



Institute
and Faculty
of Actuaries

Guide for Trustees

On Trust-Based Pre-Paid Funeral Plans

by the Regulation Board

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Contents

1.	Introduction	3
2.	A developing market	4
3.	Understanding the structure	5
4.	Key role of the actuary	6
5.	Information requirements	7
6.	Assumptions the actuary will make	8
7.	Further advice from the actuary	9
8.	Appointment of an actuary and their professional obligations	10
9.	Additional useful information	12
10.	Contact us	13

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1. Introduction

- 1.1 An increasing number of people are choosing to purchase their funeral from funeral directors or other funeral plan providers in advance of their death through pre-paid funeral plans. Some plans are provided through insurance policies and others operate under a legal trust. **This guide focuses solely on plans provided under a trust arrangement.**
- 1.2 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.
- 1.3 There are a number of reasons why actuaries are required to carry out regular actuarial valuations of this type of plan, including;
- the governing documents of the trust;
 - legislation as set out in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (**RAO**); and/or
 - where the funeral plan provider is registered with the Funeral Planning Authority (**FPA**).
- 1.4 An "actuarial valuation" in this area means the determination, calculation and verification of the assets and liabilities of the pre-paid funeral plan trust (the **Valuation**).
- 1.5 Actuaries may also undertake interim funding assessments. Whilst they are no substitute for the full regular valuation, they may provide valuable insight into trends in the business written, liabilities and cash flows which can be a useful management tool. Adverse results would normally trigger a full valuation.
- 1.6 This brief guide has been prepared by the Institute and Faculty of Actuaries (**IFoA**), the professional body for UK actuaries, to help funeral plan providers and trustees of such UK trust-based pre-paid funeral plans understand the role of the actuary and the advice that he/she can give. Additionally, trustees will need to understand their wider responsibilities under trust law.

2. A developing market

- 2.1 Some two decades ago, there were relatively few trust-based pre-paid funeral plans in the UK. The structure of these arrangements continues to evolve with an increasing role for the actuary in helping the plan providers and trustees in the financial management of the plan and trust.

3. Understanding the structure

- 3.1 Funeral plan providers and trustees must understand the operation, legal structure and obligations of such arrangements. Usually, 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.
- 3.2 This pre-payment is then paid into a separate trust fund and managed by the trustees until, on the death of the planholder, it is paid back to the funeral plan provider to meet the costs of the contracted funeral. Typically, the funeral plan provider is responsible for providing the funeral rather than the trustees or the trust fund.
- 3.3 Usually the trust fund provides an agreed sum of money and it is the funeral plan provider who would make up the shortfall, if any. 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 provided;
 - details of the pre-payment and whether payment is spread over a period of years;
 - the proportion of the sum paid by the planholder to be held on trust for their funeral minus any marketing costs, 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 funeral plan 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 individual 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.

4. Key role of the actuary

4.1 The actuary's role is prescribed by the RAO, a key part of which involves carrying out a Valuation. This involves the determination, calculation and verification of the assets and liabilities of the pre-paid funeral plan trust. The Valuation would normally be required at least every three years under legislation and the trust documents. Three points to note are:

- Trust documents may only require a valuation of the financial obligations that fall on the trust and which are the trustees' responsibility.
- The actuary will, as far as possible, assess the financial commitments as explained in the documents that communicate the pre-paid funeral plan arrangement to the planholders - he/she will consider the plan provider's/funeral director's contractual obligations. These may be different from, and wider than, the obligations of the trust. The plan provider is (usually) contracted to provide a specified funeral. The trust will provide a sum of money to the plan provider to defray the plan provider's expenses in honouring its obligations under the contract.
- Funeral plan providers and trustees should consider whether more frequent Valuations would be appropriate, particularly if the finances of the arrangement are anticipated to be volatile. These more frequent assessments will in some cases not be a full Valuation, but a more approximate high level assessment of the assets and liabilities of the plan. The assessments will still be required to comply with the following Technical Actuarial Standards (**TASs**) issued by the Financial Reporting Council (**FRC**):
 - 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)

