



Institute
and Faculty
of Actuaries

Guide for Actuaries

On Trust-Based Pre-Paid Funeral Plans

by the Regulation Board

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This guide imposes no obligations upon Members over and above those embodied in APS Z1. The guide does not constitute legal advice, nor does it necessarily provide a defence to allegations of misconduct. While care has been taken to ensure that it is accurate, up to date and useful, the IFoA will not accept any legal liability in relation to its contents. The defined terms used in APS Z1 apply to this guide.

1. Purpose and target audience

- 1.1 This guide is issued by the Regulation Board of the Institute and Faculty of Actuaries (**IFoA**)¹ for the use and benefit of actuaries who may either be involved or become involved in:
- advising the Trustees of UK Funeral Plan Trusts or providers of Trust-Based Pre-Paid Funeral Plans; and/or
 - valuing UK Funeral Plan Trusts.
- 1.2 This guide is for all IFoA Members regardless of where they practise if they are involved in determining, calculating and verifying the assets and liabilities of pre-paid Funeral Plan Trusts under the relevant UK legislation. For ease of reference, the terms “actuary” or “you” are used in this guide to refer to IFoA Members.
- 1.3 UK Trust-Based Pre-Paid Funeral Plans are usually operated by specialist companies associated with a funeral director, or a group of funeral directors (where we refer to the companies and funeral director(s) together, we will call them “**funeral Plan Providers**”), in conjunction with Trustees. The Trustees oversee the management of the trust fund which holds the pre-payments until the funeral is needed.
- 1.4 This guide briefly covers the general operation of these UK plans and identifies some of the risk areas which you need to consider before accepting an appointment to provide an assessment of the assets and liabilities of the pre-paid Funeral Plan Trust. This guide’s aim is to provide you with information regarding how many (but by no means all) such plans operate and to outline some of the issues you might need to consider in providing actuarial advice to both Trustees and funeral Plan Providers. It is designed to stimulate thought processes, rather than serving as a mandatory “rule book”.
- 1.5 Demonstrating that you have followed the steps set out in this guide will make it easier for you to account to the IFoA for your actions but the key consideration is that, whatever means are employed, your obligations under the Actuaries’ Code (and related standards) are met. The IFoA hopes that the guide will be a useful tool for you when you find yourself needing to assess what to do when dealing with pre-paid Funeral Plan Trusts and the considerations relevant to handling such an engagement professionally and appropriately. You may also find it useful to contact the IFoA’s Funeral Plans Member Interest Group (**MIG**).

¹ Pursuant to the July 2014 Memorandum of Understanding (**MOU**) between the IFoA and the Financial Reporting Council (**FRC**), the IFoA may, with the agreement of the FRC, issue non-mandatory technical guidance for its Members. This guide contains ethical and technical guidance.

