



BOARD FOR ACTUARIAL STANDARDS

**EXPOSURE DRAFT:
FUNERAL PLANS**

AUGUST 2010

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INVITATION TO COMMENT

1 INTRODUCTION

- 1.1 The Board for Actuarial Standards (BAS) is responsible for setting technical actuarial standards in the UK: it is an operating body of the Financial Reporting Council (the FRC)¹.
- 1.2 In the consultation paper *Structure of New BAS Standards* published in April 2008, we proposed that we would issue a Specific TAS covering the work of actuaries appointed by the trustees of a pre-paid funeral plan exempt from FSA regulation.
- 1.3 There is only a small number of funeral plan trusts. A self-regulatory body, the Funeral Planning Authority (FPA), monitors the performance of most of the plan providers. Of the 15 plan providers registered with the FPA, eight manage trust based products. There are at least another eight trust based plan providers which are not members of the FPA².
- 1.4 There are probably fewer than ten actuaries providing services to funeral plan trusts.
- 1.5 Given the small numbers of plan providers and practitioners, we decided not to issue a consultation paper discussing our general approach, but to consult informally with both providers and practitioners before issuing an exposure draft of a Specific TAS covering actuarial work performed for pre-paid funeral plan trusts.
- 1.6 In the development of this paper and the proposed text of the TAS we have held discussions with the FPA, four funeral plan providers and five firms of actuaries working in this area.³
- 1.7 The remainder of this section provides some background to funeral plans. Section 2 covers the structure, purpose and scope of the Funeral Plans TAS. Section 3 covers the proposed principles of the TAS. Section 4 provides some general comments. Section 5 considers the transition from adopted Guidance Note 38. Section 6 discusses the expected effects of the Funeral Plans TAS and other TASs on actuarial work for funeral plan trusts. Section 7 contains our invitation to comment on the exposure draft of the Funeral Plans TAS. The second part of this document contains the proposed text.

¹ The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

² Source: FPA.

³ See Appendix B.

BACKGROUND

- 1.8 Funeral plans are vehicles which allow people to pay funeral costs in advance. Their attraction to the plan holders (those making the payments) is that the costs of their funerals will not have to be met out of their estates or by their families. As an added advantage, the price paid is often fixed at the inception of the plan – for many plans, it is the plan provider who bears the risk of inflation (funeral costs have risen substantially faster than retail price inflation in recent years).
- 1.9 Articles 59 and 60 of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 provide for two circumstances in which plan providers need not be regulated by the FSA: through insurance or through the use of a trust.
- 1.10 Some plans apply the money paid by the plan holder as premiums for a whole of life insurance policy for the purpose of providing a funeral. The insurer providing the insurance policy is regulated by the FSA, but the plan provider need not be. We do not consider these arrangements further in this paper: much of the actuarial work performed for the insurer is likely to be within the scope of our Specific TAS on Insurance, and the plan provider is unlikely to use actuarial information directly.
- 1.11 In this paper we consider plans that are backed by trusts which hold the prepayments until the funds are required in order to pay for funerals. In order to be exempt from FSA regulation the trust must⁴:
- a) be established by a written instrument;
 - b) have over 50% of the trustees independent of the plan provider;
 - c) have an independent asset manager;
 - d) prepare annual accounts which are audited; and
 - e) have its assets and liabilities determined, calculated and verified by an actuary at least once every three years.
- 1.12 This last requirement creates Reserved Work⁵.
- 1.13 Assets of funeral plan trusts exceed £500 million and there are at least 400,000 plan holders. The number of trust based plans has grown rapidly in recent years and plan providers are optimistic about the future for their businesses.
- 1.14 The average duration of a plan is between five and ten years. The current cost of a new plan is around £2,750.
- 1.15 The plan holder has a contract for a funeral either directly with a funeral director or with the plan provider. The plan holder's payment for this contract is placed in the funeral plan trust. The payment might be a single contribution paid at outset or might be paid in instalments. The period over which instalments are paid is usually a year or less.

⁴ Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 article 60.

⁵ Reserved Work is defined in *The Scope and Authority of Technical Standards*.

- 1.16 The beneficiaries of the trust are the funeral director and the plan provider. The risk that the payout from the trust is insufficient to meet funeral costs usually rests with the funeral director or the plan provider depending on who has contracted to provide the funeral. Some plans limit the amount paid to cover certain disbursements such as crematorium fees and doctors' certificates. In this case some risk is borne by the estate of the funeral plan holder, which might have to make a top-up payment.
- 1.17 The actual amount payable from the trust to the beneficiaries depends on the terms of the trust, which vary. For example, some trusts define the amount payable as the cost of the funeral while others define it as the initial contribution rolled up with interest. Some trusts allow amounts to be distributed to beneficiaries from time to time.
- 1.18 Plans usually allow the plan holder to terminate the contract in return for a refund of the payments made less an allowance for administrative costs.

