvency Assessment Report (“SAR”), in line with the FCA 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.

1. Introduction

1.1 Purpose of this report

FTI Consulting LLP has been instructed by Family Funerals Trust Limited to carry out an actuarial valuation and produce a Solvency Assessment Report, in line with the FCA's regulations on both the Scheme and Legacy Scheme. FFTL and the trustees will be the main users of this report. Section 8 sets out important reliances and limitations in relation to the work undertaken to prepare this report. The investigation relates to the Scheme of Family Funerals Trust Limited as at 31 December 2023.

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

As from 29 July 2022, pre-paid funeral plan trusts need to conduct an annual actuarial valuation, which includes a Solvency Assessment Report ("SAR"), in line with the FCA's regulations for these trusts. Hence, we have valued the liabilities on a best estimate basis as at 31 December 2023, to comply with the FCA regulations. The liabilities were valued on a best estimate basis, in line with the FCA regulations, in the previous valuation for both the Scheme and Legacy Scheme. The previous investigation was carried out as at 31 December 2022.

Post our valuation period, on 16 February 2024, Lodge Bros. (Funerals) Limited has changed ownership and has sold all their remaining family owned shares to an Employee Ownership Trust (EOT). Lodge Bros. (Funerals) Limited has confirmed that this should make no difference to the administration or strategy of the prepaid funeral scheme or Family Funerals Trust. In terms of corporate structure Family Funerals Trust Limited is still owned by Lodge Bros. (Funerals) Limited. FCA approval has been obtained for this change of ownership.

1.3 Method of valuation

Data was supplied by FFTL and the investment managers (Rathbones), by e-mail in January 2024 and March 2024 respectively. 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" – 526 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 – 2,951 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. As at 31 December 2023, there were 78 members with instalment plans and 3,399 members with fully paid plans.

An allowance for mortality of members has been made in calculating the reserves. No allowance has been made for refunds.

2. Membership Data

The membership data was supplied by FFTL by e-mail in 2024. We have relied upon the accuracy of the data supplied but have also carried out reasonableness checks. We have not found any material issues with the data.

We have reconciled the membership as at 31 December 2023 with that as at 31 December 2022 using movement data provided, as shown in the table below.

	Male	Female	Joint	Total
Number of members as at 31 December 2022	1,264	2,481	73	3,818
Refunds/Lapses	13	23	1	37
New Members	0	0	0	0
Deaths	109	193	2	304
Adjustments	1	2	(3)	0
Number of members as at 31 December 2023	1,143	2,267	67	3,477

The "Adjustments" line in the table reflects the corrections made to member data as a result of additional information on joint policies being made available. The database used in the calculation of the reserves shows total Mandated Payments of £13,647,413.

The Scheme has no new business as at 31 December 2023, as it stopped writing new business in 2022, and is hence in run-off.

The table below lays out the number of plans and the total mandated payments categorised by payment types as at 31 December 2023:

	Single payment	Instalments fully paid	All payment methods
Number of members as at 31 December 2023	3,399	78	3,477
Total Mandated Payments (£)	13,326,551	320,862	13,647,413
Average Mandated Payment (£)	3,921	4,114	3,925

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, which is by valuing the assumption on a best estimate basis.

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.

The valuation does not allow for future mortality improvements or deteriorations as the average life expectancy of the Scheme is relatively short and the Scheme is in run-off, hence 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 2019 to 31 December 2023). 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
2019 – 2023	114%
2018 – 2022	118%
2017 – 2021	120%
2016 – 2020	119%
2015 – 2019	123%

3.3 Valuation assumption

We calculated the valuation mortality assumption by combining the experience of the Scheme and Legacy Scheme together for the valuation as at 31 December 2023.

