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Life Conference 2022

23-25 November, ACC Liverpool

#LifeConf





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Funeral Plans:

The dawning of the new regulatory age **in the UK**

Erika Parker, OAC PLC



Alan Marshall, IFoA



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What we'll cover

- Funeral costs
- Pre-paid funeral plans
- Regulations
- Role of actuaries
- Best practices



How much does a funeral cost?

Total cost of funeral 2021: £6,540 (3% lower than 2020)

**Funeral costs,
£4,056**

**Send-off costs,
£2,484**

- Varies by type of funeral:
 - Direct cremation £1,647
 - Cremation £3,765
 - Burial £4,927
- Funeral director
- Doctor
- Minister or celebrant
- Memorial
- Death notices
- Flowers
- Order sheets
- Limousines
- Venue / catering

SunLife (2022), Cost of Dying Report: www.sunlife.co.uk/funeral-costs/



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How are funerals paid for?

Estate

Funeral plan

Borrow from friend
and relatives

Loans or credit
card borrowing

Savings and
investments

Over 50s life
assurance

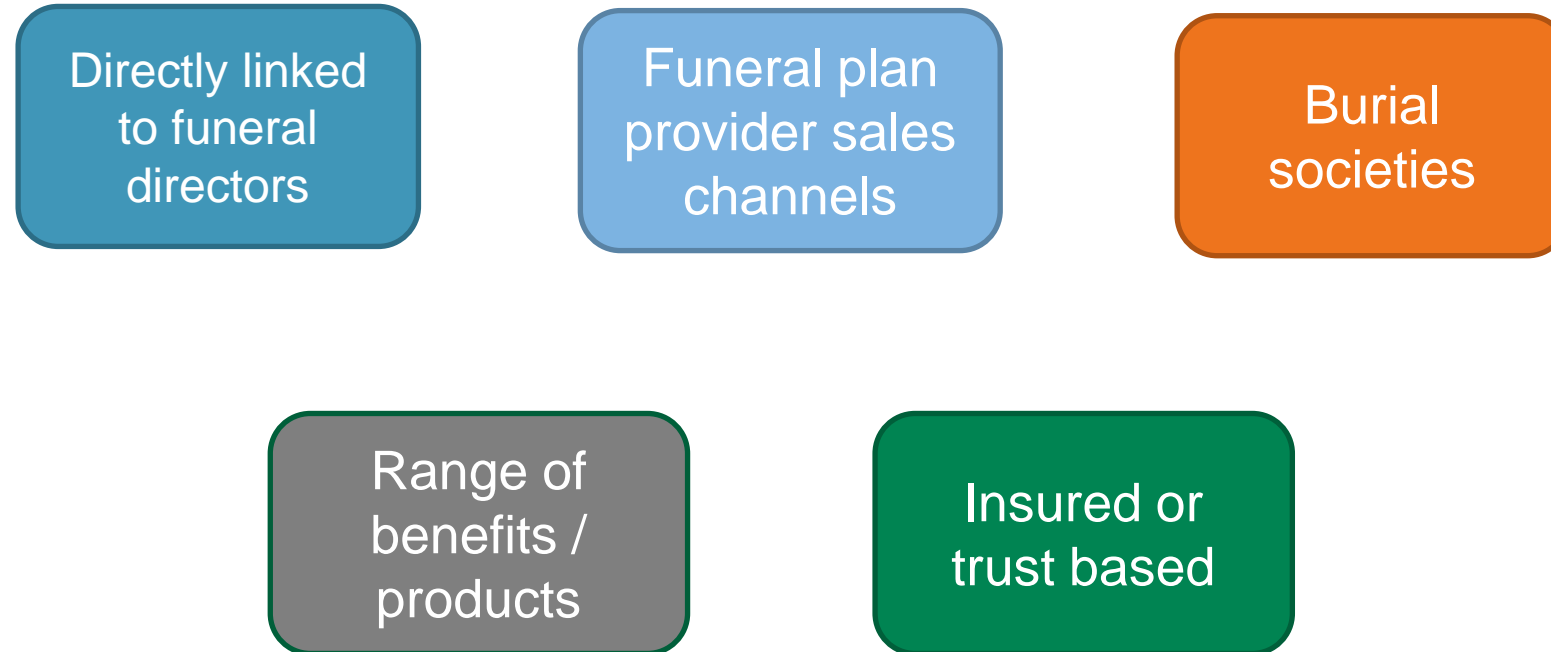
Other life
assurance

Government
assistance



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Types of funeral plan



Funeral plan providers

Scotmid funerals

Golden Charter 

 **FOSTERS**
Family Funeral Directors


Golden Leaves
Funeral Plans


SunLife

Jewish
Joint
Burial
Society


Lodge
BROTHERS 1780

 ecclesiastical


Dignity[®]
WITH DISTINCTION

**co
op**

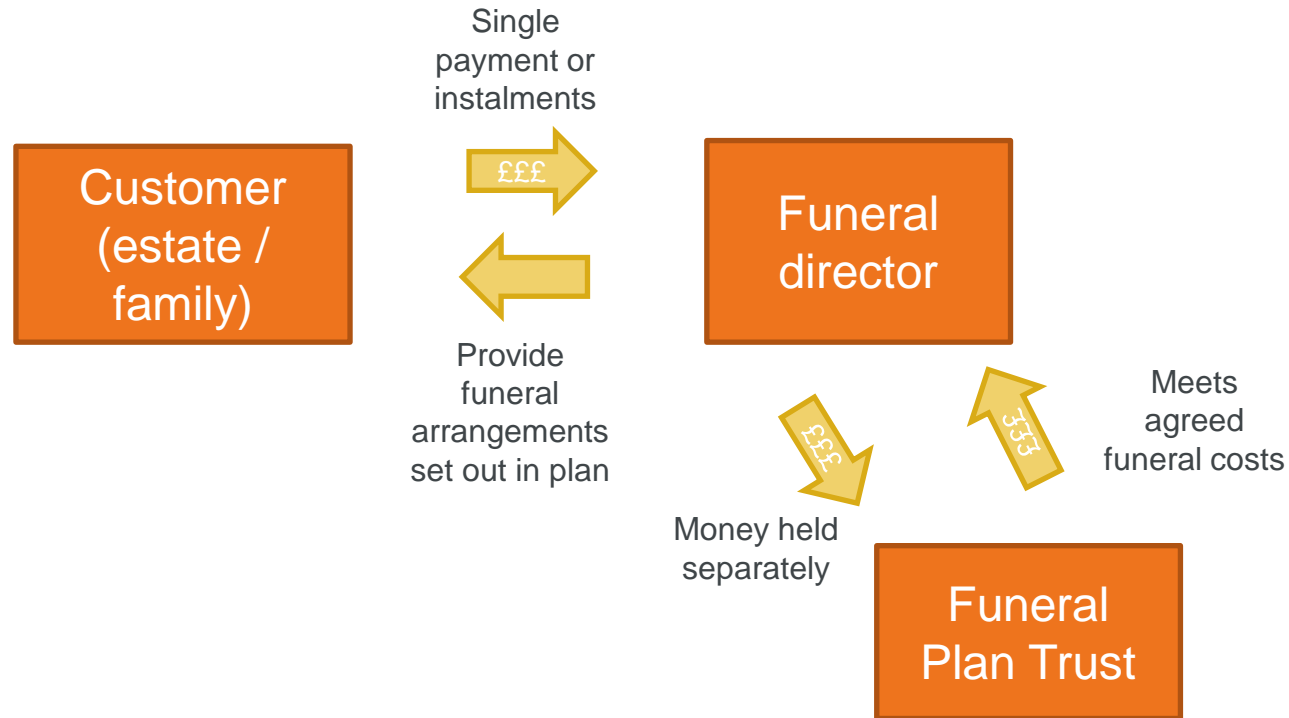
 **WILLIAM
PURVES** EST. 1888
FUNERAL DIRECTORS



