Golden Leaves Trust

Solvency Assessment Report

as at 5 April 2022

Date: 27 October 2022

Prepared by: David Downie BSc FIA

Solvency Assessment Report of the Golden Leaves Trust

as at 5 April 2022

Rowanmoor

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 and the 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 2022 (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 applicable.

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.

The last RAO valuation of the Trust was undertaken as at 5 April 2021 and was dated 11 October 2021. The period under review is therefore twelve months.

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

The results of the valuation show that the Trust has a Best Estimate funding level of 116% with an accrued surplus of £18.2 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. 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.

The report includes elements required by FCA which are also required to be reported in the SAR, namely:-

- 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 Rowanmoor, 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.

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

All sums paid by clients are paid directly into the trust – the company then claims from the trustees all sums due, i.e. advance payment fees, matured plan fees and other authorised fees. The trustees must always bear in mind the liabilities of trust prior to the release of funds.

Policyholders are entitled to an appropriate funeral on their death. Once the Pre-Paid Sum has been fully paid a binding contract is issued to the Plan Holder. The funeral plan provider (Golden Leaves Limited) has a contractual agreement in place with the funeral directors who implemented the policy to make the appropriate settlement payment to the funeral director on the death of the policyholder. The funeral director will then provide the appropriate funeral.

It is important for the Trustees to note that the entitlement of policyholders, and therefore the true liability of the Trust, relates to the actual cost of the promised funeral. This valuation has been calculated assuming that the liabilities of the Trust are the settlement payments (and disbursements), which in the event of high funeral inflation may not necessarily be sufficient to meet the ultimate funeral costs. In these circumstances I understand that the contracted funeral director would make less margin or if the funeral director refused to conduct the funeral (which would most likely be a breach of their contract) and/or went out of business, the Trust would need to source an alternative funeral director, potentially with higher funeral costs than the settlement payment the trust is reserving for.

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 Plan Provider. However, the responsibility for the accuracy of the data for the valuation is 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	16,232	3,906	20,138
Number of Female Plan holders	22,961	4,424	27,385
Total Plan holders	**39,193**	**8,330**	**47,523**

There are four main plan types offering different levels of service details of which are set out below.

	5 April 2022		**5 April 2021**	
Group	**Number**	**Settlement**	**Number**	**Settlement**
		£'000s		**£'000s**
A	26,625	72,124	23,971	64,449
B	11,881	40,527	11,535	38,550
C	8,070	20,763	8,058	21,329
D	947	2,733	1,018	2,835
Total	**47,523**	**136,147**	**44,582**	**127,163**

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 5,937.

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

	5 April 2022		
Group	**Number**	**Settlement**	**Average**
		£'000s	**£'s**
Single Payment	29,808	91,606	3,073
Instalments – Paid in Full	12,227	35,883	2,935
Instalments - Partly Paid	5,488	8,658	1,578
Total	**47,523**	**136,146**	**2,865**

It should be noted that :

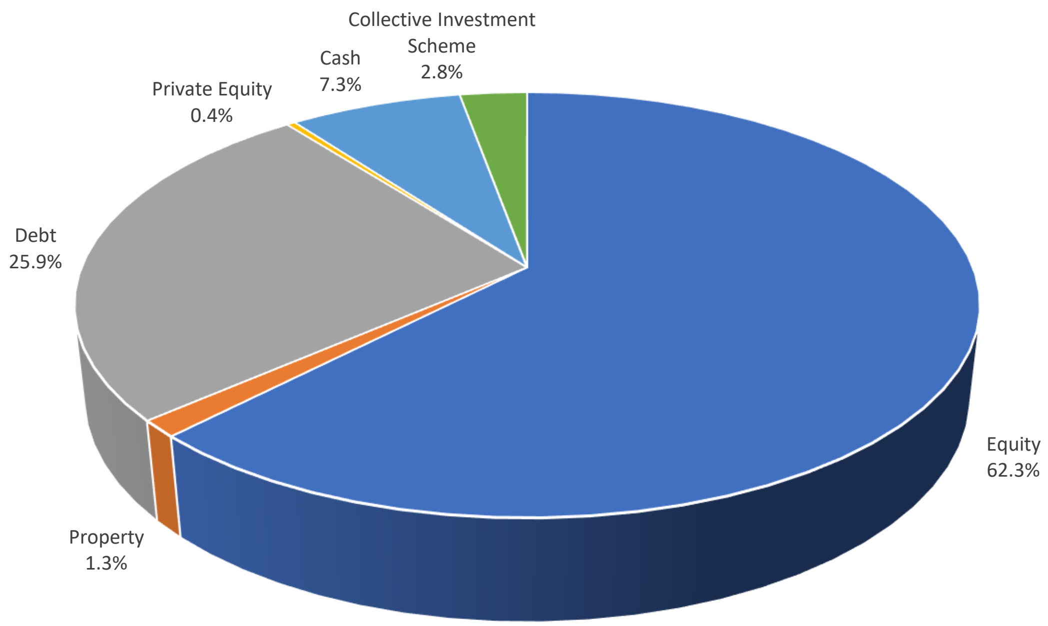
The settlement represents the amount that the Trust is expected to pay, either to the contracted funeral director or as a disbursement as appropriate, following a policyholder's death. The settlement figures set out above include all disbursements but for some contracts the disbursements increase in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

