Aura Life Funeral Plan Trust

Solvency Assessment Report as at 31 December 2023

Barnett Waddingham LLP

11 March 2024

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Introduction

This is the Solvency Assessment Report as required by the Financial Conduct Authority "(FCA") and is provided to Aura Life in order for Aura Life to renew its authorisation by the FCA to be a regulated provider of pre-paid funeral plans.

To prepare this Solvency Assessment Report we have completed a valuation of the Aura Life Trusts' assets and liabilities as at 31 December 2023 ("Review Date"). This is the first Solvency Assessment Report prepared for Aura Life.

Aura Life funeral plans include fully attended funerals but are mainly unattended cremations. The Trust's liabilities are to pay out the cost of the funeral/cremation to the appointed provider of the funeral/cremation.

Our interpretation of the FCA's key requirements in terms of funeral plans backed by a trust are to ensure that adequate arrangements are in place so that funerals/cremations are carried out in accordance with the funeral plan purchased by the planholder from the plan provider.

This report complies with the Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 400: Funeral plan trusts (TAS 400).

This report may be shared with other interested parties including the Trustee of the Aura Life Funeral Plan Trust but it does not constitute advice to them.

Purpose of the valuation

The FCA have set out their requirements for the preparation of a Solvency Assessment Report in their [Funeral Plan Code of Business Sourcebook]

The key aspects are

- An actuarial valuation of the Trusts is required to determine, calculate and verify the assets and liabilities of the Trusts on a best estimate basis*;
- The liabilities are to be assessed against the amounts the provider puts into trust to be sufficient for the purpose of providing the agreed funeral/cremation
- The data and liabilities should be categorised into:
    - single payments;
    - instalment payments fully paid; and
    - instalment payments not fully paid.
- Details of any liability subcontracted to the appointed cremation provider may include inflation.

*The definition of actuarial best estimate is that the assumptions should be neither optimistic nor pessimistic – i.e. no margins for prudence with actual outcome being equally likely to be higher or lower than the assumption made. The results of this valuation have been completed on a best estimate basis.

Inflation protection

Each live plan in the Trust has a plan value. This is the amount that will be paid to the appointed provider to carry out the funeral/cremation when the plan matures. The assumption is that plan values will increase between the date the plan was sold and the date of maturity by the increase in the CPIH measure of inflation over that period.

Subcontracted liabilities to the funeral/cremation provider

The funeral plan contract between Aura Life and the customer is constituted by the Terms and Conditions (Terms) on which Aura Life undertakes to appoint the selected funeral/cremation provider as its sub-contractor to provide the customer's funeral/cremation services.

Deductions from the Trust

Deductions of £252,673 were made from amounts paid to the Trust in the 12 month period to the Review Date, representing the non funeral/cremation costs of the plan which will be provided by Aura Life as well as administration costs.

Previous valuation

This is the first actuarial valuation of the Trust.

Planholder data at the Review Date

A summary of the valuation data provided to us by Aura Life as at the Review Date is set out below:

		31 December 2023	
Plantype	**# Planholders**	**Fully paid plan values**	**Average**
Live Plans			
Single Payment	308	£257,803	£837
Instalment - fully paid	3	£2,430	£810
Instalment - partly paid	13	£11,396	£877
Total	**324**	**£271,629**	**£838**

Amounts still due from partly paid plans were c.£9,000 and all due within 24 months of the plan starting. The amounts due have been included as an asset in the Trust accounts.

Assets

The Trust had net assets of £327,279 as at 31 December 2023 based on accounts provided. £300,000 of these assets were invested in the LGIM Future World ESG Multi Index Fund 4 on 2 January 2024. The LGIM Fund invests in a number of asset classes – equities, corporate bonds/credit, government bonds and alternative assets.

Assumptions

Future inflationary protection and projected plan growth

We have assumed that plan values will increase each year in line with future levels of CPIH from the date the plan was sold until maturity. Using Bank of England inflation curves and taking account of the duration of the Trust liabilities, we have assumed that plans will grow with CPIH inflation at the rate of 2.5% per annum

Tax rates and expenses

We have adjusted the assumed level of future investment returns to reflect the expected investment management expenses and the expected amount of tax.

The management charge underlying the LGIM Fund is 0.36% per annum. We have therefore deducted 0.36% from the expected rate of future investment return/discount rate. All other expenses are met by Aura Life.

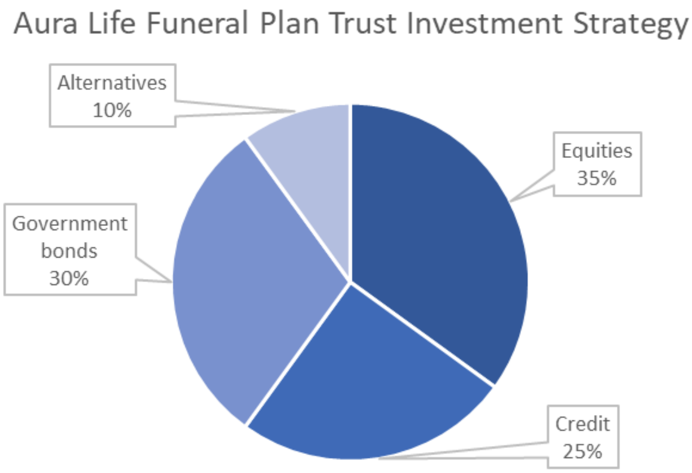
The Trust is assumed to be taxed at 20% on non dividend income and 20% on realised capital gains.