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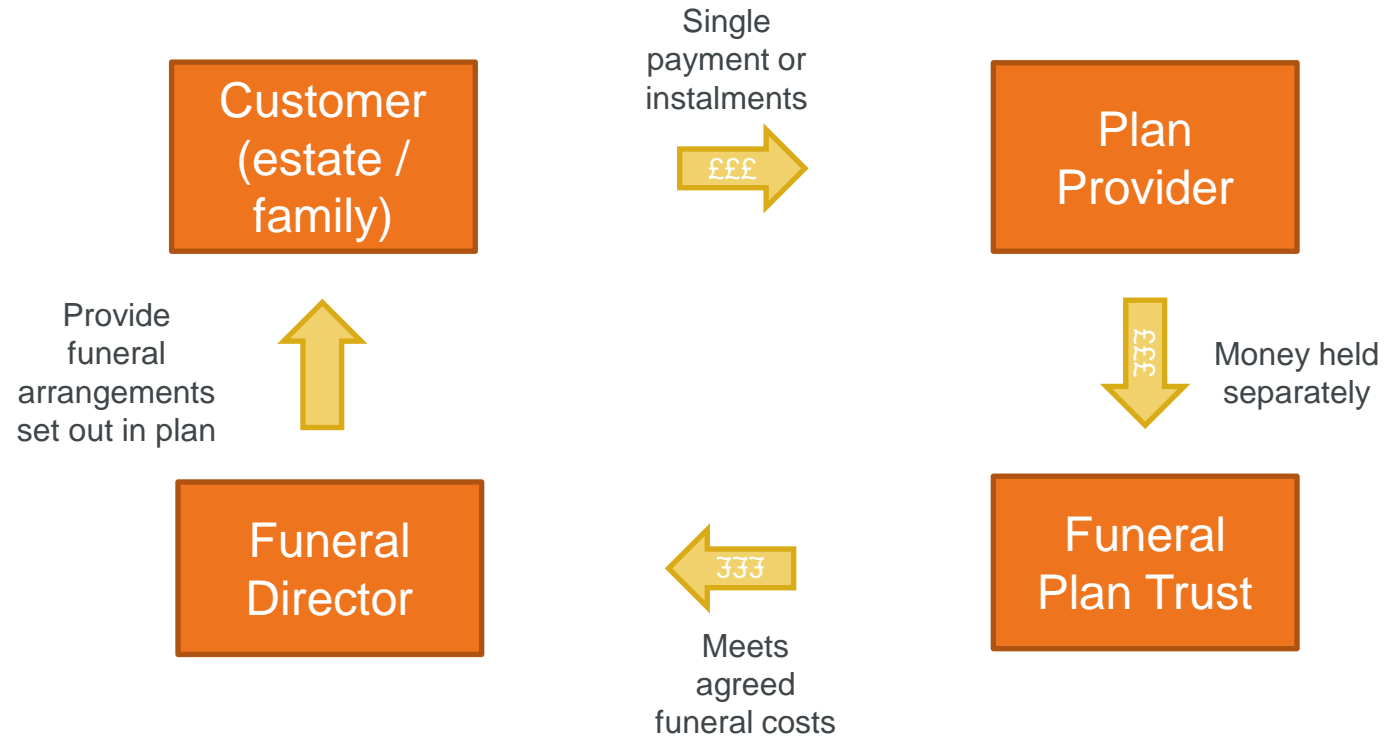
How a funeral plan trust works?

Funeral director is the provider



How a funeral plan trust works?

Provider independent of funeral director



Customer may buy directly from provider, or indirectly via their funeral director



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Regulation

- Up to July 2022 voluntary regulation by Funeral Planning Authority (FPA)
 - Annual actuarial valuations
 - Asset adequacy report
- From July 2022 formal regulation by Financial Conduct Authority (FCA)
 - Annual valuations required
 - For trusts only, solvency assessment report published on website
 - Commissions banned
 - Various potential roles to be carried out by actuary



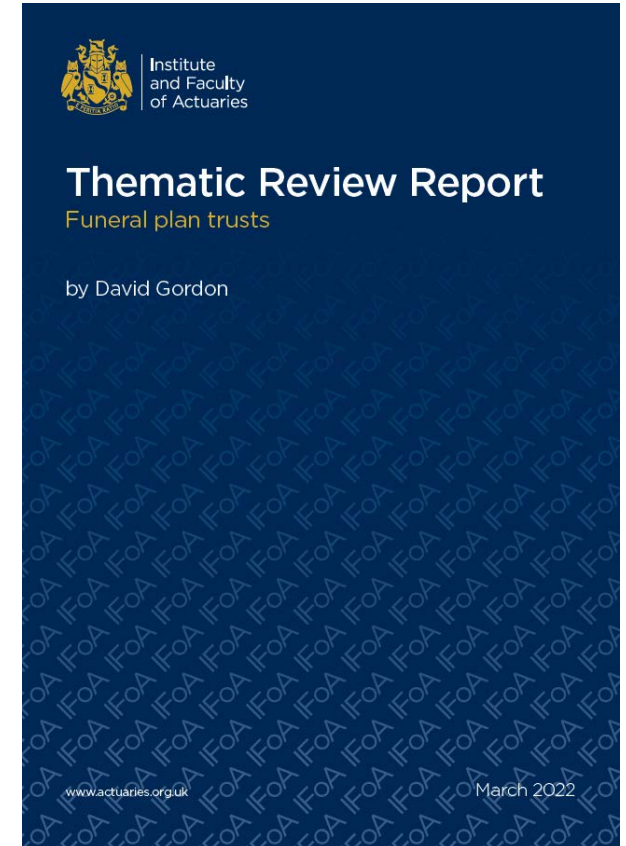
Where do actuaries come in?