	Scheme	Legacy Scheme
Investigation result (2019 – 2023) (p.a.)	114%	112%
Weighted average of both Schemes (p.a.)	114%	114%
Valuation assumption (p.a.)	**114%**	**114%**

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. The actuarial, audit and custodian trustees fees are not borne by FFTL and are reclaimed from the Scheme. This has been reflected in the valuation as at 31 December 2023 Therefore, the total expense borne by both Schemes (excluding fund management charges and any taxes payable) equates to the sum of:

- Audit fee: £6,750 p.a. plus VAT
- Actuarial fee: £33,000 p.a. plus VAT
- Trustees fee: £4,400 p.a. including VAT
- Rathbones' Custodian fee: £10,000 p.a. plus VAT

which totals £64,100 p.a. including VAT. The Rathbones' Custodianship fee has remained the same from the current valuation compared to the previous valuation period. The following expense components have increased from the previous valuation period to the current valuation period:

- The Audit fee has increased from £6,100 p.a. plus VAT to £6,750 p.a. plus VAT
- The Actuarial fee has increased from £30,250 p.a. plus VAT to £33,000 p.a. plus VAT
- The Trustees fee has increased from £3,740 p.a. including VAT to £4,400 p.a. including VAT.

We have retained the assumption that 25% of these fees are met by the Legacy Scheme and 75% are met by the Scheme. Netting the expenses down for corporation tax at 25% p.a. means that we have assumed expenses for the Scheme to be £36,056 p.a. for 2024. The corporation tax rate quoted reflects the increase from 19% p.a. to 25% p.a. in 2023.

We have inflated these expenses at 3.38% p.a. (2022: 3.24% p.a.) for future years, which is based on the average expense reserves duration of 7 years derived from Bank of England website. The expense inflation does not include a margin as at 31 December 2023 to reflect the best estimate valuation basis, under the FCA regulations. Allowing for discounting over the duration of the liabilities, the expense reserve is £330,424.

This expense reserve for the current valuation is higher than the valuation reserve as at 31 December 2022 of £295,843. This is due to the increase in three out of four of the expense components as at 31 December 2023 compared to as at 31 December 2022 as stated under Section 4 above. Even though the expenses for this valuation compared to the previous valuation was higher than expected, we believe this is due to short term fluctuations and our assumption is based on long term expectations. Nevertheless, we will continue to monitor the expense inflation assumption and revisit the adequacy of the assumption if required.

The expense reserve for the Scheme is, pro-rata, higher than that of the Legacy Scheme as the average membership age is younger and hence the average future duration of the liabilities is longer (9 years for the Scheme compared to 6 years for the Legacy 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. As at 31 December 2023, the values of the No. 1 Fund and No. 2 Fund together represent the market value of assets.

The market values and acquisition values of the assets as at 31 December 2023 and 31 December 2022 respectively were:

	Market value 31 December 2023 (£)	Market Value 31 December 2022 (£)
No. 1 Fund	13,825,912	14,027,798
Cash	290,259	807,756
TOTAL	**14,116,171**	**14,835,554**
No. 2 Fund	1,692,668	2,435,048
Cash	165,935	225,801
TOTAL	**1,858,603**	**2,660,849**
Adjustment	(105,709)	(85,557)
COMBINED TOTAL	**15,869,065**	**17,410,825**

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 2023, the total market value of the assets of the Scheme stood at £15,869,065 which is a £1,534,161 gain to their acquisition value.

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

	Combined Market Value of Funds of Scheme (£)	Proportion of Assets of Funds from Scheme	Combined Market Value of Funds from Scheme and Legacy Scheme (£)	Proportion of Assets of both Funds from Scheme and Legacy Scheme
Cash and Net Mandated Payments Due	350,485	2%	365,781	2%
Fixed Interest	3,619,714	23%	3,744,357	23%
Equity	10,584,571	67%	10,779,905	66%
Alternatives	1,314,295	8%	1,373,730	9%*
Total	**15,869,065**	**100%**	**16,263,773**	**100%**

* Adjusted due to rounding

5.2 Valuation interest rate

The methodology for calculating the valuation interest rate has remained the same for the valuation as at 31 December 2023 compared to the previous valuation as at 31 December 2022, as confirmed by Lodge Brothers in an email in March 2024. However, our projection period has reduced from 25 to 24 years to reflect a one-year increase from the previous valuation date and that the Scheme is in run-off. In accordance to the "FFT signed investment strategy review 2022" document provided by Rathbones, the modelled all-in return after fees were 5% p.a. for years 1:9 from 2024 to 2032, 4% p.a. for years 10:16 from 2033 to 2039 and 3% p.a. from years 17:24 from 2040 to 2047. This was used to calculate the weighted average returns on assets over a 24-year projection period to arrive at the weighted average investment return value of 4.52% p.a. before tax and Rathbones management fees.

