# Solvency Assessment Report as at 31 December 2024

Distinct Funeral Plans Trust

Analytics as a Service

19 March 2025

# 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 2024. 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 fourth valuation of the Trust.

1.3 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

1.4 The valuation shows a solvency ratio of 130.9% as at 31 December 2024.

| Distinct Trust Solvency Balance sheet | Dec-24 £m | Dec-23 £m |
|---|---|---|
| Assets | 12.8 | 8.5 |
| Liabilities | 9.8 | 6.5 |
| Surplus | 3.0 | 2.0 |
| **Solvency Ratio** | **130.9%** | **130.5%** |

# 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 2024.

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 of members undertaking work in relation to UK funeral plans
- TAS 100: General actuarial standards
- TAS 400: Funeral plans

## 3 Data

3.1 Distinct has provided the following data relating to the Trust as at 31 December 2024:

- Records relating to individual planholders, both in-force and those no longer in-force. The table in 5.12 shows a summary of the funeral plans by payment method total number valued as at 31 December 2024.
- The Trust's draft financial statements for the year ended 31 December 2024.
- The amount of assets invested with Royal London Asset Management ("RLAM") and related information on RLAM's investment funds, together with RLAM's investment management fees.
- The estimated cost as at 31 December 2024 to Distinct of fulfilling each funeral.
- Information on the Trust's running costs.
- Schedules of current and historic plans, together with prices per plan type and the Distinct administration fee drawdown amounts.

3.2 We have relied on the data provided but have performed reasonableness checks.

# 4 Financial Statements and asset data

## Financial statements

4.1 The table below shows the draft income and expenditure account for the Trust for the year ended 31 December 2024.

| **Draft Income and Expenditure account<br>For the year ended:** | **£k<br>Dec-24** | **£k<br>Dec-23** |
|---|---|---|
| Income from plan holders on settled plans | 1,012 | 517 |
| Surplus on active plans | 828 | 847 |
| **Income** | **1,840** | **1,364** |
| | | |
| Funeral and cremation claims on settled plans | (538) | (272) |
| Administration and marketing fees on settled plans | (435) | (210) |
| Trustee administration, professional fees & insurance | (199) | (138) |
| Taxation | (124) | (34) |
| **Expenditure** | **(1,295)** | **(655)** |
| | | |
| Bank and investment interest received | 313 | 87 |
| Change in market value of investments (net of fees) | 322 | 390 |
| Bank and card charges | (97) | (116) |
| **Returns on investments** | **538** | **361** |
| | | |
| **Net income/(expenditure) for the period** | **1,083** | **1,070** |

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 2024, the Trust's investment assets were invested with Royal London Asset Management, the selected investment manager.

4.5 We have taken the investment asset figures from the draft financial statements (received 14 February 2025) and investment reports from RLAM (received 10 January 2025). We have treated all asset details provided to us as being the market value (or fair value). We rely on the fact that these figures will form part of the audited financial statements and have not sought to independently verify them.

4.6 The assumption for the long-term strategic asset allocation has been based on that provided by the Trustees:

| Asset class | % |
|---|---|
| Cash | 5% |
| Gilts | 5% |
| Index linked gilts | 5% |
| Investment grade corporate bonds | 30% |
| High yield bonds | 5% |
| Equity, property, commodities | 50% |
| 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 2024 | December 2023 |
|---|---|---|
| Funeral cost inflation | 2% p.a. | 1.5% p.a. |
| Discount rate | 4.1% p.a. | 3.4% p.a. |
| Cancellation rate | 1% p.a. for all durations | 1% p.a. for all durations |
| Mortality | 140% of NLT 14-16 | 115% of NLT 14-16 |
| Expenses | £6.50 p.a. per plan, increasing at 3% p.a. | £6 p.a. per plan, increasing at 3% p.a. |
| Funeral costs | £760 - £1,806 depending on plan type | £775 - £1,400 depending on plan type |

4.8 The assumption for funeral cost inflation has been based on the expected long-term CPI rate, the nature of the direct cremation market and the commercial relationship between Distinct and the cremation provider Westerleigh Group.

4.9 The discount rate has been set by considering the expected strategic (or longer term) asset mix in 4.6, and the expected future returns on such asset classes, and then adjusting for tax, and finally for investment management fees. It should be noted that this is a subjective process, and whilst we have applied our judgement, it is an important part of the assumption/valuation process. A key assumption is the 'risk premium' over the gilt yield for each asset class, which represents the extra return that might be achieved by holding risker assets. The key risk premiums assumptions were:

- 4% p.a. for equities, commodities and property;
- 0.7% p.a. for investment grade bonds; and
- 1.7% p.a. for high yield bonds.

Note that a cap of 8% p.a. was applied to the expected future return for equities, commodities and property.

4.10 Cancellation rates and mortality rates have been set taking account of experience to date on the Distinct Trust plans together with future expectations.

4.11 Per-plan expense assumptions have been set based on expected Trust running costs for 2025 and average expected plan numbers in 2025. The expense inflation assumption has been set broadly in line with RPI.