- Is there enough money in the funeral plan trust to pay for all the funerals that have been sold to customers?
- Value the liabilities, assess solvency
- What happens if provider or funeral director fails?
- How much should customers pay for their funeral plan?
- How does investment strategy affect solvency?
- Follow IFoA and FRC standards - APS Z1, TAS 100, TAS 400, APS X2



IFoA thematic review - report highlights

- Overall high standard of advice
- Actuaries do not always provide clear explanations in reports
 - How the funeral plan benefit is defined
 - How the assumptions have been derived
- Other key findings:
 - Actuaries use inconsistent language in their valuations
 - Burial society actuaries voluntarily follow APS Z1 and TAS 400
- Key recommendations
 - Actuaries refine their reports to address our findings
 - IFoA and other regulators consider amending standards and guidance



OAC SAR survey: Background

- Solvency report only required to be published for trust based plans
- Customer communications
- Better and more consistent valuation reports
- Customer confidence in their plan
- Requirements and guidelines don't cover specific SAR content (yet)

Funeral plan trust Solvency Assessment Report ("SAR") 2022 confidential survey analysis

Background and introduction

From 29 July 2022 pre-paid funeral plans will be regulated by the FCA, and those backed by a trust will be required to publish their annual SAR on their website. The FCA is currently going through the authorisation approval process and has announced that, as at 4 July 2022, they are minded to approve more than a third of UK pre-paid funeral plan providers, covering at least 87% of plans.

Specific SAR content, format, terminology, and level of detail to disclose has not been covered in the requirements and guidelines published so far, which can be summarised as:

Table 1: SAR content requirements and guidelines		
Source	5 July 2021 FCA Policy Statement PS21/8 (also requires compliance with relevant actuarial professional and technical standards, guidance, and codes)	Financial Reporting Council Technical Actuarial Standard 400 (TAS 400): Funeral plan trusts and TAS 100: Principles for Technical Actuarial Work
Financial position	<ul style="list-style-type: none">Valuation of assets and liabilities on a best estimate basisSolvency level (ratio of assets to liabilities)	<ul style="list-style-type: none">Analysis of change from previous valuationProjection of annual liability cash flows for an appropriate number of years
Data	<ul style="list-style-type: none">By payment method (single, regular paid-up, regular in payment):<ul style="list-style-type: none">Number of plansTotal and average plan valueBreak-down of assets by asset class	<ul style="list-style-type: none">Data usedSource of dataAdjustments if insufficient or unreliableChecks and controlsData uncertainty and limitations
Methodology		<ul style="list-style-type: none">Risks and uncertainty taken into accountAllowance for discretionary benefitsDerivation of liability from liability cash flowsMeasurement used for asset valuesControls, tests, and limitations
Assumptions	<ul style="list-style-type: none">Assumptions used	<ul style="list-style-type: none">Derivation of material assumptionsDifferences from previous valuationJudgement
Stress and scenario testing		<ul style="list-style-type: none">Financial position sensitivities to material risks

The 13 June 2021 FCA application for authorisation guidance also requires that the SAR be submitted to the FCA during the authorisation application process.

Other applicable actuarial guidance includes:

- [IFoA Actuarial Professional Standard \("APS"\) X2](#) for peer review
- [APS Z1](#) for UK trust-based pre-paid funeral plans
- [IFoA Risk alert for transitional risks for UK trust-based pre-paid funeral plans](#)
- [IFoA Guide for Actuaries on UK Trust-Based Pre-Paid Funeral Plans](#), and the [IFoA Actuaries' Code](#)



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OAC SAR survey: Total statistics

Totals

- 18 trust backed funeral plan providers
- 38 trusts
- 900k plans
- Assets £2.7 billion
- Overall solvency 126%