Asset Valuation

The following summarises the value of the Trust assets as shown in the draft accounts as at the valuation date.

	5 April 2022	**5 April 2021**
	£'000s	**£'000s**
Investments	131,642	1117,899
Cash at Bank	2,026	5,888
Allowance for Outstanding Capital Gains Tax	(-)	(375)
Net current assets	(4,654)	(3,029)
Grand total market value	**129,014**	**120,383**

The investments were all held with Yealand Fund Services and are allocated as below:-



Inter-valuation Experience

The membership of the Trust continues to grow, and this is reflected in the growth in assets held.

We have carried out a mortality investigation on the deaths of all policyholders of the Trust over the year to 5 April 2022. This investigation revealed that the number of deaths was approximately 118% of the number that would have been expected if experience had been in accordance with the English Life Table number 17 (ELT17).

The rate of mortality in the year to 5 April 2022 (i.e. 118% of ELT17) is higher than that assumed at the previous valuation (i.e. 86% of ELT17) and this has had an overall positive impact on the finances of the Trust. Volatility in the mortality experience is to be expected as the membership is relatively small and one year is a short time period to consider. Mortality experience will continue to be reviewed at each valuation and adjustments made where deemed to be appropriate. The table below summarises the results from this year's investigation and the previous 2 years:-

Period	Experience (% of ELT17)
April 2019 to February 2020	103%
March 2020 to April 2021	95%
April 2021 to April 2022	118%

For the purposes of this review, I have adjusted the loading factor to 91% of the mortality table ELT 17.