2. What is a pre-paid funeral plan?

- 2.1 A pre-paid funeral plan is an arrangement whereby an individual pays a sum of money in advance to secure the provision of an agreed funeral service at the time of his/her death. This sum can be paid in full or in instalments. These plans are also known as “pre-need” funeral plans.
- 2.2 The contract to provide the funeral is normally between the Planholder and the funeral Plan Provider or, occasionally, the Trustees. Care needs to be taken to identify clearly who is providing what to whom.
- 2.3 Many, but not all, pre-paid funeral plans are provided by Plan Providers registered with the Funeral Planning Authority (**FPA**), which is a self-regulatory organisation setting operational and governance standards for Plan Providers. It also aims to offer a ‘safety net’ for Planholders if funeral Plan Providers are unable to honour their commitments. The FPA’s website provides additional information regarding registration requirements and its monitoring activities.
- 2.4 Funeral plans can be provided under trust-based or insurance-based contracts. The **focus of this guide is on trust-based plans**.
- 2.5 In trust-based contracts, the pre-payment is paid by the individual Planholder to the funeral Plan Provider and a contract is issued by the provider confirming the payment and the details of the funeral to be provided on the Planholder’s death. This pre-payment is then paid into a separate trust fund and managed by Trustees. On the death of the Planholder, an amount is paid from the trust to the funeral Plan Provider to defray the costs of the Planholder’s funeral. Typically, the funeral Plan Provider is responsible for providing the funeral rather than the Trustees or the trust fund. Usually the trust fund provides an agreed sum of money and it is the funeral Plan Provider who would make up a shortfall, if any.
- 2.6 Different operational structures can apply to these arrangements, involving variations such as:
- the details of the funeral purchased and the elements which will be paid when the funeral is needed;
 - details of the pre-payment and whether payment is spread over a period of months or years;
 - the proportion of the sum paid by the Planholder to be held on trust so that their funeral is provided, but also to reimburse the funeral Plan Provider for any marketing, operational costs or commissions;
 - the amount due to be paid from the trust fund to the funeral Plan Provider when the funeral is needed – it may be the accumulated value, with investment returns, of the pre-payment originally received (which can be higher or lower than the current cost of the funeral), or an amount agreed for the funeral purchased;
 - the treatment of any surpluses (profits) or deficits (losses) that emerge within the trust fund;
 - the responsibilities for administering the arrangements and meeting the costs incurred;

- constraints on the investment of the trust funds;
- where the arrangement is for a group of funeral plan directors, arrangements for selecting the funeral plan director to perform the eventual funeral;
- payments due if the Planholder cancels the plan;
- some plans being based on contracts between the Trustees and the Planholder, with the funeral Plan Provider performing the funeral at an agreed cost when required;
and
- taxation of the trust fund and of any profits.

3. Are there any legislative or regulatory requirements?

Legal requirements

- 3.1 As a trust-based arrangement providing a benefit at some future date in exchange for a payment now, there is a requirement under the Financial Services and Markets Act (Regulated Activities) Order 2001 (**RAO**) for a Fellow of the IFoA to determine, calculate and verify the assets and liabilities of the pre-paid Funeral Plan Trust every three years.

FPA requirements

- 3.2 Under the FPA's rules, there is a requirement for a more frequent determination, calculation and verification of the assets and liabilities of the trust than that required under the RAO. There are also other, additional provisions in the FPA's rules which will be relevant for actuaries to understand and consider if they are undertaking work for a FPA registered provider.

Trust requirements

- 3.3 The trust deed governing the funeral plan may set out additional obligations that you need to consider. As the IFoA's Actuarial Profession Standard Z1- Duties and Responsibilities of Actuaries Working for Trust-Based Pre-Paid Funeral Plans (**APS Z1**)- makes clear, you must read the documents governing the funeral plan, the trust deed, the funeral plan literature and the contracts with Planholders. In light of that review, you must consider the different parties involved in the operation of these plans - including any actual or implied contractual agreements between them relating to the operation of the trust and funeral provision.

Professional standards

- 3.4 You should comply with the Actuaries' Code. To comply with Principles 2 (Competence and Care) and 4 (Compliance) of the Actuaries' Code and APS Z1 when undertaking such a Valuation, you should ensure that you have sufficient knowledge and understanding of such arrangements and of the specificities of the types of contracts on offer.
- 3.5 Furthermore, and as APS Z1 makes clear at paragraph 2.2.1, when you are undertaking a Valuation, you are required to have regard to any relevant representations which have been made to Planholders which might be set out in the plan's Governing Documents. The types of representations that you might want to consider include what the marketing material says about the payment of third party costs other than the funeral director's costs, for example, cremation fees, burial plot leases, church service costs etc, or what guarantees, for example, might be being provided by the Plan Provider or funeral director. Using your professional judgement, you need to weigh up those representations against the Planholders' contractual entitlements and the cost of providing the contracted funeral to determine what the plan's liabilities might be.
- 3.6 Regarding your obligations to consider the Governing Documents of the pre-paid funeral plan, you are required to read those documents (1.2.4 of APS Z1) as it will inform your reflections as set out at paragraph 2.2.1 of APS Z1. If those documents are simply not available, then we would not expect you to have to take them into account. However, you would be expected to do what is reasonable to obtain those documents and to engage with the Trustees/Plan Provider to obtain them. In fact, the onus is on the Trustees and Plan Provider to provide you with relevant information which might impact on the Valuation. Indeed, paragraph 2.1 and, in particular, paragraph 2.1.5 of APS Z1 are designed to ensure that you