4.12 The funeral costs are based on those currently charged to the Trust by Distinct Funeral Plans Limited.

## Service level agreements

4.13 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 2024 and the prior year is shown below.

| Balance sheet item | Dec-24 (£m) | Dec-23 (£m) |
|---|---|---|
| Investment Assets | 12.4 | 8.2 |
| Cash at bank | 0.4 | 0.3 |
| **Assets** | **12.8** | **8.5** |
| | | |
| Value of funeral costs | 6.8 | 4.9 |
| Value of future instalments | (0.3) | (0.4) |
| Value of cancellations | 0.8 | 0.6 |
| Value of Trust expenses | 0.7 | 0.5 |
| Outstanding claims for administration & marketing fees | 0.7 | 0.6 |
| Current liabilities | 0.7 | 0.2 |
| Estimated refund of Doctors' Fees | 0.5 | 0.0 |
| **Liabilities** | **9.8** | **6.5** |
| | | |
| **Surplus** | **3.0** | **2.0** |
| **Solvency ratio** | **130.9%** | **130.5%** |

5.2 The main reason for the change in surplus from c2m to c.£3m is due to the growth in assets compared to liabilities arising from the new plans added to the Trust.

5.3 The growth in liabilities largely reflects the impact of new business on the overall Trust size, with c.8,200 plans in-force at December 2023 growing to c.11,400 plans at December 2024.

5.4 The beneficial impact on liabilities of the increase in discount rate has been offset to some extent by the increased expense assumption, the increased funeral cost inflation assumption and the increased mortality assumption.

5.5 The value of funeral costs reflects the discounted value of the expected future funeral costs, allowing for funeral cost inflation.

5.6 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.

5.7 The value of future cancellations is the present value of the refunds of premiums to plan holders who are expected to cancel their plans.

5.8 The value of future Trust expenses is the discounted value of the administration expenses.

5.9 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, and are included in the Current Liabilities of the draft Financial Statements Balance Sheet for the year ended 31 December 2024.

5.10 The Current liabilities are those from the draft Financial Statements Balance Sheet for the year ended 31 December 2024 less the 'Outstanding claims for administration & marketing fees' from that balance sheet.

5.11 The Estimated refund of Doctors' Fees reflects the anticipated voluntary reimbursement to plan holders arising from the implementation in September 2024 of the new Medical Examiner Scheme in England and Wales.

## Summary of funeral plans

5.12 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 (£k) | Average value (£) |
|---|---|---|---|
| Single Payment | 9,704 | 7,013 | 723 |
| Fully paid Instalment | 1,133 | 802 | 708 |
| In payment Instalment | 607 | 159 | 262 |
| **Total** | **11,444** | **7,974** | **697** |

## Sensitivity analysis and key risks

5.13 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.

5.14 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.

5.15 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.

5.16 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£0.6m and its solvency ratio to around 123%.

5.17 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

5.18 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.

5.19 The sensitivity of the solvency position to key assumptions is shown in the table below.

| | Base | Discount rate | Cancellation rate | Funeral cost inflation |
|---|---|---|---|---|
| Cancellation rate (p.a.) | 1.0% | 1.0% | 2.0% | 1.0% |
| Funeral inflation rate (p.a.) | 2.0% | 2.0% | 2.0% | 3.0% |
| Discount rate (p.a.) | 4.1% | 3.0% | 4.1% | 4.1% |

| Balance sheet item (£m) | Base | Discount Rate | Cancellation rate | Funeral Cost inflation |
|---|---|---|---|---|
| Assets | 12.8 | 12.8 | 12.8 | 12.8 |
| Liabilities | 9.8 | 10.6 | 9.9 | 10.4 |
| Surplus | 3.0 | 2.2 | 3.0 | 2.4 |
| Solvency ratio | 130.9% | 120.9% | 129.9% | 123.0% |

- Discount rate: a lower expected investment return, and hence discount rate, would lead to a higher liability value and lower solvency ratio.

- Cancellation rate: an increase in the cancellation 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.

- Funeral inflation rate: higher future funeral costs resulting from higher inflation reduces the solvency ratio.

5.20 A further sensitivity assessment was undertaken assuming a fall in equity values of 25%, a fall in corporate bond values of 20% and a fall in gilt values of 10%. Under this scenario, liability values were assessed at a higher discount rate to take account of increase in interest rates and credit spreads.

5.21 A combined scenario was also considered that would result in the solvency ratio falling below 110%, based on higher funeral cost inflation of 4.5% p.a. and higher expenses of £9 per policy p.a. and higher expense inflation of 5% p.a.

5.22 The results for these additional sensitivities are shown below.

| Balance sheet item (£m) | Base | Equity stress 25%, Bond stress 20%, Gilt stress 10% | Combined scenario |
|---|---|---|---|
| Assets | 12.8 | 10.2 | 12.8 |
| Liabilities | 9.8 | 9.6 | 12.0 |
| Surplus | 3.0 | 0.6 | 0.8 |
| Solvency ratio | 130.9% | 106.0% | 107.1% |

# 6 Reliances & Limitations

6.1 In producing this report, we have relied on information provided to us in both written and oral form, in particular the draft 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 by Distinct (from RLAM) as being the market value (or fair value). We have relied on asset figures from the draft Financial Statements received 14 February 2025. We rely on the fact that these figures will form part of the audited financial statements and have not sought to independently verify them.

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 planholder behaviour and experience (e.g. cancellations 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. Except with the written consent of Zenith Actuarial Limited the paper and any written or oral information or advice provided by Zenith Actuarial Limited must not be reproduced, distributed or communicated in whole or in part to any other person, or be relied upon by any ither person. 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 19 March 2025 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 14 February 2025.

Tim Bateman

Zenith Actuarial Limited

19 March 2025