From the investment strategy, Equity and Alternatives were combined and assumed to grow at the same rate starting as taking up 75% of total assets. Cash and Net Mandated Payments Due was assumed to take up a fixed 5% of total investments, with Fixed Interest making up the remaining 20%. The 3.54% p.a. Fixed Interest yield was taken from the 10-year UK Gilt yield as at 31 December 2023. The 2.86% p.a. Cash and Net Mandated Payments Due yield was calculated from the weighted average of estimated yield for cash over both funds in both schemes. By assuming a constant 5% Cash ratio, a 75% Equity (and Alternatives) ratio for years 2024:2032 and an average yield of 5% p.a. (after fees) over this period, we arrived at an implied long-term Equity (and Alternatives) yield value of 6.17% p.a. This yield was then used to solve for future asset proportions at years 2033:2039 and 2040:2047 to derive a weighted investment return for those years.

There is no margin in calculating the risk adjusted yield and as such it is equal to the average investment return, as we have valued it on a best estimate basis. Asset management charges of 0.4% p.a. grossed up for VAT are deducted along with tax. Finally, we have retained a 25 basis point margin for the Valuation Interest Rate (VIR), to reflect the use of weighted average target return over the period of 24 years as a basis of calculating the VIR. The corporation tax rate has changed to reflect that the change in the valuation date relative to 1 April 2023, when it increased to 25% p.a. (see section 5.4 below).

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

31 December 2023 Valuation Interest Rate Calculation	(p.a.)
Weighted average investment return	4.52%
Risk adjusted yield	4.52%
Less asset management charge (Inc. VAT)	(0.48%)
Less tax at 25% p.a.	(1.01%)
Less margin	(0.25%)
Valuation interest rate (rounded down)	**2.70%**

The valuation interest rate has decreased to 2.70% p.a. as at 31 December 2023 (2022: 2.80% p.a.) due to the combination of a slight reduction in future weighted average investment return, as the scheme runs-off, and a slight increase in corporation tax compared to the previous valuation.

5.3 Inflation

Dignity plans are valued on an RPI-linked basis. We have used the implied spot inflation curve as at 31 December 2023 from the Bank of England to accumulate the market expected inflation rate over the plan holders' expected future lifetime. A table showing the RPI assumption is in Appendix B.

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 3.38% p.a. at 31 December 2023.

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 UK Government announced in March 2021 that corporation tax would rise from 19% p.a.to 25% p.a. from 1st April 2023. This change has taken place and is now accounted for, with expected future corporation tax for all years being set to 25% p.a.

6. Valuation results

6.1 Central basis results

The results of the valuation as at 31 December 2023 are shown in the table below along with the corresponding results as at 31 December 2022:

	31 December 2023	31 December 2022
Assets (£)		
No. 1 Fund	14,116,171	14,835,554
No. 2 Fund	1,858,603	2,660,849
Adjustment	(105,709)	(85,577)
Total Assets at market value	**15,869,065**	**17,410,825**
Liabilities (£)		
Present value of certified sums:		
Dignity plans	2,461,781	2,492,095
Non-Dignity plans	9,931,064*	10,703,524
Expense Reserve	330,424	295,843
Total Liabilities	**12,723,269**	**13,491,462**
Surplus/(Deficit)	**£3,145,796**	**£3,919,363**
Surplus/(Deficit) as % of liabilities	24.7	29.1
Withdrawal	£600,000	£1,250,000
Surplus after withdrawal	**£2,545,796**	**£2,669,363**
Surplus/(Deficit) as % of liabilities after withdrawal	20.0	19.8
Solvency Ratio (%)	**120.0**	**119.8**

