Golden Leaves Trust

Solvency Assessment Report

as at 5 April 2021

All Contracts

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Strictly Confidential

11 October 2021

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Solvency Assessment Report with the results of the Actuarial Valuation of the Golden Leaves Trust as at 5 April 2021

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Introduction and Executive Summary

I have been requested by Golden Leaves Limited ("the Plan Provider ") to perform an actuarial valuation of the Golden Leaves Trust ("the Trust") and to provide a Solvency Assessment Report ("SAR") as required by the Financial Conduct Authority ("FCA") under section 3.2.2 of the Funeral Plan: Conduct of Business sourcebook. The Trust is for the pre-arrangement and pre-funding of funeral services. This report covers all plans both UK and International.

This report, in accordance with the Financial Services and Markets Act (Regulated Activities) Order 2001 act. 60(1)(b)(v) the "RAO", covers the determination, calculation and verification of the assets and liabilities (known as the RAO valuation) of the Trust as at 5 April 2021 (the "Valuation Date"). The report is addressed to the Plan Provider but contains information that is also relevant to the Trustees. It describes the financial condition of the Trust at the valuation date and considers the funding appropriate to the Trust after the valuation date.

This is a supplementary report which summarises the salient points of a more technical report which has been prepared for the Trustees and the Plan Provider. It is expected as required by the FCA for this report to be published on the Plan Provider's website.

In preparing this report we have complied with the Technical Actuarial Standard (TAS) - TAS 100 covering Principles for Technical Actuarial Work. It is expected that the Financial Reporting Council, who publishes the TAS's in consultation with the Institute and Faculty of Actuaries, will update TAS 400 (covering Funeral Trusts) to give specific guidance on contents of the SAR. This report complies with the principles of TAS 400, to the extent that applicable to the purpose of the SAR. This is the first SAR for this trust.

We have also taken account of the following items produced by the Institute and Faculty of Actuaries:

- APS Z1 "Duties and responsibilities of actuaries working for UK Trust-based Pre-Paid Funeral Plans (effective 01.12.2015);
- APS X2 "Review of Actuarial Work" (effective 01.07.2015);
- Guide for Actuaries on UK Trust-Based Pre-Paid Funeral Plans;
- Guide for Trustees on UK Trust-Based Pre-Paid Funeral Plans.

This valuation does not take account of any future new business that may be written after the effective date of this valuation.

The last RAO valuation of the Trust was undertaken as at 20 February 2020 and was dated 14 October 2020. This is the first SAR produced for this Trust.

The results of the valuation show that the Trust has a Best Estimate funding level of 123% with an accrued surplus of £22.1 million.

Further sensitivities to the above results are demonstrated under Appendix 4.

Purposes of the Report

The main purpose of this valuation is to advise the Trustees of the position of the Trust relative to the liabilities as required under clause 17 of the deed and this is purely a “valuation exercise”. The purpose of this RAO valuation is also to establish the level of security from within the Trust for a Plan Holder’s contracted funeral service and to identify, as far as possible, the development of the Trust and the risks and issues that might affect the various stakeholders in the Trust in the future.

The valuation also satisfies various statutory requirements as required under Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 and the requirements of the Funeral Planning Authority Code of Practice and Rules. For this actuarial valuation, the liabilities have been calculated based on the settlements and disbursements due to be paid to the funeral directors that have contracted to conduct the funerals of policyholders.

Regarding the FCA’s requirements in particular, the report covers:

- the determination, calculation and verification of both the assets and liabilities of the Trust under a best estimate basis;
- the liabilities are to be measured against the amounts needed to provide the funeral
- the funeral plan Trust data should be shown into the following subcategories of payment method:
    - paid in full or single payments;
    - instalment payments fully paid;
    - instalment payments not fully paid.
- where the funeral costs increase with inflation this may be allowed for.

The purposes of the valuation are described above and the report is produced for the use of the Trustees and Plan Provider. Neither Embark, nor I accept any liability to any third party in respect of the contents of this Report for its use for any purpose other than those set out as above.

Trust and Operational Provisions

The Trust was effectively set up by a deed dated 28 December 2001 (“the Trust Deed”) providing pre-paid bespoke funeral services in accordance with the provisions of the Plan. Further technical details can be obtained from reviewing this document.

At the effective date of this RAO valuation the Trust was managed by 4 Trustees, namely: Stephen Rowland, James Humble, Arnold Pindar and Tom Kiedrowski.

