

Solvency Assessment Report as at 31 December 2022

Distinct Funeral Plans Trust



7 March 2023

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1. Executive summary

- 1.1. This report documents the Solvency Assessment Report (“SAR”) of the Distinct Funeral Plans Trust (the “Trust”) as at 31 December 2022. In performing this valuation it should be noted that the result shown, and the financial position assessed, is based on the set of valuation assumptions described in this report. These assumptions, together with the methodology used, are critical to the valuation. As such it would be possible to assess a different financial position under different assumptions, and therefore the Trustees should be aware of this variation in results and that the valuation shown is an estimate based on the central assumptions used.
- 1.2. The Distinct Funeral Plan Trust was established in May 2021 and Distinct Funeral Plans Limited (“Distinct” or the “Company”) started selling funeral plans in September 2021. This is the second valuation of the Trust.
- 1.3. We would note that the Trust is at an early stage of its development with only c.2,400 plans sold and £2.7m of investment assets. In this stage of its development the expenses incurred in establishing and administering the Trust can be expected to be disproportionate to the size of the Trust and hence to impact the solvency level more significantly. Distinct has therefore undertaken to bear certain costs directly themselves in the short term in order that the Trust maintains an adequate solvency ratio. As the Trust grows we would expect to see this position change to one whereby the expenses become more proportionate to the size of the Trust.
- 1.4. This report has been prepared for the Trustees of the Distinct Funeral Plans Trust. Zenith Actuarial Limited does not accept or assume responsibility for any other purpose or to any other party who reads this report.

Actuarial valuation result

- 1.5. The valuation shows a surplus ratio of 118.5% as at 31 December 2022.

Distinct Trust Solvency Balance sheet	Dec-22 (£)	Dec-21 (£)
Assets	2,674,634	523,302
Liabilities	2,257,209	421,170
Surplus	417,425	102,132
Solvency Ratio	118.5%	124.2%

2. Introduction

Purpose and users of this paper

- 2.1. This paper has been prepared for Distinct Funeral Plans Trust (“the Trust”) to outline the solvency position of the Trust as at 31 December 2022.
- 2.2. The report has been prepared in order to meet the requirements for a Solvency Assessment Report as set out in FPCOB 3.2.3.

Professional guidance

- 2.3. In preparing this report account has been taken account of the following professional standards as published by the Actuarial Profession and the Financial Reporting Council:
 - APS Z1: Duties and responsibilities for actuaries working for UK Trust-based pre-paid funeral plans
 - TAS 100: Principles for technical actuarial work
 - TAS 400: Funeral plan trusts
- 2.4. Additionally, this report has been subject to internal peer review by a senior actuary who is not involved in the normal day to day actuarial activities with Distinct. As such this peer review may be regarded as “independent” and in keeping with the Actuarial Profession Standard X2: Review of Actuarial Work.

3. Financial statements and Assumptions

Financial statements

- 3.1. The table below shows the income and expenditure account for the Trust for the year ended 31 December 2022.

Income and Expenditure account For the year ended 31 December 2022	Dec-22 (£)	Dec-21 (£)
Income from plan holders on settled plans	153,478	13,275
Surplus on active plans	267,737	-
Income	421,215	13,275
Funeral and cremation claims on settled plans	(80,400)	(6,975)
Administration and marketing fees on settled plans	(61,430)	(5,400)
Trustee administration fees	(18,000)	
Taxation	(1,811)	
Expenditure	(161,641)	(12,375)
Bank interest received	4,581	3
Bank and card charges	(37,022)	(6,800)
Returns on investments	(32,441)	(6,797)
Net income/(expenditure) for the period	227,133	(5,897)

- 3.2. In the Trust financial statements, income from plan holders and the payment of the administration and marketing fees are only recognised when the funeral service has been delivered (so after the death of the plan holder). Surpluses on plan sales are recognised within income when the plan is initially sold.
- 3.3. In the Income Statement above it can be seen that the Trust has paid out monies in respect of funerals delivered and the associated marketing and administration fees. Additionally the Trust has incurred bank charges and trustee administration fees.

Summary of Trust Assets

- 3.4. At 31 December 2022 all the Trust's investment assets were held as cash at bank with Lloyds Bank, awaiting investment with Royal London Asset Management, the selected investment manager.

Summary of assumptions

- 3.5. The table below outlines the best estimate assumptions used in the calculation of the valuation of the liabilities of the Trust. These assumptions have been set based on information provided by and discussed with Distinct.

Assumption	December 2022
Funeral costs	Based on the plan between £775 and £1400 per plan
Funeral cost inflation	1% p.a.
Mortality	115% of NLT 14-16
Cancellation rate	1% p.a. for all durations
Expenses	£2 per plan per annum inflating at 3% p.a.
Discount rate	3.0% p.a.