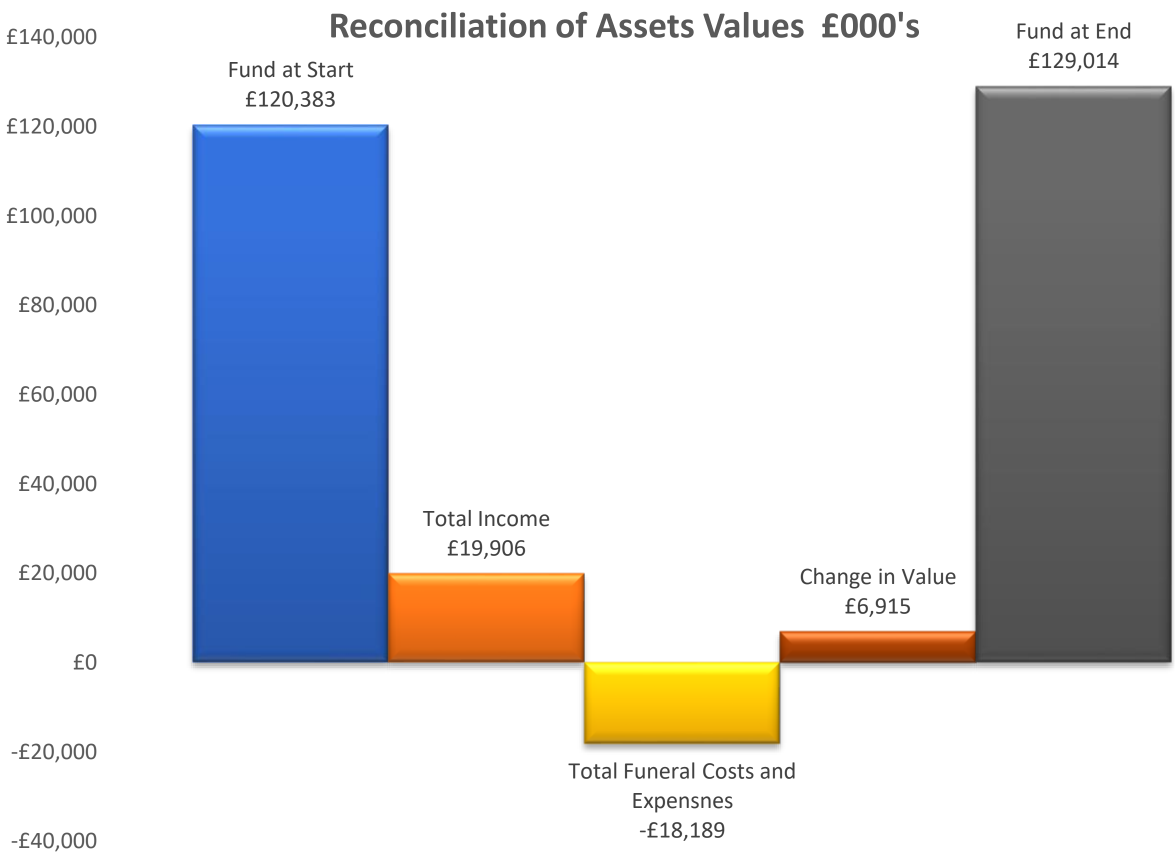
The estimated annual investment return earned on the assets as shown in the Trust accounts to 5 April 2022 has been calculated to be approximately 5.7% for the year compared to 3.8% p.a. assumed net of tax at the previous valuation. This has been favourable to the Trust and reflects market movements during the inter valuation period.

The average increase in the settlement costs over the year to 5 April 2022 has been 5.0% p.a. compared to 3.2% p.a. assumed at the previous valuation, thus causing a modest strain on the results of the Trust.

A 4% bonus was applied to bonus linked policies which is the same as was assumed for the 5 April 2021 valuation.

A surplus distribution of £2.4 million was made to the Plan Provider.

A reconciliation of assets during the 12 months to the Review Date is set out below:



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 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 1.83% 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 2.7% p.a. The dividend yield on the FTSE All-Share was 3.07%.

However, the Statement of Investment Principles has allowed the Trustees to consider a degree of exposure in equity markets in an attempt to maximise the expected long-term rates of return. The Trustees have a range of investments held with Yealand Fund Services. The overall targeted investment return has been taken to be measured as the Gilt yield plus an equity risk premium (ERP) of 3.75% to give a gross yield of 5.6% p.a. The conditions at the review date justify a realistic ERP of 5.2% p.a. therefore the above ERP of 3.75% p.a. incorporates allowance for the current asset allocation within the investment strategy.

Inflation Assumption - Funeral Directors Costs and Disbursement Costs

Certain parts of the Trust's liabilities are linked to RPI inflation. I have made an assumption for inflation of 3.4% p.a. (3.2% p.a. at the last valuation). This has been based on the difference in yield between the fixed interest gilts and the index linked gilts over a term of 15 years. A negative inflation risk premium adjustment of 0.4% was then made to provide an adjusted allowance of RPI.

Expenses

Investment management expenses have been assumed to run at 0.50% p.a. which is the same as the assumption used in 2021.

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 Plan Provider that the future expected rate of tax payable by the Trust will be 20%.

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 5.6% and reduced it to 4.5% to reflect an after-tax position at 20% tax. The net discount rate for valuing the liabilities is then taken as 4.5% p.a. less 0.5% (investment fees) to give 4.0%.

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 91% to the rates plus an allowance for small improvements in future longevity is applied.

Bonus

As instructed, I have made an allowance for a one-off discretionary bonus (i.e. actuarial increase) of 4.0% for 2022/23, but for no future bonus payments. I understand that the bonus rate granted for 2021/22 was 4.0%.

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

	2022	**2021**
Net Discount Rate	4.0%	3.8%
RPI inflation	3.4%	3.2%
Investment fees allowance	0.50%	0.50%
Tax allowance	20%	20%
Mortality Table	ELT 17	ELT 17
Mortality Loading	91%	86%
Expense allowance	£75,000 p.a.	£75,000 p.a.
One off - Bonus	4%	4%

Funding Position – Best Estimate Basis

The results of this valuation are shown below.