Summary of Data

Golden Leaves Limited has provided the data to enable me to perform this valuation. Although I have taken all reasonable steps to ensure that the data is of adequate quality for the purposes of this valuation, I have relied on the accuracy of the information provided by the Trustees. The responsibility for the accuracy of the data for the valuation is therefore ultimately that of the Trustees. I have no material uncertainty about the accuracy of the data. Should any of the data provided be incomplete, incorrect or inaccurate, the valuation results may need to be revised.

	UK	**International**	**Total**
Number of Male Plan holders	14,802	3,839	18,641
Number of Female Plan holders	21,453	4,488	25,941
Total Plan holders	**36,255**	**8,327**	**44,582**

There are four main plan types offering different levels of service and the details are summarised below.

	5 April 2021		**20 February 2020**	
	Number	**Settlement £’000s**	**Number**	**Settlement £’000s**
Total	**44,582**	**127,163**	**41,474**	**119,093**

There continues to be a good increase in the number of policies over the year. The growth has mainly been in respect of UK policies. Overall, the number of new policies coming onto the books and included in the above figures since the last valuation was 4,505.

A breakdown of the current plans by method of payment is shown below:-

	5 April 2021		
	Number	**Settlement**	**Average**
		£'000s	**£'s**
Single Payment	28,304	86,779	3,066
Instalments – Paid in Full	10,733	31,675	2,951
Instalments - Partly Paid	5,545	8,709	1,571
Total	**44,582**	**127,163**	**2,852**

It should be noted that :

The settlement represents the amount that the Trust is expected to pay, either to the contracted funeral director or as a disbursement as appropriate, following a policyholder's death. The settlement figures set out above include all disbursements but for some contracts the disbursements increase in line with RPI whilst the funeral director fees receive bonus increases.

The payment from the Trust is assumed to be sufficient to ensure the funeral purchased by the policyholder is provided. If this is not the case and as the Trust's ultimate responsibility is to ensure the appropriate funeral is provided, additional liabilities could be incurred.

Asset Valuation

The following summarises the audited value of the Trust assets held at the valuation date.

	5 April 2021	20 February 2020
	£'000s	**£'000s**
Julius Bär & Quilter Cheviot Investment Management		
Cash	5,888	11,138
UK Index Linked	832	9,582
Fixed Interest	19,075	26,472
UK Equities	31,309	33,646
Overseas Equities	31,122	31,313
Alternative	35,561	3,615
Total market value	**123,787**	**115,766**
Allowance for Outstanding Capital Gains Tax	(375)	(200)
Net current assets	(3,029)	(2,299)
Grand total market value	**120,383**	**113,267**

The investments are split 64% to Julius Bär and 36% to Quilter Cheviot.

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

Further details can be obtained from the Trust accounts.

Valuation Assumptions and Method

The construction of the valuation basis involves consideration not only of current economic factors and fund experience but also as to future trends in mortality, investment yield and the rate of growth in funeral costs. The basis adopted should be viewed regarding relationships between the assumptions rather than to the absolute value of any components. Most importantly, the relationship between the investment return and the assumed level of inflation gives an indication of the real yield (before tax) expected to be earned on the investments held within the Trust.

Allowance must also be made of the tax payable by the Trust as the actual return earned on the money held in the Trust will be net of tax and net of expenses. The Actuarial basis may be subject to change over time. I have detailed below a set of assumptions that I have utilised in my calculations.

Details of the valuation method used for the determining the liabilities in the Trust are given in Appendix 2 and a summary of the best estimate assumptions adopted for the valuation is shown below.

Investment Growth

At the date of the review the annualised yield available under UK Government 15 Year Gilt is 1.18% per annum. This will represent the risk-free rate of return expected on the investments of the Scheme. The average yield on “AA” rated Corporate Bonds for durations of over 15 years is 1.98% p.a. The dividend yield on the FTSE All-Share was 2.78%.

The Statement of Investment Principles agreed by the Trustees follows a low to medium risk strategy. The gross best estimate discount rate assumed for the valuation is 5.4% p.a.

Inflation Assumption - Funeral Directors Costs and Disbursement Costs

The assumption for inflation over a 15-year time horizon as measured by the Retail Prices Index is taken as 3.2% p.a.

Expenses

Investment management expenses have been assumed to run at 0.50% p.a. which is the same as the assumption used in 2020.

An explicit allowance has been made for the administration expenses (actuarial, audit and accountancy fees) of looking after the Trust at the rate of £75,000 p.a. increasing in line with RPI. The reserve has been calculated as the capital value of the annual expenses over a payment period equal to the weighted average term to payment date and allowing for both future RPI inflationary increases and the valuation discount rate.