do have the relevant information gathering powers you will need to prepare a Valuation, acknowledging that the relevant information will most likely be held by the Trustees and Plan Provider and not you as the actuary.

- 3.7 Additionally, you should be aware of the speaking up obligations at paragraphs 2.3 and 2.4 of APS Z1. Paragraph 2.3 addresses the situation where you have produced an assessment of the trust's assets and liabilities but believe that, there is a material shortfall in the assets held by the Trustees to cover the liabilities or that the Plan Provider's contractual obligations are significantly higher than the liabilities of the trust. The provision envisages that, as a first step, having drawn the position to the attention of the Trustees and the Plan Provider, you should try to encourage the Trustees to take appropriate action to alleviate the shortfall. If, however, appropriate remedial arrangements have not been made within a reasonable period of time, you need to report the position to the Plan Provider. As a secondary measure, if the Trustees and the Plan Provider have not put in place appropriate remedial arrangements within a sensible period of time, it is proposed that actuaries should report their concerns to the Auditors of the trust or the Plan Provider and, if the Plan Provider, is a FPA registered provider, also to the FPA.
- 3.8 It is not envisaged that you would report in anything other than extreme circumstances, where, for example, following protracted discussion, no attempt has been made by Trustees and/or the Plan Provider to remedy a shortfall. In any case in which a report had been made, you would be required by paragraph 1.2.3 of APS Z1 and clause 3.6 of the Actuaries' Code to speak to any successor actuary regarding what had happened.
- 3.9 For work concerning the determination, calculation and verification of the assets and liabilities of a pre-paid Funeral Plan Trust, including the work described in paragraphs 3.1 and 3.2 above, you should comply with the Financial Reporting Council's (**FRC's**) Technical Actuarial Standard on Funeral Plans (the **Funeral Plans TAS**), as well as the FRC's Generic TASs on Data (**TAS D**), Modelling (**TAS M**) and Reporting Actuarial Information (**TAS R**).

4. What are the issues involved in operating these plans?

4.1 A list of some of the more common issues associated with pre-paid plan trusts is set out below. The extent to which these issues arise will vary from plan to plan. There may be other issues arising concerning the particular plan on which you are working. Consequently, any action you decide to take will be a matter for your own professional judgement.

Issues to consider under Technical Actuarial Standards (TASs)

4.2 When undertaking the Valuation of a Funeral Plan Trust, including those that are required by the RAO or the annual assessment that has to be submitted to the FPA, you should consider the following non-exhaustive summary of the requirements of the TASs:

Data

4.3 Paragraph C.5.1 of TAS D requires you to consider the assessment of data required to meet the needs of the user of the actuarial work you are undertaking. The data required is likely to include:

- membership data;
- the accumulation of funds in respect of the Planholder (allowing for an annual allocation of investment returns, costs, current and future tax provisions etc);
- the actual funeral to be provided; and
- details of any guarantees.

4.4 Paragraphs C.5.6 to C.5.10 of TAS D requires you to perform checks to ensure the accuracy, the relevance and completeness of the data you are using.

4.5 Paragraphs C.5.11 to C.5.15 of TAS D notes that you should assess whether the reliability of the data can be improved by adjusting or supplementing it and you should document any action taken to that incomplete or inaccurate data. Examples of issues concerning incomplete data include:

- data can sometimes be limited, particularly in respect of Planholders who joined some time ago, when gender and dates of birth were often not recorded;
- there is usually no evidence or indication of the health status of the Planholders at the point of sale; and
- claims data may not always be sufficiently detailed to enable a comprehensive analysis of the experience of the trust.