For the purposes of the valuation we complete calculations to determine the tax that is expected to accrue on investment returns as a percentage of the assets and allow for this as a deduction from the best estimate discount rate/expected future investment return. As at the valuation date the deduction equates to 0.8% of the expected future investment return.

Discount rate as at 31 December 2023

The derivation of the discount rate is firstly to determine the expected return from each asset class within the LGIM Fund on a best estimate basis and then adjust for tax and expenses.

The long term asset allocation of the Trust reflecting the strategy underlying the LGIM Fund is assumed to be as follows:



The assumed return from equities is based on dividend yields plus expected long term inflation plus expected real long term dividend growth at the Review Date. The expected return from Government bonds is based on the FTSE 5-15 year gilt yield index as at the Review Date. The expected investment return from credit is based on an iBoxx corporate bond yield index. Expected returns from the alternative assets are assumed to be 0.5% less than equities.

The expected return / discount rate is then a weighted average of the different expected returns from the different asset classes and then adjusted for tax and expenses.

The discount rate is then derived as follows:

	31 December 2023		
	Return	**Allocation**	**Contribution**
Equities	6.6%	35%	2.3%
Credit	4.5%	25%	1.1%
Government bonds	3.5%	30%	1.1%
Alternatives	6.1%	10%	0.6%
Gross return			5.1%
less tax			(0.8%)
less fund manager fees			(0.4%)
Discount rate			3.9%

Mortality assumptions

The mortality tables adopted in the valuation were the ELT17 tables with separate age related scaling factors at each age up to age 100 based on a previous study of funeral planholder of a much larger trust carried out by ourselves.

The following table shows the underlying life expectancies at ages 65 and 85 using the assumptions adopted in the valuation. These are based on

	Life expectancy at age 65	Life expectancy at age 85
Males	17.8	6.0
Females	20.9	7.0

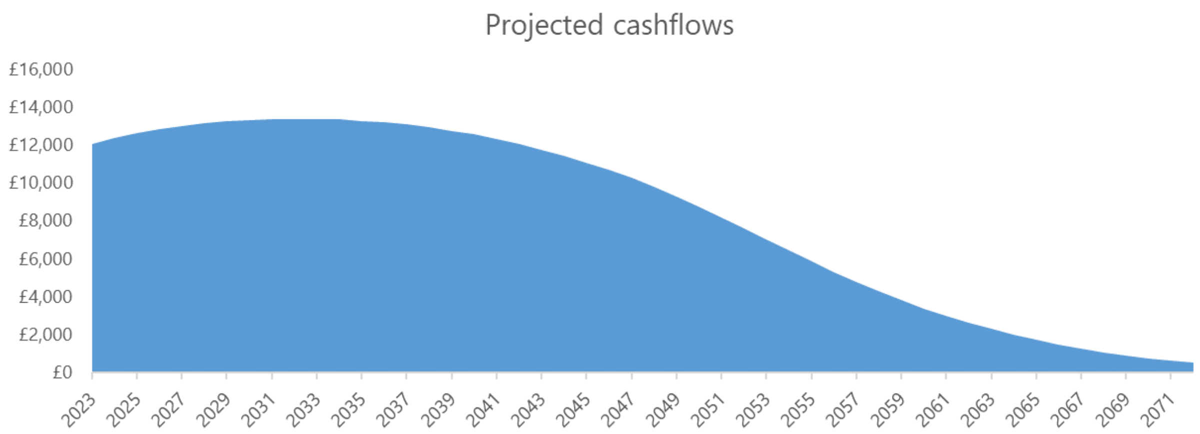
Mortality experience

With the Trust in its infancy there is no credible mortality experience to report at this valuation.

We will monitor mortality experience and review assumptions if required at future valuations.

Valuation method

The valuation method is to project future payments from the Trust using the mortality and plan growth assumptions described above. The projected cash flows from the Trust are set out below.



The above graph shows the projected cashflows for each year following the Review Date over the next 40 years by which time most of the cashflows from existing plans are expected to have ceased.

We then discount these projected payments using the discount rate to determine their net present value. We then compare the value of the liabilities with the value of assets.

Funding position as at 31 December 2023

Below we have set out the funding position as at the Review Date using the assumptions described above.

Ongoing basis with CPIH growth	
Liabilities	
Single payment	£212,868
Instalments - fully paid	£1,896
Instalments - payments outstanding	£9,236
Total	£224,000
Assets	£327,279
Surplus	£103,279
Funding level	146%

Sensitivity analysis and risks

The results of the valuation are also sensitive to some of the key assumptions adopted, in particular the discount rates used and the mortality assumptions adopted.

A 1% increase/decrease in the discount rate will decrease/increase the valuation of liabilities by around 12%.

If planholder mortality rates are 10% lighter/heavier than assumed then this will reduce/increase the valuation of the liabilities by around 1.5%.

There is the risk that the funding position will change in a potentially material way if actual investment returns are significantly different to the assumed returns underlying the discount rate without any compensating changes in market yields.

Conclusions

The financial position of the Trust Fund at the Review Date of 31 December 2023 is that on the ongoing best estimate basis and allowing for future growth in plan values of 2.5% per annum, the funding level was 146%.

The key risks in terms of a deterioration in the financial position from current levels on the ongoing basis in the short term are:

- Actual investment returns are significantly less than the assumed returns underlying the discount rate without any compensating changes in market yields.
- Actual mortality rates being materially different to expected.
- New money being invested on less favourable terms compared to market conditions at the Review Date.

We would be pleased to answer any questions arising from this report.

We would recommend that the next valuation is carried out as at 31 December 2024.

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