5. Information requirements

5.1 When carrying out the Valuation, the actuary will first need to obtain all information relevant to undertaking the project at the date of the valuation such as:

- data on the individual planholders and their funeral contracts;
- up-to-date indications of the cost of providing the funerals;
- details of the trust's assets and investments and its general investment strategy;
- a copy of the audited annual accounts of the trust at the date of the valuation;
- the ruling trust documents, including minutes of relevant meetings;
- examples of the communications to planholders explaining the arrangement;
- the general governance of the trust's internal controls;
- the ability and willingness of the funeral plan provider to pay (the covenant), in order to assess the provider's financial ability and willingness to meet in full the contractual obligations falling on the funeral plan provider;
- taxation of the trust fund and any arrangement agreed with HMRC; and for
- the audited accounts of the plan provider.

5.2 Additionally, the trustees, with the actuary's help, may need to explore the structure and operations of the plan/the trust in conjunction with the trust's auditor and legal advisor. This should help ensure that the trust operates correctly and that the trustees have obtained appropriate professional advice for example, regarding investment, taxation and funding matters.

5.3 Furthermore, if the Valuation discloses a shortfall in assets of the trust versus the liabilities, then the trust's advisors will need to work together with the trustees to ensure that appropriate, remedial steps are taken to plug any shortfall.

6. Assumptions the actuary will make

- 6.1 The actuary will want to discuss key assumptions he/she is proposing to use in the Valuation, and the materiality and sensitivity of these in the context of the results. Such assumptions are:
- *Investment Returns* - the rate of investment return he/she anticipates will be achieved on the trust fund's assets in the future.
 - *Inflation* - the rate he/she anticipates will apply to any future financial obligations, perhaps adopting different rates for different obligations, e.g. for cremation fees compared with funeral plan providers' fees.
 - *Mortality* - the rate at which planholders are expected to die in future years.
 - *Administration and Management Expenses* - which will need to be met in the future.
 - *Cancellation Rates* - the rate at which planholders are expected to cancel policies in the future.
 - *Current and Future Tax Rates* - this will reflect the extent to which, for example, a tax charge is building up on unrealised gains which may have to be paid at some time in the future.
- 6.2 Using these assumptions, the actuary will place a value on the liabilities of the trust (and the financial obligations of the funeral plan provider if possible) and produce a summary or written report identifying the extent to which the value of the assets will exceed the stated liabilities (a surplus), or fall short of the stated liabilities (a deficit).
- 6.3 In relation to the value of the assets of the trust, the actuary may need to take account of peculiarities relating to assets which have different book and face values. The actuary will need to make various assumptions and explain why the assets may have different accounting values than would normally be the case. Furthermore, the trustees should expect the actuary to present:
- an analysis quantifying how the surplus or deficit has changed since the last Valuation and the main contributory factors to these changes;
 - an assessment of the pricing of new plans being issued; and
 - for future individual years, a projection of the anticipated number of deaths, income and payments falling due from investments, and payments due to plans, compared with the expected payments for funerals and cancellations.
- 6.4 The trustees, usually in conjunction with the funeral plan provider, should expect the actuary to present the results and conclusions in person, for them to understand and discuss the financial implications of the operation of the funeral plan.
- 6.5 Based upon these discussions, the trustees, with the support and advice of the actuary, will consider what steps, if any, need to be taken to maintain or restore the financial health of the trust and plan. Where there is a shortfall in the value of the assets below the value of the liabilities, the trustees and plan provider should be fully aware of their legal and contractual obligations to redress the shortfall.

7. Further advice from the actuary

7.1 The actuary may advise and support the trustees and funeral plan provider on other financial and operational matters. For example, assessing the financial/operational impact of:

- any revision of the obligations committed to under new or existing plans, and any re-pricing of new plans being issued;
- establishing or revising the investment policy of the trustees;
- merging or absorbing other pre-paid funeral plans or arrangements;
- changing marketing policy or strategy;
- restructuring administration arrangements;
- adequate planholder details held on a database; and/or
- mortality experience of the plan.