4.6 C.4.3 of TAS R obliges you to report on any material uncertainty over the accuracy of the data and explain the approach taken to any uncertainty in the calculations of the assets and liabilities of the trust.

4.7 Depending on the nature of the data provided, it may be that you could be regarded as a Data Controller under the Data Protection Act 1998. You should consider the IFoA's guidance on actuaries as data controllers to determine whether this applies to you²

² <http://www.actuaries.org.uk/research-and-resources/documents/data-controller-responsibilities-guidance-material-actuaries-and-1>

Assumptions

- 4.8 For the Valuation of a Funeral Plan Trust that is required by the RAO or the assessment that has to be submitted to the FPA, the assumptions are set by the actuary who performs the work.
- 4.9 When selecting any assumptions for this work, paragraphs D.2.1 to D.2.7 of the Funeral Plans TAS require assumptions to be appropriate for the purpose of the calculations for which they are used. Assumptions must additionally be derived from as much relevant information as is sufficient, or, if there is insufficient relevant information, as is available.
- 4.10 Paragraph C.4.6 of TAS R explains that you should describe the rationale for assumptions used.

Discount rates

- 4.11 Discount rates are often among the assumptions that have the most material effect on the results of the work that is being performed.
- 4.12 The requirements of the Funeral Plan TAS for discount rates (paragraphs D.2.9 to D.2.12) need to be met, as they reflect the need of Trustees to understand the nature and characteristics of the cash flows to which they are applied, how any discount rates are derived, and the implications of adopting them.
- 4.13 The discount rate used might include an allowance for the fact that the liquidity characteristics of a trust's liabilities are not the same as that of assets generally traded in financial markets. In particular, Planholders usually have the right to a refund of their pre-payment, subject only to a small penalty, to allow for administrative costs. Therefore, it might be judged that funeral plan liabilities are liquid. On the other hand, there is an implicit penalty if there is no allowance for interest on the pre-payment. This implicit penalty increases the longer the plan remains in force, which might lead to the judgement that funeral plan liabilities are increasingly illiquid. In addition, there is uncertainty over the determination of illiquidity premiums that are implicit within various market instruments. Transparency about any allowance for illiquidity is particularly important as understanding, application and market practice continue to develop.
- 4.14 In selecting the discount rate and providing information to the Trustees, you might wish to consider the paper *A Framework for the use of Discount Rates in Actuarial Work* published by the IFoA in November 2012.³

Mortality

- 4.15 Paragraphs D.2.13 to D.2.15 of the Funeral Plans TAS relate to the selection of mortality assumptions. Accordingly, you should use separate assumptions for base mortality rates and subsequent changes, and assumptions for the base rates of mortality must reflect the current Planholders of the Funeral Plan Trust.
- 4.16 If the Funeral Plan Trust is large enough, and has been operating with a similar membership profile for a long enough period, it may be possible to use its mortality experience in the derivation of the assumptions. Otherwise, adjustments will have to be made to publicly available mortality tables, or mortality rates will have to be derived from a wider base.

³ <http://www.actuaries.org.uk/research-and-resources/documents/framework-use-discount-rates-actuarial-work>

Information that might be used to adjust standard tables includes the place of residence and the socio-economic profile of Planholders, if known.

- 4.17 The inter-relationship between funeral price inflation, investment return and mortality risks can mean that an underestimation of mortality (i.e. Planholders assumed to be living longer than reality) can lead to an overstatement of the liability, whereas an overestimation of mortality can give rise to an undervaluation of the liability. Both an underestimation and overestimation of mortality will affect projected cash flows.

Funeral cost inflation

- 4.18 Increases in the cost of funerals are unlikely to follow a standard measure of inflation. Increases in the cost of funerals reflect non-standard factors and will typically be higher than standard measures of inflation, such as the Retail Prices Index. You will need to consider the various components of the funeral that contribute to the total cost and the factors that will affect how these change in price over time to make an appropriate assumption for funeral cost inflation.