	5 April 2022 £'000s	5 April 2021 £'000s
Present value of the liabilities for:		
Proceeds of policies	109,954	97,425
Expense reserve	832	865
Total value of liabilities (L)	110,786	98,290
Assets (A)	129,014	120,383
Surplus (A – L)	18,228	22,093
Funding level (A/L)	116%	123%

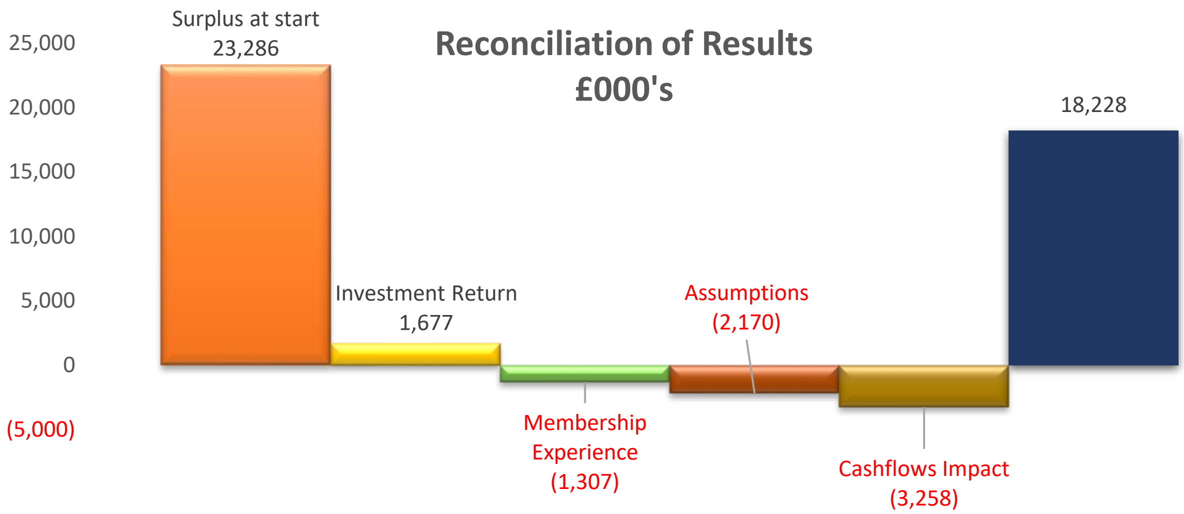
Allowance has been made for a one-off bonus of 4.0% for 2021/22. If it is assumed that bonuses continue to be paid at the rate of 4.0% p.a. for subsequent years, the table above would show a surplus of £9.1 million with a funding level of 108%.

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.

Reconciliation of Surplus

In order to obtain a greater understanding of the neutral results, I have carried out an analysis to reconcile the surplus emerging at this valuation date with the previous year's results.

The table below shows a reconciliation of the surplus with the position disclosed by the previous valuation and quantifies the financially material items of actuarial gain or loss. The main factors which have contributed to the change in the funding position have been:



A profile of the liability of the funeral plans is shown in Appendix 1. The profile highlights the age distribution of the funeral plans and the distribution of the liability of the Trust spread over the age range of the plan members. This will be useful information when considering and reviewing the investment strategy of the Trust.

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 26% in bonds, 63% in equities, 7% cash and 4% other investments. 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 116% of the liabilities at the valuation date on the Best Estimate assumptions adopted and are also able to support a discretionary actuarial bonus award of 4% in 2022/2023 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 2023.

