Solvency Assessment Report as at 31 December 2023

Distinct Funeral Plans Trust

22 February 2024

Contents

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 2023. 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 third valuation of the Trust.

1.3. We would note that at 31 December 2022 the Trust was at an early stage of its development. In this stage, the expenses incurred in establishing and administering the Trust were expected to be disproportionate to the size of the Trust and hence to impact the solvency level more significantly. Distinct had, therefore, undertaken to bear certain costs directly itself in the short term in order that the Trust maintained an adequate solvency ratio. We have taken account of increased expenses to be applied in calculating the valuation at 31 December 2023, allowing for all relevant costs to now be covered by the Trust.

1.4. This report as 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 solvency ratio of 130.5% as at 31 December 2023.

Distinct Trust Solvency Balance sheet	Dec-23 (£)	Dec-22 (£)
Assets	8,496,799	2,674,634
Liabilities	6,509,231	2,257,209
Surplus	1,987,568	417,425
Solvency Ratio	**130.5%**	**118.5%**

2. Introduction

Purpose and users of this paper

2.1. This paper has been prepared for Distinct Funeral Plans Trust to outline the solvency position of the Trust as at 31 December 2023.

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.

Operation of the Trust

2.3. We note that plan contributions and instalments are paid directly into the Trust upon receipt by Distinct. As part of the monthly operation of the Trust Distinct draw down the associated administration fees for the plans. In my view this process provides additional security for planholders as their monies are paid directly into the Trust, rather than a Distinct holding account. Further:

- I am comfortable with the current arrangement of reclaiming the administration fees after 30 days from the Trust without the need for approval from the Actuary each month,
- I am comfortable that this arrangement does not have an adverse effect on the solvency of the Trust; and,
- I expect to keep a watching brief and review this approach on an annual basis.

Professional guidance

2.4. 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: General actuarial standards
- TAS 400: Funeral plan trusts

3. Plan holder data/integrity

Policy Data Provided

3.1. Distinct has provided the following files with the data relating to individual plan holder records:

- TrustSummary_EOY2023.xlsx
- TrustSummary_EOY2023_updated.xlsx

3.2. The number of records provided was 8,960.

3.3. There were a number of these plans which were excluded from our valuation. This results in 8,170 plans being valued at December 2023. The reasons for these exclusions were plans which were cancelled or already paid out or for which no money had been received as at 31 December 2023. These exclusions relate to all years that the Trust has been operating, not just 2023. A summary can be seen below.

Excluded plans	Number
Cancelled	226
Plan paid out	435
No monies received	129
Total	**790**

4. Financial statements and assumptions

Financial statements

4.1. The table below shows the income and expenditure account for the Trust for the year ended 31 December 2023.

Income and Expenditure account For the year ended 31 December 2023	Dec-23 (£)	Dec-22 (£)
Income from plan holders on settled plans	516,542	153,478
Surplus on active plans	847,113	267,737
Income	**1,363,655**	**421,215**
Funeral and cremation claims on settled plans	(272,407)	(80,400)
Administration and marketing fees on settled plans	(210,480)	(61,430)
Trustee administration fees	(42,039)	(18,000)
Actuarial fees	(29,351)	
Accountancy fees	(66,771)	
Taxation	(34,183)	(1,811)
Expenditure	**(655,231)**	**(161,641)**
Bank and investment interest received	87,046	4,581
Change in market value of investments	398,168	
Bank and card charges	(115,587)	(37,022)
Investment Manager fees	(8,132)	
Returns on investments	**361,495**	**(32,441)**
Net income/(expenditure) for the period	**1,069,919**	**227,133**

4.2. 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.

4.3. 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 a certain level of bank charges, the majority relating to card charges for processing the plan payment.

Summary of Trust Assets

4.4. At 31 December 2023, the Trust's investment assets were invested with Royal London Asset Management, the selected investment manager.