Models and calculations

- 4.19 When undertaking the Valuation of a Funeral Plan Trust, including those required by the RAO or the annual assessment that has to be submitted to the FPA, TAS M will be relevant.

Measures

- 4.20 When determining the liabilities of the Funeral Plan Trust, you need to give consideration to the measure of liabilities used (for example, whether to value the marginal or actual cost of providing the funeral). It is important to check whether the trust deed provides guidance on which measure should be used and, as the work within the scope of the Funeral Plans TAS is repeated at regular intervals, consider what measure was used for the previous exercise.
- 4.21 Paragraph C.4.6 of TAS R requires an explanation and a rationale for the measures and methods used to calculate the value of the assets and the liabilities of the trust.

Comparisons

- 4.22 Paragraph C.5.17 of TAS R requires the assumptions, results and other material matters of two similar exercises to be compared. The comparison of results should include a reconciliation of the results.
- 4.23 Additionally, paragraph D.3.1 of the Funeral Plans TAS requires an explanation of any changes in the measures, methods or assumptions used between two similar and related exercises and that the overall effect of the changes on results is quantified.

Projections

- 4.24 Paragraph C.5.20 of TAS R requires, for work that is performed at regular intervals, projected results from future corresponding calculations. Issues relating to new business and the pricing of contracts may need to be considered in producing the projected results. For example:
- *Profile and volume of new business* - The profile and volume of new Planholders has a direct impact on the value of the inflation and other guarantees and will therefore impact on the future liabilities of the plan. The incidence of new business gives an

indication of the potential additional strain that is being put on the assets and profits of the funeral Plan Provider.

- *Source of new business* - How new business is obtained is also important; for example, advertising in local and national press may produce a more diverse group of new Planholders than concentrating on hospital geriatric wards. This may also impact on the future liabilities of the plan.
- *Pricing* – Some plans offer a contract for a funeral to be provided at some time in the future and are priced on the standard terms applicable at the time of the commencement of the contract. As an actuary, you are unlikely to be involved in the pricing of such contracts and the investment and inflation risks are normally borne by the funeral Plan Provider. Nevertheless, if the relevant information is available, you may need to identify any risks which might arise from the initial pricing of the contract. You may also need to consider the impact of the pricing of such contracts on the calculation of liabilities (or your projection of those liabilities) and the trust's investment strategy, and advise the Plan Provider and Trustees accordingly.

Reporting

- 4.25 You should communicate results clearly, so that Trustees and other users can make informed decisions concerning the management of the trust. TAS R requires that the style, structure and content of reports are suited to the skills, understanding and levels of relevant technical knowledge of users (TAS R paragraphs C.6.1 to C.6.3).

Estimating the value of liabilities

- 4.26 Paragraph C.5.5 of TAS R requires an indication of any uncertainty and a statement of the nature and significance of the risks faced by the Funeral Plan Trust and the approach taken to those risks. Risks faced by Funeral Plan Trusts include:
- increasing longevity extending the duration between the receipt of the pre-payment and the date of the funeral, increasing the exposure of the trust to the inflation of funeral costs, which might in turn not be matched by asset returns;
 - if the Plan Provider no longer sells funeral plans, the trust is exposed to the risk that expenses absorb an increasing proportion of the income received from the trust's assets. Assets might also have to be sold to meet claim payments, potentially exposing the trust to market risk;
 - a pandemic unexpectedly requires a liquidation of assets, exposing the trust to liquidity risk; and
 - investment returns might be lower than expected.
- 4.27 Judgement should be exercised in order to determine an appropriate allowance for adverse risk and uncertainty concerning liability cash flows. In exercising this judgement, you should consider the purpose of the exercise and the information that would enable the Trustees to make appropriate decisions about the management of the trust.
- 4.28 Any allowance might depend on factors such as the nature and term of the investments of the trust, uncertainty concerning mortality improvements and funeral cost inflation. Possible methods include adding provisions for adverse deviation to the assumptions used to project

and discount liability cash flows, and adding an explicit margin for risk to the present value of an unbiased probability-weighted estimate of the liability cash flows.