Tax

I have been advised by the Company that after suitable arrangements have been implemented, the future expected rate of tax payable by the Trust will be 20%.

In addition, an allowance for unrealised capital gains tax (as advised by the Company) is also deducted from the assets of the Trust.

Discount rate - Net Investment Return

The discount rate used in valuing the liabilities of the Trust is the net real return on investments after allowing for the payment of taxes and the annual investment fee allowance above.

I have therefore taken the gross investment return of 5.4% and reduced it to 4.3% to reflect an after-tax position at 20% tax. The net discount rate for valuing the liabilities is then taken as 4.3% p.a. less 0.50% (investment fees) to give 3.8%.

Mortality

I recommend that consideration is given to adopting up-to-date mortality tables as published by the Institute and Faculty of Actuaries. The Trust is too small to warrant use of its own mortality experience and hence will have to incorporate the use of published tables with a suitable adjustment.

For the purposes of this review, the mortality rates have been incorporated to reflect the graduated life tables which give statistics on national life expectancy for England and Wales as published by the Office for National Statistics known as English Life Tables No 17. (ELT 17). An adjustment of 86% to the rates plus an allowance for small improvements in future longevity are applied.

Bonus

As instructed, I have made an allowance for a one-off discretionary bonus (i.e. actuarial increase) of 4.0% for 2021/22, but for no future bonus payments.

A comparison of the assumptions adopted for this valuation and last year's valuation is shown below:-

	2021	**2020**
Net Discount Rate	3.8%	3.6%
RPI inflation	3.2%	2.89%
Investment fees allowance	0.50%	0.50%
Tax allowance	20%	20%
Mortality Table	ELT 17	ELT 17
Expense allowance	£75,000 p.a.	£75,000 p.a.
Bonus	4%	4%

Funding Position – Best Estimate Basis

The results of this valuation are shown below.

	5 April 2021 £'000s	20 February 2020 £'000s
Present value of the liabilities for:		
Proceeds of policies	97,425	89,819
Expense reserve	865	865
Total value of liabilities (L)	98,290	90,684
Assets (A)	120,383	113,300
Surplus (A – L)	22,093	22,616
Funding level (A/L)	123%	125%

Allowance has been made for a one-off bonus of 4.0% for 2020/21. If it is assumed that bonuses continue to be paid at the rate of 4.0% p.a. for subsequent years, the table above would show a surplus of £13,071,000 with a funding level of 112%.

The sensitivity of the above results due to changes in the actuarial assumptions and the impact due to future potential adverse events is highlighted in Appendix 4.

Investment Strategy

There is a requirement for the Trustees to have regular reviews of their investment strategy to ensure that it remains appropriate and reflects the nature and term of the Trust's liabilities.

The trust is currently invested in general terms as 8% Index Linked, 23% in bonds, 9% cash, 3% Alternatives, and 57% in equities. The requirement to match the need for the FD fees and disbursement costs to keep pace with inflation as measured by the Retail Prices Index will be paramount to the strategy. This combined with the average time for the funeral plan to pay out would dictate the strategy to pursue.

Furthermore, whilst the Trust is expanding with a good number of new plans being sold each year thereby giving rise to a very positive cashflow, this could permit the Trustees to pursue a longer term investment strategy.

Conclusion

The Trust's assets are sufficient to cover 123% of the liabilities at the valuation date on the basis of the Best Estimate assumptions adopted and are also able to support a discretionary actuarial bonus award of 4% in 2021/2022 to the relevant contracts.

The Trust's investment strategy should be kept under regular review.

The next actuarial valuation of the Trust should be carried out as at 5 April 2022.

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11 October 2021

Appendix 1 – Liability Profile

Appendix 2 – Actuarial Method

Valuation Method - General

The approach adopted for the valuation consists of projecting future cashflows of expected payments from the Trust and then discounting back these cashflows to produce a total net present value liability.

Valuation Method - Liabilities

For the purposes of my calculations, I have adopted the funding method known as the Net Premium Method.

This method involves projecting the funeral plan payments into the future until the assumed life expectancy of the plan holder. The funeral plan payments consist of both the Funeral Directors Fees and the Disbursement Costs. The projection will allow for future increases on the funeral payments in line with the assumed rate of inflation, where applicable or the one off discretionary bonus rate. The projected expected funeral payments are then discounted back at the net discount rate to the valuation date. The net liability from above is then compared with the actuarially valued assets of the Trust to determine the level of any shortfall or surplus arising.