4.5. Funds are invested as shown below (values provided by Distinct).

Fund Values at 31 December 2023	(£)	(%)
Balanced Fund	4,930,376	60%
Sterling Credit Fund	2,183,833	27%
Growth Fund	1,040,352	13%
Total	**8,154,561**	

4.6. The weighted average strategic asset mix of the three funds is shown below.

Asset class	%
Cash	7%
Gilts	9%
Index linked gilts	5%
Corporate bonds / credit assets	43%
Equity, property, commodities	36%
Total	100%

Summary of assumptions

4.7. The table below outlines the best estimate assumptions to be 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 2023	December 2022
Funeral costs	Based on the plan between £775 and £1400 per plan (see section 7.2)	Based on the plan between £775 and £1400 per plan
Funeral cost inflation	1.5% p.a.	1.0% p.a.
Mortality	115% of NLT 14-16	115% of NLT 14-16
Cancellation rate	1.0% p.a. for all durations	1.0% p.a. for all durations
Expenses	£6 per plan per annum inflating at 3% p.a.	£2 per plan per annum inflating at 3% p.a.
Discount rate	3.4% p.a.	3.0% p.a.

Service level agreements

4.8. No service level agreements are in place with external providers.

5. Valuation Results

Summary of valuation results

5.1. The balance sheet for the actuarial valuation as at 31 December 2023 and the prior year is shown below.

Balance sheet item	Dec-23 (£)	Dec-22 (£)
Listed Assets	8,154,561	
Cash at bank	342,238	2,674,634
Assets	**8,496,799**	**2,674,634**
Value of funeral costs	4,868,592	1,406,784
Value of future instalments	(394,209)	(116,968)
Value of cancellations	648,989	193,271
Value of Trust expenses	529,912	53,447
Outstanding claims for administration & marketing fees	635,765	677,950
Current liabilities	220,182	42,725
Liabilities	**6,509,231**	**2,257,209**
Surplus	1,987,568	417,425
Solvency ratio	130.5%	118.5%

- The main reason for the change in surplus from c.£417k to c.£2m is the impact of new business on the overall Trust size, with c.2,400 plans in-force at December 2022 growing to c.8,200 plans at December 2023.
- The solvency ratio has increased considerably. The assets have increased by more than the liabilities. The beneficial impact on liabilities of the increase in discount rate has been more than offset by the increased expense assumption and the increased funeral cost inflation assumption.
- 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 2023.

Summary of funeral plans

5.2. 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	7,073	5,237,948	741
Fully paid Instalment	316	231,204	732
In payment Instalment	781	184,132	236
Total	**8,170**	**5,653,284**	**692**

Sensitivity analysis and key risks

5.3. 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.

5.4. A 1% increase/decrease in the discount rate will decrease/increase the valuation of liabilities by around 10%. However the asset values, particularly the gilts and corporate bonds, would also be affected in such circumstances. 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.

5.5. 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, as the Trust invests in multi-asset portfolios with a large proportion invested in equities and corporate bond assets.

5.6. 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 0.5% p.a. in the funeral cost inflation assumption would reduce the Trust's surplus by c.£250k and its solvency ratio to around 126%.

5.7. Due to the Trust now being fully invested, this introduces further risks related to falls in market values of equities, falls in gilts and corporate bond values (from movements in interest rates and increasing credit spreads), and counterparty default risk.

Sensitivity of solvency position to different assumptions

5.8. 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.

5.9. The main individual assumption sensitivities performed are specified in the table below.

5.10. Sensitivities for funeral cost inflation were performed at 2% and 3%.

5.11. In addition, a sensitivity to a lower mortality rate of 100% NLT 14-16 compared to the best estimate of 115% NLT 14-16 was also performed.

5.12. A further sensitivity assessment was undertaken assuming a fall in equity values of 25%, a fall in gilt values of 10% and corporate bond values of 20% (effectively allowing for 10% interest rate stress and 10% credit spread stress). Under this scenario, liability values were assessed at a higher discount rate (3.8%) to take account of the increase in interest rates and credit spreads.