4.29 Paragraph D.4.1 of the Funeral Plans TAS requires an explanation of how adverse risks to and uncertainty in liability cash flows have been taken into account in the estimate of the value of the liabilities.

4.30 The following specific areas can give rise to risk and uncertainty which might affect the value of the liabilities:

- *Guarantees* – For some funeral plans, there may be guarantees in place. For example, the funeral Plan Provider often provides guarantees to the Trustees to ensure that the contracted funeral service will be provided irrespective of the amount of money available in the trust fund to be paid in respect of any one Planholder. However, there may be further guarantees; these might, for example, restrict any costs to be recovered by the provider during the operation of the plan.

Where the funeral plan contract is between the Trustees and the Plan Provider, any guarantees being provided by the Trustees should be examined, particularly concerning the financing of those guarantees.

In determining the value of the assets and liabilities of the Funeral Plan Trust, the nature, timing and parties to any guarantees need to be established. The extent to which these guarantees have been taken into account in the Valuation of the assets and/or the liabilities of the plan should be reported.

- *Tax* – Funeral plan trusts are typically subject to tax and the tax on income and capital gains (both current and future) is an element of the funeral plan's liabilities. The incidence of taxable gains and taxable income is influenced by the existing and new business profiles, cash flow needs and investment strategies. Planholders who decide to leave the plan may be entitled to a repayment of the pre-payment (with or without interest and charges). Should these and other members be charged, for example, the full capital gains impact of a major asset sale or should this be spread? Such matters need to be considered by the Trustees and reflected in the Valuation of the Funeral Plan Trust's assets and/or liabilities.

The tax position can be very complex and you should discuss this with the Auditor and the Trustees' professional advisers (and other interested parties) and consider how the position might change over time. You may need to consider taking advice from specialist tax advisers, as recommended in paragraph 2.3 of the Actuaries' Code. It may be necessary to challenge appropriately the other professional's advice/calculations e.g. asking them what assumptions they used in coming to their conclusion.

- *Discretionary payments* - The Trustees of a Funeral Plan Trust usually have the discretion to apply any surplus arising, as a result of the change in the difference between the value of assets and the value of liabilities, to increase amounts payable from the trust to meet the cost of funerals. This may be seen to provide a level of protection to the Plan Provider from the impact of inflation on funeral costs in the period between the date of the pre-payment and the funeral.

An explanation of what allowance has been made for such discretionary increases in any estimate of the value of the liabilities of the Funeral Plan Trust should be provided.

- *Covenant* – Where the funeral plan contract is between the funeral Plan Provider and the Planholder, it is important to identify the financial ability and willingness of the provider to provide the funeral at times when, for example:
 - there has been a period of poor investment returns;
 - funeral costs have increased at a much faster rate than ordinary price inflation or investment returns;
 - a major epidemic causes a greater number of actual deaths than expected, leading to a strain on cash flows and service standards; or
 - the volume of funeral trust business is a significant proportion of the funeral Plan Provider's annual business, leading to:
 - potential new business strains; and
 - the inability of profitable non-trust business to support the trust-based contracts during periods of high funeral price inflation or poor investment performance.

An explanation of the extent to which the covenant of the funeral Plan Provider has been taken into account in the estimate of the value of the liabilities or the assets of the Funeral Plan Trust should be provided.

Liability cash flows

- 4.31 Paragraphs C.5.10 to C.5.12 of TAS R require you to provide an indication of the nature and timing of future cash flows being quantified.
- 4.32 You must also comply with D.4.3 and D.4.4 of the Funeral Plans TAS. This requires any report which includes an estimate of the value of the assets or of the liabilities of a Funeral Plan Trust to quantify the liability cash flows expected to arise in each of the first ten years following the effective date of the estimate, and explain how the estimate is derived from the liability cash flows.