Service level agreements

- 3.6. No service level agreements are in place with external funeral services providers.

4. Valuation Results

Summary of valuation results

- 4.1. The balance sheet for the Actuarial Valuation as at 31 December 2022 and the prior period (on a consistent basis) is shown below.

Balance sheet item	Dec-22 (£)	Dec-21 (£)
Cash at bank	2,674,634	523,302
Assets	2,674,634	523,302
Value of funeral costs	1,406,784	295,901
Value of future instalments	(116,968)	(69,648)
Value of future cancellations	193,271	36,753
Value of future Trust expenses	53,447	0
Outstanding claims for administration & marketing fees	677,950	151,190
Current liabilities	42,725	6,975
Liabilities	2,257,209	421,170
Surplus	417,425	96,732
Solvency ratio	118.5%	122.7%

- The value of funeral costs reflects the discounted value of the expected future funeral costs, allowing for funeral cost inflation.
- The value of future instalments reflects the projected instalments expected to be received by the Trust on plans paying by up to 12 monthly instalments.
- The value of future cancellations is the present value of the refunds of premiums to plan holders who are anticipated to cancel their plans.
- The value of future Trust expenses is the discounted value of the administration expenses.
- The outstanding claims for administration & marketing fees are monies due from the Trust to the Company relating to that part of the plan holder premium due to the Company.
- The current liabilities represent the items shown in the Income and Expenditure Account for the year ended 31 December 2022.

Summary of funeral plans

- 4.2. The table below shows the summary of the funeral plans by payment method.

The plan value is the sum of the value of funeral costs, future instalments, cancellations and Trust expenses for the plans under each payment method.

Payment method	Plan Count	Plan Value (£)	Average value (£)
Single Payment	2,093	1,451,282	693
Fully paid Instalment	68	46,252	680
In payment Instalment	232	39,000	168
Total	2,393	1,536,534	642

Sensitivity analysis and key risks

- 4.3. The results of the valuation are sensitive to some of the key assumptions adopted, in particular the discount rate and the projected funeral costs for each plan holder.
- 4.4. A 1% increase/decrease in the discount rate will decrease/increase the valuation of liabilities by around 10%. There is the risk that the financial position will change in a potentially material way if actual investment returns are significantly different to the assumed returns underlying the discount rate.
- 4.5. On cancellation, the liability is a cash sum equal to the amount paid by the plan holder, potentially less an administration charge in line with the funeral plan terms and conditions. Whilst the market value of the assets at the valuation date was more than sufficient to meet the amounts required should all plans cancel, this may not be the case should there be significant falls in the market values of assets once the Trust's cash is invested in multi-asset portfolios with a large proportion invested in equities and corporate bond assets.
- 4.6. A key risk to the Trust is higher than expected funeral cost inflation in relation to the discount rate, although we note that Distinct's vertically integrated structure and economies of scale for cremation business reduce the Trust's risk in this regard. For example, an increase of 1% p.a. in the funeral cost inflation assumption would reduce the Trust's surplus by c.£147k and its solvency ratio to around 111%.

5. Reliances and limitations

- 5.1. In producing this report we have relied on information provided to us in both written and oral form, in particular the financial statements and policy data provided by Distinct.
- 5.2. We have taken appropriate measures to assess the reasonableness of the data used, and information received, however we cannot be responsible for the accuracy of data, such as policy information and asset details provided to us.
- 5.3. The results of the valuation are dependent on assumptions in relation to future experience. Actual future experience will differ from these assumptions due to variations in plan holder behaviour and experience (e.g. lapses and deaths, and payments of instalments), funeral cost amounts (including inflation), economic factors, investment returns, tax, expenses of operating the Trust and other factors. Such assumptions have a significant impact on the results of our analysis. No warranty is given by Zenith Actuarial Limited that future assumptions made in this paper will be reflected in actual future experience.
- 5.4. This report has been prepared in order to meet the requirements for a Solvency Assessment Report as set out in FPCOB 3.2.3 which took effect from 29 July 2022. As such this report has been prepared by Zenith Actuarial Limited to meet the specific purposes of the Trustees and must not be relied upon for any other purpose. The paper has been prepared for use by persons technically competent in the areas covered. Any reference to Zenith Actuarial Limited in any report, accounts, or other published documents is not authorised without our prior written consent.
- 5.5. The report must be considered in its entirety as individual sections, if considered in isolation, may be misleading. Draft versions of the report must not be relied upon by any person for any purpose.
- 5.6. This paper was based on data available at 24 February 2023 and takes no account of developments after that date. Zenith Actuarial Limited is under no obligation to update or correct inaccuracies which may become apparent in the paper.
- 5.7. This paper is subject to the terms and limitations, including limitation of liability, set out in our engagement letter of 30 January 2023.

Tim Bateman

Zenith Actuarial Limited

7 March 2023