5.13. A combined scenario was also considered that would result in the solvency ratio falling just below 110%, based on higher funeral cost inflation and higher expenses and expense inflation.

5.14. The sensitivity of the solvency position to different assumptions is shown in the table below.

	Best estimate	Sensitivities						
Balance sheet item	31 Dec 2023	Discount Rate	Expense	Funeral Cost Inflation	Funeral Cost Inflation	Expense inflation	Lapse rate	Mortality
Assumption: best estimate		3.4% p.a.	£6 per policy	1.5% p.a.	1.5% p.a.	3.0% p.a.	1.0% p.a.	115% NLT 14-16
Assumption: sensitivity		3.0% p.a.	£9 per policy	2.0% p.a.	3.0% p.a.	5.0% p.a.	2.0% p.a.	100% NLT 14-16
Assets	**8,496,799**	**8,496,799**	**8,496,799**	**8,496,799**	**8,496,799**	**8,496,799**	**8,496,799**	**8,496,799**
Liabilities	**6,509,231**	**6,744,992**	**6,774,186**	**6,761,785**	**7,329,864**	**6,611,019**	**6,570,467**	**6,472,879**
Surplus	1,987,568	1,751,807	1,722,613	1,735,014	1,166,935	1,885,780	1,926,332	2,023,920
Solvency ratio	130.5%	126.0%	125.4%	125.7%	115.9%	128.5%	129.3%	131.3%

- Discount rate: a lower expected investment return, and hence discount rate, would lead to a higher liability value and lower solvency ratio.
- Expenses: higher per-plan renewal expenses reduce the solvency ratio.
- Funeral inflation rate: higher future funeral costs resulting from higher inflation reduces the solvency ratio.
- Expense inflation: higher projected renewal expenses resulting from higher future inflation reduce the solvency ratio.
- Lapse rate: an increase in the lapse rate means that instead of incurring funeral costs, which occur later on average and are for a lower amount, the Trust incurs cancellation refunds and so the impact on the liabilities and hence solvency position is adverse.
- Mortality: lower mortality means deaths occur later, reducing the present value of deaths, although it also means more cancellations occur, which cost more than deaths, and renewal expenses are incurred for longer, but overall lower mortality is beneficial and the solvency ratio improves.

Balance sheet item	Best estimate 31 Dec 2023	Sensitivities (continued): Equity 25% Stress / Bond 20% stress / Gilts 10% stress	Combined Scenario 1
Assumption: best estimate		Discount Rate 3.4% p.a.	Funeral cost inflation 1.5% p.a. Expenses £6 per policy increasing at 3% p.a.
Assumption: sensitivity		Discount Rate 3.8% p.a.	Funeral cost inflation 3% p.a. Expenses £9 per policy increasing at 5% p.a.
Assets	**8,496,799**	**6,941,426**	**8,496,799**
Liabilities	**6,509,231**	**6,288,508**	**7,747,501**
Surplus	1,987,568	652,917	749,298
Solvency ratio	130.5%	110.4%	109.7%

- The impact of the fall in value of equities, gilts and corporate bonds is considerably larger than the reduction in liabilities from the higher discount rate, significantly reducing the solvency ratio.
- The combined scenario above that reduces the solvency ratio below 110% is largely due to the impact of funeral cost inflation and the expense amounts.

6. Reliances and limitations

6.1. 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.

6.2. 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. In particular we have treated all asset details provided to us as being the market value (or fair value).

6.3. 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.

6.4. 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.

6.5. 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.

6.6. This paper was based on data available at 22 February 2024 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.

6.7. This paper is subject to the terms and limitations, including limitation of liability, set out in our engagement letter of 31 January 2024.

Tim Bateman

Zenith Actuarial Limited

22 February 2024