Estimating the value of assets

- 4.33 Paragraph D.4.5 of the Funeral Plans TAS requires an explanation of the measures used to quantify the value of the assets and the reasons for their selection. The TAS also requires that, if the measures used are not fair value measures, then the Trustees should be provided with an estimate of the fair value of the assets.

Adverse scenarios

- 4.34 D.4.6 of the Funeral Plans TAS requires any report which includes an estimate of the value of the assets or of the liabilities of a Funeral Plan Trust to indicate the effect of uncertainty by considering the impact of adverse scenarios.

4.35 Such adverse scenarios might need to include:

- a combination of increasing longevity and high inflation of funeral costs;
- funeral plans ceasing to be sold by the Plan Provider, resulting in no new money being paid into the Funeral Plan Trust;
- a pandemic leading to a large number of claims on the Funeral Plan Trust in a short period; and
- income and capital returns from the assets of the Funeral Plan Trust being lower than expected.

Issues to consider under other Professional Standards

4.36 When undertaking any work in relation to the Funeral Plan Trust, you should consider the following:

Issues that impact on the provision of contracted funerals

4.37 In general, it is important to consider the implications, having regard to paragraph 2.2 of APS Z1, of any significant change which is likely to take place or has taken place in the plan's operations, practices or other circumstances. More specifically, possible issues include:

- *General governance* – This applies to the funeral Plan Provider and Trustees. It would cover areas such as: the availability of the provider's own funds, risk management and appetite and internal controls, including whether or not senior management have conducted their own review of the risks being taken; and transparency to users and the FPA. You should understand and take appropriate account of the Trustees' risk appetite, which may influence their choice of assumptions, and explain how they have done so in their report.
- *Operation of the trust* - Trust documents can often be out of date, inflexible or unclear. It is possible that the funeral plan is not operating strictly in accordance with the trust deed, nor may it be clear where particular powers lie, including for example who has the power to remove Trustees. As the operation of funeral plans becomes more complex and regulated, it is necessary to review the suitability and performance of the Trustees to ensure they have the expertise to deal with all aspects of the operation of the funeral plan. Although this is not a responsibility falling on you as the actuary, it is nevertheless an area you may become aware of problems and where you may need to consider the possibility of escalating matters to the relevant entity/authority, in accordance with paragraph 2.4 of APS Z1 and Principle 4 of the Actuaries' Code.
- *Conflicts of interest* - If working for both the Trustees of the trust and for the Plan Provider- e.g. in providing other actuarial advice- you may find yourself in a position of conflict. It is important that you are mindful of the implications in this context of Principle 3 of the Actuaries' Code (Impartiality). The IFoA has produced guidance on conflicts of interest and how conflicts may be reconciled. See: http://www.actuaries.org.uk/Conflicts_of_Interest_Guide_for_Actuaries_version_1.1

Remedial actions

4.38 Where there is a material shortfall of assets compared to liabilities, you should, where appropriate, apply paragraph 2.3 of APS Z1. Possible remedial actions that the Trustees could put in place include:

- *Management of Deficits* - The trust deed may allow Trustees to deduct an initial charge from new pre-paid sums plus another annual charge from gross annual income earned on the investments and pay that to the provider, who will usually be the general administrator for the plan. The provider may decide to defer or even cancel such payment at their discretion to improve the trust's financial status. However, even if the provider has provided a guarantee concerning the provision of the final funeral service, it does not mean that they have provided any guarantee to underwrite any losses in the trust fund. Such losses could require sizeable capital injections which impact on the Plan Provider's balance sheet and may not be affordable. You may need to consider the impact of this in assessing whether appropriate remedial action has been taken to alleviate any material shortfall of assets compared to liabilities.

5. Further Reading

5.1 Very little actuarial research has been done regarding the operation of these plans and it is therefore not currently possible to provide a comprehensive reading list. However, any actuary who is involved (or is likely to become involved) in such plans would benefit from investigating the following:

- The Financial Conduct Authority website: <http://www.fca.org.uk/firms/about-authorisation/do-i-need-to-be-authorised>;
- The Funeral Planning Authority website: <http://www.funeralplanningauthority.com/>; and
- Websites of current Trust-Based Pre-Paid Funeral Plans.