Balance sheet for all trusts £000's



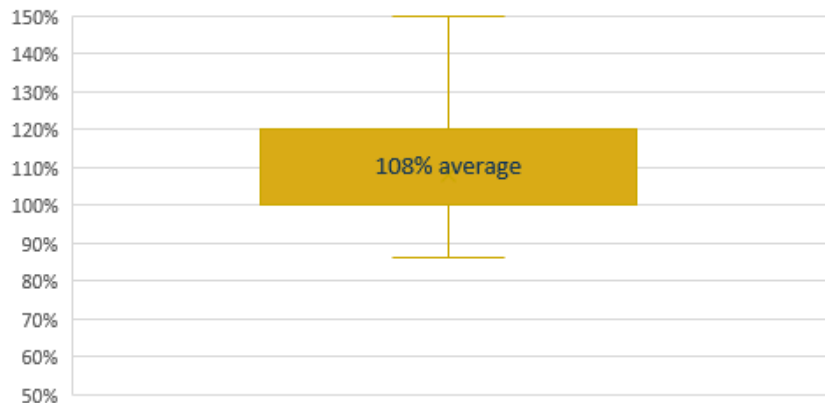
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OAC SAR survey: Average statistics

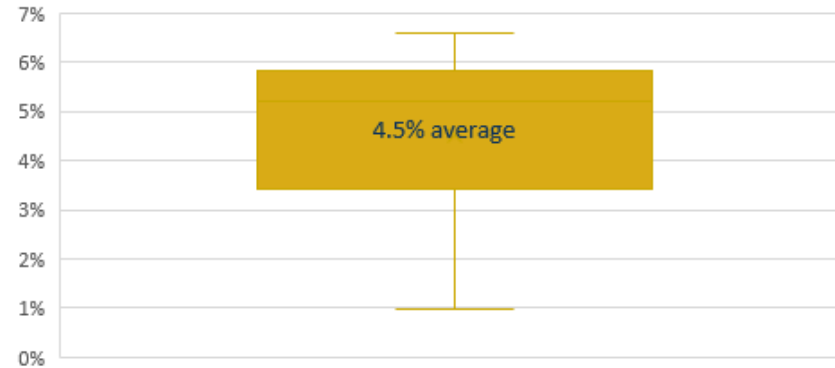
Averages

- Average plan value £3k
- Average assets per provider £116m ranging from < £1 million to £1.3 billion
- Some capital injections as part of remediation plan

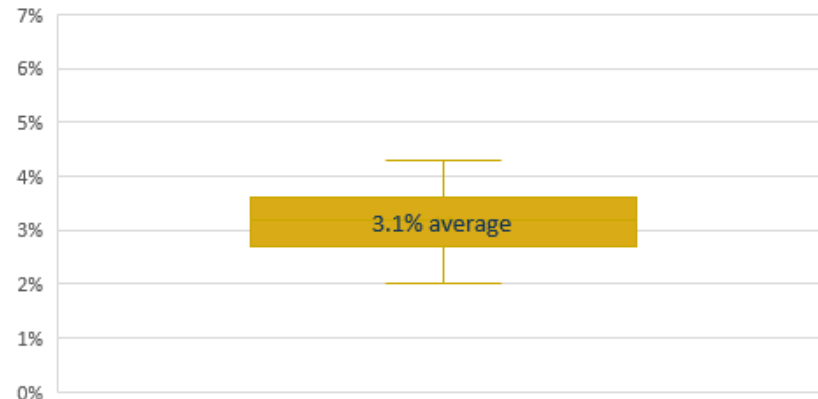
Mortality % ELT 17 (average 108%)



Discount interest rate
(before deuduction for expense, investment fee, tax)




Funeral inflation (average 3.1%)



OAC SAR survey: Best practices

- Follow the regulation
- Be brief and give the FCA a supplementary report
- But not too brief
- Consistent plain English language
- Future instalments
- Peer review
- Keep up-to-date

Solvency Assessment Report as at 30 September 2021	
Prepared by Erika Parker FIA FSA Consultant Actuary	
25 April 2022	
Actuarial Governance, risk & compliance Redress calculations Software Progress with confidence	
 Funeral Services Limited Solvency Assessment Report as at 30 September 2021	
Contents	
Executive Summary	1
Introduction	1
Data	2
Methodology and Assumptions	3
Actuarial Valuation and Analysis of Change	5
Conclusion	7
Appendix A – Summary of Data Extract Provided	8



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OAC SAR survey: Best practices: examples

- Follow the regulation: website

Quick Links	Get in touch
Home	Blackburn 01254 503240 Preston 01772 428580
Advice >	admin@altysfunerals.co.uk
Arranging a Funeral >	
Services >	Happy to answer your call, 24 hrs a day.
Obituaries	
About Us >	
Contact Us	Privacy Policy Cookies Policy Sitemap