As at 31 December 2023, the assets of the Scheme amounted to £15,869,065 and the liabilities were £12,723,269, leaving a surplus of £3,145,796 (equivalent to 24.7% of the liabilities). The solvency position of the Scheme has increased since 31 December 2022 with surplus increasing by £476,433. The Solvency Ratio, which is the total assets over liabilities, amounted to 125% as at 31 December 2023. At the Trustees meeting on 9 April 2024, a withdrawal of £600,000 was agreed by the Trustees of the Scheme. Hence, the surplus after withdrawal amounted to £2,545,796 (equivalent to 20.0% of the liabilities). The Solvency Ratio after withdrawal is, therefore, 120% as at 31 December 2023. Under the FCA regulations, the Trust needs to maintain a Solvency over 100%, and is able to withdraw surplus when this is over 110% with an actuary's approval. It should be noted that a drop in excess of 21.4% in the value of Equities and Alternatives would reduce the surplus after withdrawal to below zero. At the Trustees meeting Michael Lodge, on behalf of Lodge Bros. (Funerals) Limited, agreed to inject money into the Trust should the Solvency Ratio drops below the required 100%.

* Adjusted due to rounding

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 2023 and 31 December 2022 is shown in Appendix A.

Additionally, the results for the total planholder liabilities as at 31 December 2023, categorised by payment method, is shown in the table below:

	Single payment	Instalments fully paid	Instalments not fully paid	Total
Total planholder liabilities (£)	12,155,891	236,954	0	12,392,845

6.2 Projecting liabilities into the future

All liabilities are now reserved for on a best estimate basis under the FCA regulations, however, we have retained a 0.25% p.a. margin in the valuation interest rate, to reflect the use of weighted average target return over the period of 24 years as a basis of calculating the VIR.

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. As at 31 December 2023 and 31 December 2022, asset market value was taken instead of book value compared to the previous valuations, in accordance with the best estimate valuation basis, under the FCA regulations.

As at 31 December	2019	2020	2021	2022	2023
Surplus (£)	1,312,430	1,105,974	1,434,914	3,919,363	3,145,796
Surplus as % of liabilities	8.7	7.1	9.3	29.1	24.7
Withdrawal (£)	-	-	-	1,250,000	600,000
Surplus after withdrawal (£)	1,312,430	1,105,974	1,434,914	2,669,363	2,545,796
Surplus as % of liabilities after withdrawal (where applicable)	8.7	7.1	9.3	19.8	20.0

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 2022	**2,669,363**	
Current membership with change in economic assumptions		575,405*
Updated mortality assumption		33,328
Updated expense and expense inflation		(26,713)
Updated valuation interest rate and corporation tax		(105,587)
Surplus as at 31 December 2023	**3,145,796**	
Withdrawal		600,000
Surplus after withdrawal as at 31 December 2023	**2,545,796**	

The major impacts on the surplus are described below:

- An increase in surplus of £575,405 due to membership movement (deaths and lapses) and the change in economic conditions
- An increase in surplus of £33,328 due to updating the mortality assumption
- A decrease in surplus of £132,300 due to an increase in expense and expense inflation assumptions, a small increase in corporation tax and a small decrease in valuation interest rates
- A surplus withdrawal of £600,000

* Adjusted due to rounding

6.4 Surplus sensitivity to the valuation assumptions

We have investigated the sensitivity of the surplus to changes in the valuation interest rate. The table below sets out the results of our analysis:

Sensitivity	Surplus (£)	Change (£)	Surplus (as % of liabilities)
Central Basis	**2,545,796**		**20.0**
Valuation interest rate +1% p.a.	3,538,843	993,047	30.2
Valuation interest rate -1% p.a.	1,385,060	(1,160,736)	10.0
RPI assumption +1% p.a.	2,319,923*	(225,873)	17.9
RPI assumption -1% p.a.	2,750,256	204,460	22.0
Mortality +10% p.a.	2,456,416	(89,380)	19.2
Mortality -10% p.a.	2,645,159*	99,363	21.0

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 £1,160,736 to produce a surplus of £1,385,060. An increase of 1% p.a. would cause a similar sized increase of £993,047 to a surplus of £3,538,843.