Valuation Method - Assets

For the purposes of this valuation the assets have been taken into account at their market value as shown in the trust accounts.

The chosen assumptions reflect the best estimate of likely outcomes throughout the lifetime of the Trust.

Appendix 3 – Cashflows

The liabilities as at 5 April 2021 have been calculated by projecting future payments from the Trust due to benefits payable to the membership. The duration of those projected benefit cash flows is long and could extend to 40 or more years into the future.

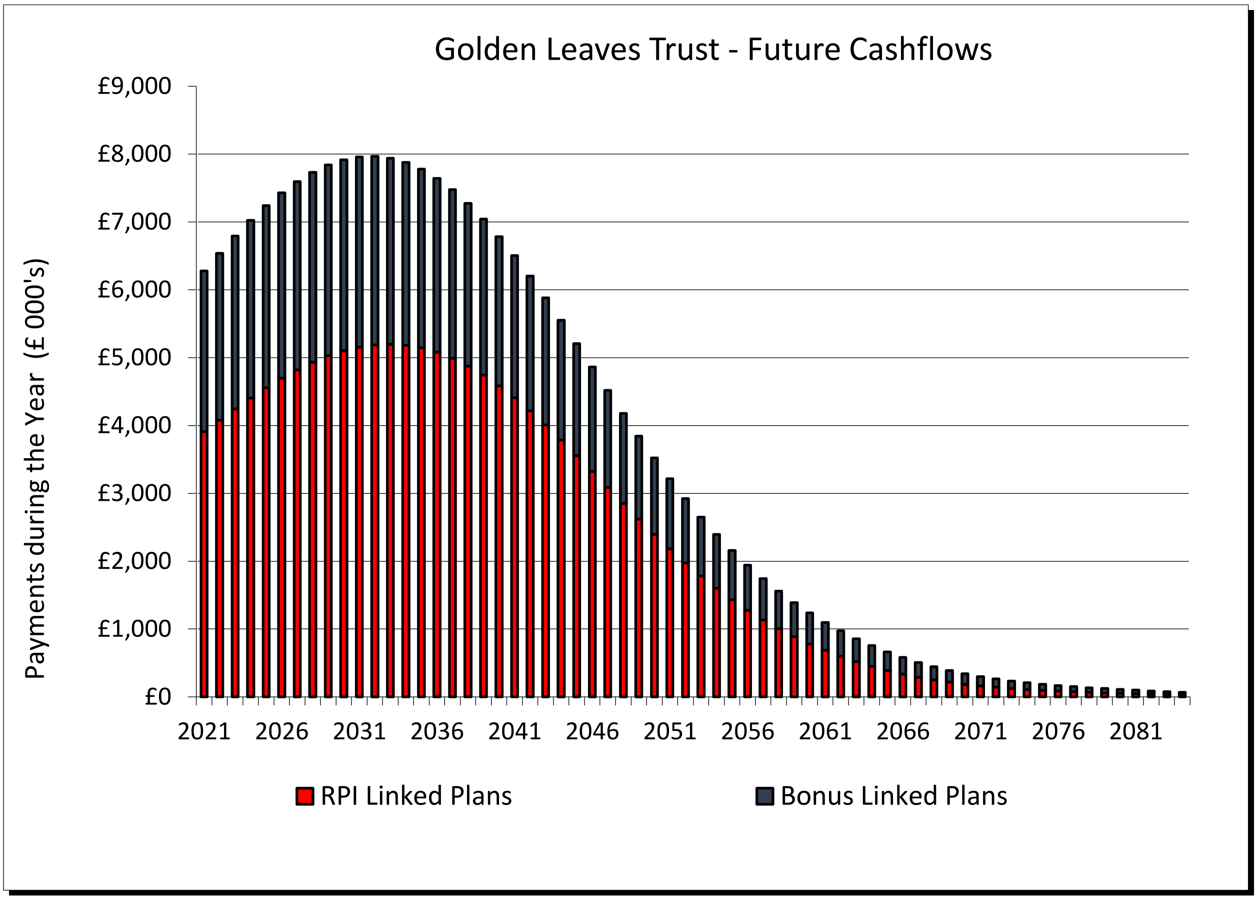
The nature of the cash flows depends on the type of contract. Where contracts explicitly require payment linked to RPI, the cash flow has been projected using the assumed future RPI. Where future payments are linked to actuarial increases, those future cash flows have been projected with allowance for an ongoing bonus from 2021/22 of 4.0% p.a. This also reflects the discretionary bonus that I have included in this valuation.