[Customer Complaints](#) | [Declaration of Ownership](#) | [Alty Funeral Service Trust Valuation Report](#)



[HOME](#) [FUNERAL PLANS](#) [ARRANGE A FUNERAL](#) [HELP & S](#)

Crystal Cremations proud to sup



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Kings Business Park
Preston
Lancashire
PR1 9RP
04 951066
[@crystalcremations.co.uk](mailto:info@crystalcremations.co.uk)

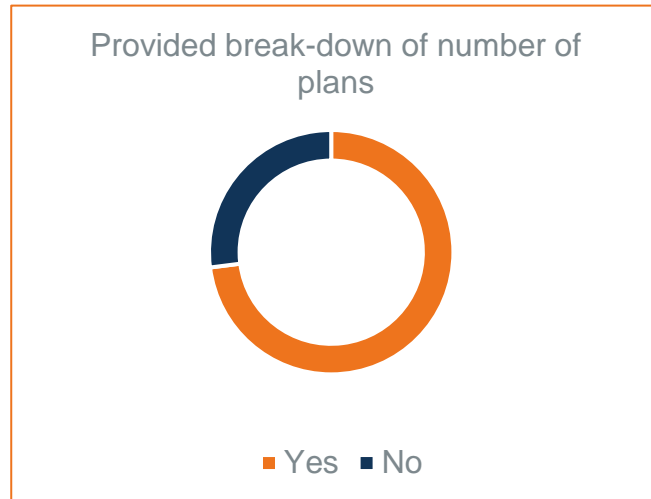
[Privacy Policy](#)
[Cookie Policy](#)
[Terms & Conditions](#)
[Terms of Business](#)
[Customer Friendly Complaints Process](#)
[Solvency Assessment Report \(SAR\)](#)



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OAC SAR survey: Best practices: examples

- Follow the regulation: disclosures



A breakdown of the current plans by method of payment is

	Number
Single Payment	28,304
Instalments – Paid in Full	10,733
Instalments - Partly Paid	5,545
Total	44,582



OAC SAR survey: Best practices: examples

- Follow the regulation: disclosures (cont'd)

Over the year the following deductions were made against the Trust :-

Overheads including all professional fees	£344,700
Investment Management Fees	£369,900
Taxation	£1,862,900

Average Cancellation rates 3.6% p.a. after year 1 reducing
to 0.4% p.a. after year 12

We have been instructed to provide Golden Charter Limited ("GCL") with a Solvency Assessment Report as required by the Financial Conduct Authority ("FCA") under section 3.2.2 of the Funeral Plan: Conduct of Business sourcebook.



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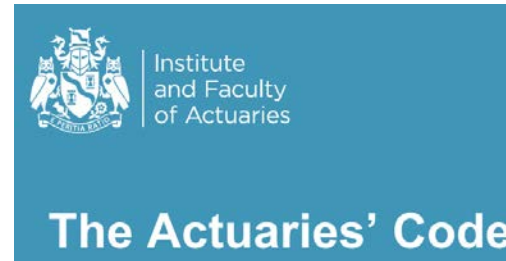
OAC SAR survey: Best practices: examples

- Plain English, not too long

The market value of the Trust's assets as at 24 September 2021 has been calculated to be £656 million (including £78 million for the discounted value of outstanding instalments for existing plans). The best-estimate liabilities of the Trust were calculated to be £479 million, which results in:

A **surplus** - i.e. assets less ongoing liabilities - of **£177 million**

A **solvency level** (as defined by the FCA) of **137%**



Communication

6. *Members must communicate appropriately.*
- 6.1 Members must communicate in a timely manner, clearly, and in a way that **takes into account the users.**
- 6.3 Members must take reasonable steps to ensure that any communication for which they are responsible or in which they have a significant involvement is accurate, not misleading, and **contains an appropriate level of information.**

The results of the valuation show that the Trust has a funding level of 107% with an accrued actuarial surplus of £7,000 under the Best Estimate position.

Conclusion

- Funeral and other associated costs can be substantial
- There are a number of ways to meet such costs depending on circumstances
- Funeral plans are one such way, utilised by over 1 million people in the UK
- Actuaries provide services to funeral plan providers and trusts, principally to value liabilities and assess solvency
- New FCA regulation and consumer protections are now in place for funeral plans, including defined roles for actuaries
- Guidance and best practices still evolving



Questions

Comments

Expressions of individual views by members of the Institute and Faculty of Actuaries and its staff are encouraged.

The views expressed in this presentation are those of the presenter.



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