David Downie BSc FIA
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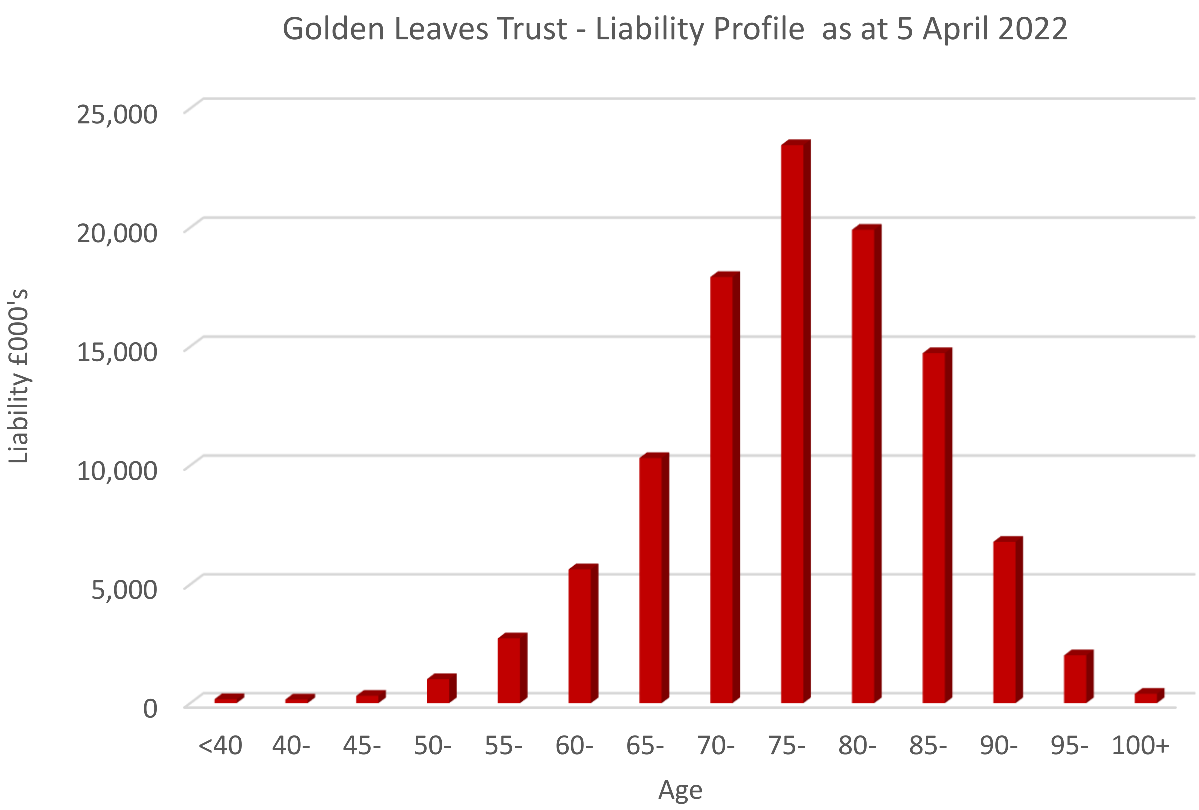
27 October 2022

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 a cashflow funding method to determine the value of the future expected funeral costs. This method involves projecting the funeral plan payments into the future until the assumed life expectancy of the plan holder. Allowance is also made of the possibility of the cancellation of the plans (where applicable) and the projection will allow for future increases on the funeral payments in line with the assumed rate of inflation. The funeral plan payments consist of both the Funeral Directors Fees and the Disbursement Costs. The individual projected expected funeral payments are then discounted back at the net of tax discount rate to the valuation date and then added together to give the total liability. The liability 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 incorporate a degree of margins for prudence but overall the assumptions still reflect a best estimate basis.

Appendix 3 – Cashflows

The liabilities as at 5 April 2022 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 30 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 only the declared bonus for 2022/23 of 4.0%. This reflects the discretionary bonus that I have included in this valuation.

There has been no other allowance for any other discretionary payment within the cash flow projections.

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.