7.2 The actuary can also provide advice connected to the buying and selling of the business of funeral plan providers.

8. Appointment of an actuary and their professional obligations

- 8.1 When appointing, or reviewing the appointment of, an actuary to a pre-paid funeral plan trust, the trustees and funeral plan providers concerned will clearly want to satisfy themselves that the actuary has the appropriate experience and expertise. The RAO requires that the actuary be a Fellow of the IFoA if the trust is exempted from regulation by the Financial Conduct Authority.
- 8.2 The IFoA expects actuaries to work diligently and with integrity to provide a professional service for all clients. All members of the IFoA are bound by the Actuaries' Code, which sets out their ethical conduct requirements¹. The IFoA operates in the public interest to ensure that its members operate correctly, objectively and transparently. Members are expected to be robust in identifying and resisting pressures to act against their professional judgement.
- 8.3 Principle 2 of the Actuaries' Code requires actuaries wishing to work on pre-paid funeral plan trusts to be satisfied that they have an appropriate level of knowledge and skill to undertake this work. Failure to comply with this principle may lead to disciplinary proceedings against the actuary concerned. Therefore, trustees and funeral plan providers can expect that actuaries undertaking such a role will have appropriate experience and a sound understanding of their ethical and professional obligations.
- 8.4 On appointment, actuaries are expected to identify their primary client, usually the trustees, and respect client confidentiality. They must manage and avoid conflicts² that may emerge in advising any associated parties, such as the funeral plan provider. The actuary is required to raise concerns about any unlawful, unethical or improper actions and may be required to "speak up"³ to the relevant authorities. These matters should be covered in the actuary's appointment letter.
- 8.5 An appointment letter may be expected to:
- clearly identify the client and any associated party the actuary may advise;
 - cover confidentiality issues and arrangements for handling conflicts of interest;
 - set out undertakings to supply information and data requested or expected by the actuary;
 - describe limitations on the scope of the actuary's role and advice;
 - explain practical arrangements for contacting the actuary, or colleagues in their absence;
 - describe arrangements for dealing with disputes or complaints;
 - describe the process for termination of the appointment, by either party;
 - set out the usual commercial terms, including setting out the basis of fees and payment; and

¹ www.actuaries.org.uk/regulation/pages/actuaries-code

² http://www.actuaries.org.uk/Conflicts_of_Interest_Guide_for_Actuaries_version_1.1

³ <http://www.actuaries.org.uk/regulation/pages/whistleblowing>

- refer to the actuary's ability to liaise with the other advisors to the trustees, including auditors, administrators, investment advisers and solicitors.

8.6 Enquiries of the actuary into the arrangements for discussing and reviewing his or her professional work on a regular basis will also be helpful when assessing an appointment.

8.7 In addition to the Actuaries' Code, actuaries should comply with specific professional guidelines if they have been appointed to pre-paid funeral plan trusts:

- an Actuarial Profession Standard (APS Z1) on the "Duties and Responsibilities of Actuaries Working for Trust-Based Pre-Paid Funeral Plans" issued by the IFoA;
- a guide for actuaries working on pre-paid funeral plan trusts issued by the IFoA; and
- a Funeral Plans TAS issued by the FRC, and any other relevant TASs, such as TAS D: Data, which may apply.

9. Additional Useful Information

- 9.1 The IFoA has set up a Funeral Plans Member Interest Group (MIG) which will enable actuaries and interested non-actuaries, for example, trustees, to come together to discuss pre-paid funeral plans matters in order to develop and maintain their professional competence in this area.
- 9.2 Details about the MIG can be found here:
<http://www.actuaries.org.uk/communities/communities/funeral-plans-member-interest-group>
- 9.3 Actuaries can also contact the IFoA's confidential Professional Support Service (PSS) if they have queries in relation to this area. Details about the PSS can be found here:
<http://www.actuaries.org.uk/regulation/pages/professional-support-service-0>

10. Contact us

- 10.1 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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