The cash flows projected below assume no new policies are taken out, no future contributions are paid by policyholders and no withdrawals occur, with future cash flows relating solely to payments on death.

The table below shows the liability cash flows expected to arise in each of the first 5 years following the effective date of the valuation. The period has been chosen to give an indication of likely future cashflows in the relatively near future, albeit if the rate of growth of membership continues, actual cashflows out could be significantly higher.

Year	Total Future Expected Cashflows
1	**£6,279**
2	**£6,539**
3	**£6,791**
4	**£7,025**
5	**£7,239**

The liabilities at the valuation date have been derived by discounting the projected cash flows over the lifetime of the Trust to the valuation date, using the valuation discount rate. A graphical illustration of all the future cashflows is shown below.


Golden Leaves Trust - Future Cashflows
Payments during the Year (£ 000's)
£9,000
£8,000
£7,000
£6,000
£5,000
£4,000
£3,000
£2,000
£1,000
£0
2021
2026
2031
2036
2041
2046
2051
2056
2061
2066
2071
2076
2081
RPI Linked Plans
Bonus Linked Plans

Appendix 4 – Funding Position - Sensitivity Analysis

There is a requirement for enough information to be provided to the Trustees to demonstrate the sensitivity of the current financial position and development of the financial position of the Trust to risks arising from difference between the nature, term and characteristics of the liability cashflows and the assets of the Trust and any other material risks.

I have set out below details to demonstrate the sensitivity of the Best Estimate Funding Position, but I have not considered the scenario of the Trust closing to new business as such an event would have not have any material impact on the financial position of the Trust's valuation. It should be noted that the impact of the changes on the liabilities are considered in isolation. Changing more than one assumption at a time may not be equivalent to summing the changes below.

Net Discount Rate

The best estimate funding position above incorporates a net discount rate of 0.66% p.a. (after inflation, tax and expenses). Allowing for a change in the net discount rate by 0.25% p.a. will provide the following results:-

	Reducing by 0.25% p.a.	**Increasing by 0.25% p.a.**
	£000's	**£000's**
Value of Fund Assets (A)	120,383	120,383
Less Value of Liabilities (L)	(101,072)	(95,637)
Surplus (A – L)	**19,311**	**24,746**
Funding Level (A / L)	**119%**	**126%**

The above change in discount rate can reflect either a change in the future expected investment return on the Trust asset or a change in tax treatment of the Trust - each change being considered in isolation**.**

Inflation Assumption

Changes to inflation affect those contracts linked to inflation. In the main category A and D contracts and all disbursements are particularly sensitive to the rate of inflation. Changes to the assumed rate by 0.25% will provide the following results.

	RPI at 2.95% p.a.	RPI at 3.45% p.a.
	£000's	£000's
Value of Fund Assets (A)	120,383	120,383
Less Value of Liabilities (L)	(96,027)	(100,667)
Surplus (A – L)	**24,356**	**19,716**
Funding Level (A / L)	**125%**	**120%**

Discretionary Bonus

After allowing for a bonus rate of 4% in 2020/2021 the accrued surplus under the best estimate is £22,093,000. Should the bonus rate be increased to 5% then the surplus reduces to £21,903,000, i.e. a reduction of £190,000.

Adverse Experience

Consideration ought to be given to the impact on the liabilities in isolation as a result of adverse scenarios and a few examples are set out below.

1) **High Inflation combined with increased longevity**

However, if we were to combine an increase in future expected inflation by 0.75% p.a. with an increase in longevity of 3 years on average then the net result will be a fall in the funding level to 115% or a reduced surplus of £15,502,000.

2) Pandemic

The Trustees should be aware of the risk associated with any future pandemic and the effect it could potentially have on the financial position of the Trust. I have therefore considered a scenario whereby 25% of all plans become enacted and the cost of associated funeral plans are paid out immediately.

I have assumed that the claims will be spread evenly across all plans. The liability of the Trust will therefore fall by 25% but when added to the value of the potential claim payments the total liability becomes £105,508,000. This leads to a funding level of 114% at the review date.

3) Run on the Plans

In addition, if there is a "Run on the Plans" with all plan holders requesting a cancelation of the funeral plan, the requirement will be a return of their premiums paid (excluding interest) less a 20% charge. This equates to £108m at the review date and so the Trust is in a surplus position under this scenario.