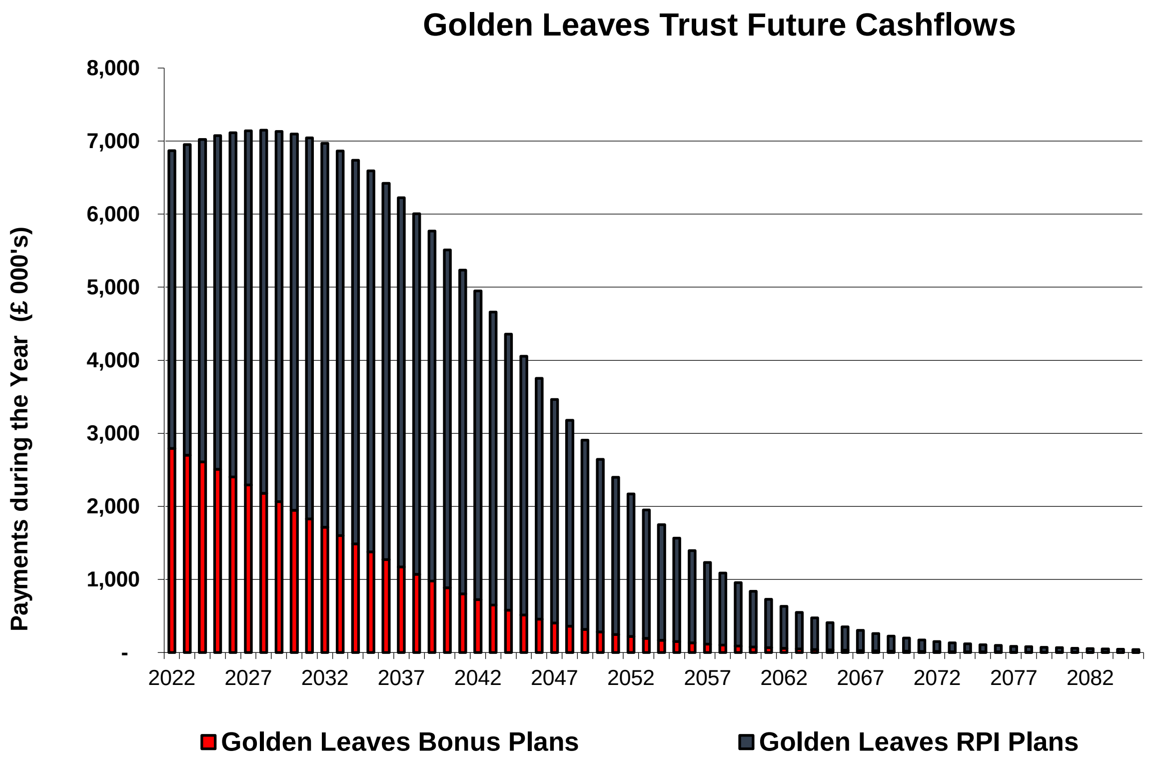
No other allowance has been made for any future bonuses to be paid after 2022/23, given that the extent of any bonuses granted will be dependent on the future experience of the Trust, and particularly on the assets achieving a sufficient return. This therefore creates some uncertainty over the future cash flows in respect of policies where the settlement is linked to actuarial increases.

For policies where the settlement/disbursement is linked to RPI, there will be uncertainty over the future cash flows as future RPI is unknown. No explicit allowance has been made in the assumed future inflation growth for that uncertainty nor for the risk of inflation exceeding that assumed. Appendix 4 sets out the potential impact of inflation varying from that assumed in the valuation.

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	**£6,870**
2	**£6,955**
3	**£7,024**
4	**£7,077**
5	**£7,116**

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.



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, 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 0.54% p.a. (after inflation, tax and expenses). Allowing for a change in the net discount rate by 0.5% p.a. will provide the following results:-

	Reducing by 0.5% p.a. **£000's**	**Increasing by 0.5% p.a.** **£000's**
Value of Fund Assets (A)	129,014	129,014
Less Value of Liabilities (L)	(116,160)	(104,000)
Surplus (A – L)	**12,854**	**25,016**
Funding Level (A / L)	**111%**	**124.1%**

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**.** The position under the reduction in the discount rate reflects a more prudent assessment of the Trust and demonstrates that the Trust can support the declaration of the bonus (i.e. actuarial increase) of 4.0% for 2022/23 in respect of settlements for those policies that receive actuarial increases.

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 3.15% p.a.	**RPI at 3.65% p.a.**
	£000's	**£000's**
Value of Fund Assets (A)	129,014	129,014
Less Value of Liabilities (L)	(117,716)	(123,556)
Surplus (A – L)	**11,298**	**5,458**
Funding Level (A / L)	**110%**	**104%**

Discretionary Bonus

After allowing for a bonus rate of 4% in 2021/2022 the accrued surplus is £18,228,000. Should the bonus rate be increased to 5% then the surplus reduces to £ 18,027,000, i.e. a reduction of £201,000.

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 110%.

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 £117,126,000. This leads to a funding level of 110% at the review date.