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	**2,545,796**		**20.0**
Mortality and RPI both increased	2,245,075	(300,721)	17.2
Mortality and interest rate both decreased	1,430,587*	(1,115,209)	10.3
RPI increased and interest rate decreased	1,131,458	(1,414,338)	8.0
Mortality and interest rate both decreased while RPI increased	1,155,904*	(1,389,892)	8.2

* Adjusted due to rounding

The most onerous scenario is where the RPI and valuation interest rate parameters are stressed at the same time; this causes the surplus to decrease by £1,414,338 to a surplus of £1,131,458. We note that if 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. As we are operating on a best estimate basis this year, we have no longer applied a margin of 10% p.a. to the mortality assumption.
- **Market risk** – due to the removal of the pre-emption agreement and as the Scheme is now regulated under the FCA, the Scheme is now exposed to changes in the market value of its asset holdings. The Scheme needs to maintain a solvency level of 100% and due to the proportion of Equities held, the Scheme faces a risk of the solvency level after withdrawal falling below the required 100%.
- **Dignity RPI risk** – the Scheme is exposed to the risk that the RPI increases that apply to the Dignity liabilities are greater than expected. On the best estimate valuation basis of this liability, we have not applied a margin to the expected future RPI rate. It should be noted that although in the short term RPI may increase, our assumption here is a long term assumption.

6.7 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. The Scheme wrote no new business during 2023, as it stopped writing new business in 2022 and is hence in run-off.

6.8 New regulations of funeral plans

From 29 July 2022, the FCA's regulations of pre-paid funeral plan trusts became effective and therefore the trust is now under the supervision of the FCA. From this year and 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.

7. Regulatory guidance

7.1 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.

8. 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 2023 under our letter of engagement dated 24 October 2023. 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 2023 provided by FFTL
- Asset information and information on investment strategy as at 31 December 2023 provided by Rathbones
- Data on fees, disbursements and other expense-related items provided by Lodge Bros. (Funerals) Limited

Appendix A

The tables below set out the assumptions as at 31 December 2023 and 31 December 2022 for the central basis.

Central basis assumptions

	31 December 2023	31 December 2022
Fund annual expenses (incl. VAT, p.a.)	£36,056	£33,457
Expense inflation including margin (p.a.)	3.38%[1]	3.24%[1]
Valuation interest rate (p.a.)	2.70%	2.80%
Dignity plan inflation	Bank of England implied spot inflation curve as at 31 December 2023[2]	Bank of England implied spot inflation curve as at 31 December 2022[2]
Dignity uplift margin (p.a.)[3]	0.00%	0.00%
Mortality proportion	114%	118%

[1] No margin applied
[2] See Appendix B for the spot inflation curves
[3] Applied to the Dignity plan inflation

Appendix B

The Bank of England implied spot inflation curves as at 31 December 2023 and 31 December 2022 are shown below. The spot rates used for the valuation cover the term range 3-25.5 years.

Term	31 December 2023 (%p.a.)	31 December 2022 (% p.a.)
3.00	3.45	3.27
3.50	3.45	3.26
4.00	3.44	3.25
4.50	3.43	3.25
5.00	3.42	3.24
5.50	3.41	3.24
6.00	3.40	3.24
6.50	3.39	3.24
7.00	3.38	3.25
7.50	3.37	3.25
8.00	3.37	3.26
8.50	3.37	3.28
9.00	3.37	3.29
9.50	3.37	3.31
10.00	3.37	3.33
10.50	3.38	3.35
11.00	3.38	3.37
11.50	3.39	3.38
12.00	3.39	3.40
12.50	3.39	3.42
13.00	3.40	3.44
13.50	3.40	3.46
14.00	3.40	3.47
14.50	3.40	3.48
15.00	3.40	3.50
15.50	3.40	3.51
16.00	3.40	3.51
16.50	3.40	3.52
17.00	3.39	3.52
17.50	3.39	3.53
18.00	3.38	3.53
18.50	3.37	3.53
19.00	3.37	3.52
19.50	3.36	3.52
20.00	3.35	3.52
20.50	3.34	3.51

Term	31 December 2023 (%p.a.)	31 December 2022 (% p.a.)
21.00	3.33	3.50
21.50	3.32	3.49
22.00	3.30	3.48
22.50	3.29	3.48
23.00	3.28	3.46
23.50	3.27	3.45
24.00	3.26	3.44

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