5.2 These types of plans are also operated in the United States of America and are known as “pre-need” funeral plans. There are some research papers and articles on the operation of such plans emanating from the United States and these can be found via the following websites:

- The Society of Actuaries: <https://www.soa.org/>;
- The American Academy of Actuaries: <http://www.actuary.org/>; and
- National Association of Insurance Commissioners: <http://www.naic.org/>.

5.3 You should also, of course, refer to relevant legislation, accounting standards, regulatory rules and guidance.

5.4 In particular, you should be familiar with:

- the Actuaries’ Code: <http://www.actuaries.org.uk/research-and-resources/documents/actuaries-code-v-20>;
- APS Z1: Duties and Responsibilities for Actuaries Working Trust-based Pre-Paid Funeral Plans *[to insert link when live]*;
- The Funeral Plans TAS <https://frc.org.uk/getattachment/700a3891-7ccd-47bb-958f-6a63b9178cef/Funeral-Plans-TAS-version-1-Feb-2011.aspx>;
- TAS D: Data: <https://frc.org.uk/getattachment/1d08e3b5-00bc-4793-b457-284162f002af/TAS-D-Data-version-1-Nov-09.pdf>;
- TAS M: Modelling: <https://frc.org.uk/getattachment/3a8825b8-4560-4750-955f-30f740960c7f/TAS-M-Modelling-version-1-Apr-10.pdf>;
- TAS R: Reporting; [https://frc.org.uk/getattachment/f6888ddc-79a4-4d26-858b-128eb736a8f7/TAS-R-Reporting-Actuarial-Information-version-\(1\).pdf](https://frc.org.uk/getattachment/f6888ddc-79a4-4d26-858b-128eb736a8f7/TAS-R-Reporting-Actuarial-Information-version-(1).pdf); and
- Articles 59 and 60 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001: <http://www.legislation.gov.uk/ukxi/2001/544/part/II/chapter/XIV/made>.

5.5 Additionally, you may wish to consider and review the:

- IFoA's Guide for Funeral Plan Providers and Trustees on the Role of the Actuary in dealing with Trust-Based Pre-Paid Funeral Plans *[to insert link when live]*;
- FRC's "Funeral Plans TAS Significant Considerations" document:
<https://frc.org.uk/Our-Work/Publications/BAS/Funeral-Plans-TAS-version-1-Feb-2011/Funeral-Plans-TAS-Significant-considerations-Feb-2.pdf>; and
- IFoA's Guide for Actuaries on Conflicts of Interest:
http://www.actuaries.org.uk/Conflicts_of_Interest_Guide_for_Actuaries_version_1.1

6. Further Guidance

- 6.1 The IFoA's Professional Support Service and the Funeral Plans MIG may be able to help with more specific issues. It is good practice for all work to be checked and reviewed to ensure accuracy and clarity⁴ Pre-paid Funeral Plan Trusts can vary in their legal structures and operational procedures and, from time to time, you may find it helpful to discuss issues, in confidence, with another funeral plan actuary, who may be from another organisation.
- 6.2 Information about the Professional Support Service can be found here:
<http://www.actuaries.org.uk/regulation/pages/professional-support-service-0>
- 6.3 Information about the Funeral Plans MIG can be found here:
<http://www.actuaries.org.uk/communities/communities/funeral-plans-member-interest-group>

⁴ [Potential cross-reference to APS X2]

7. Contact us

- 7.1 The content of this guide will be kept under review and for that reason we would be pleased to receive any comments you may wish to offer on it. Any comments should be directed to:

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The Institute and Faculty of Actuaries
Level 2, Exchange Crescent
7 Conference Square
Edinburgh EH3 8RA

or

regulation@actuaries.org.uk