ACTUARIAL WORK FOR FUNERAL PLAN TRUSTS

- 1.19 The work done by actuaries for funeral plan trusts includes:
- a) the work required by regulation, namely asset and liability valuation;
 - b) advice on profit distribution;
 - c) advice on cash flow matching;
 - d) advice on asset allocation strategy; and
 - e) advice on pricing.
- 1.20 While regulation requires an actuarial report on the assets and liabilities only every three years, most trusts ask for an actuarial assessment at least annually. This annual assessment is currently a requirement for all members of the FPA. Plan providers are naturally keen that the cost of these requirements is kept to a minimum.
- 1.21 Practitioners told us that obtaining the data required to assess liabilities can sometimes be an issue. The problems might include the form in which the data is supplied but also might include delays in receiving data.
- 1.22 Plan providers told us that it can take some time to complete the actuarial assessment. The FPA requires that its members get the actuarial work completed within nine months of the financial year end. This delay might be caused by delays in receiving and validating the data and/or project prioritisation within actuarial firms.
- 1.23 Trustees might be under pressure from beneficiaries to distribute profits. The distribution might be effected by an enhancement to the amount paid from the trust when a funeral is performed. This is a direct benefit to the beneficiaries. Funeral plan providers might also use the history of profit distribution to attract new funeral directors to their plan.

- 1.24 Assets are generally taken at market value and liabilities are generally calculated as a discounted value of benefits. The benefits valued reflect the various product features and benefit structures. Most trusts offer a range of different plans reflecting their evolution over time and different funeral packages.

RESPONSES TO THIS CONSULTATION PAPER

- 1.25 Details of how to respond to this paper are set out in Section 7. Comments should reach the FRC by **15 October 2010**.

2 STRUCTURE, PURPOSE AND SCOPE

INTRODUCTION

- 2.1 This section considers the structure of the proposed Funeral Plans TAS. It also considers the purpose and scope.
- 2.2 We are proposing that the scope will include work relating to the determination, calculation and verification of the assets and liabilities of funeral plan trusts.

STRUCTURE OF THE TAS

- 2.3 The proposed text of the Funeral Plans TAS has the same structure as that proposed for our other Specific TASs: Part A covers the purpose and Part B the interpretation of the TAS, Part C specifies the work to which it will apply and Part D sets out the principles with which that work will have to comply.

PURPOSE

- 2.4 The purpose of the TAS, which is set out in paragraph A.1.2⁶, focuses on the clear communication of high quality information to the trustees of funeral plan trusts that enables them to make good decisions concerning the management of the trusts.
- 2.5 The principles in Part D of the TAS will assist in the achievement of the purpose, as will the principles in the Generic TASs, which will also apply to the work within the scope of the Funeral Plans TAS. In particular, the Generic TASs on Data and Modelling require that:
- a) checks on the data are constructed and performed to ensure that it is sufficiently accurate, relevant and complete;
 - b) models used are a satisfactory representation in the context for which they are being used; and
 - c) models are checked to ensure they are fit for purpose.

SCOPE

- 2.6 The proposed scope of the Funeral Plans TAS includes work related to the determination, calculation and verification of the assets and liabilities of funeral plan trusts. It also includes any other work that the trust deed requires to be performed by a member of the Institute and Faculty of Actuaries.

⁶ References to Parts and to lettered paragraph numbers are to the proposed text of the TAS, as shown in the second part of this document.

- 2.7 Regulation requires the assessment of assets and liabilities to be performed by an actuary at least once every three years. This triennial assessment is Reserved Work. However, trustees often request an annual assessment. We are proposing that all work related to assessing the assets and liabilities of funeral plan trusts, whether it is Reserved Work or not, should be within the scope of the Funeral Plans TAS.
- 2.8 From time to time other work is requested by trustees, including work related to investment strategy and asset liability matching and work related to the pricing of funeral plans.
- 2.9 We have not included asset liability modelling and other investment related work within the scope of the Specific TASs on Insurance and Pensions as this work is often carried out, at least in part, by non-actuaries. Our discussions with funeral plan providers and practitioners did not indicate that there was a significant appetite for work concerning the assets of the trust to be within the scope of the Funeral Plans TAS. We are therefore proposing that such work should not be within the scope of the TAS.
- 2.10 Funeral plans are used to make advance payments for funerals. The risk of inadequate pricing usually falls on the funeral director or the plan provider rather than the trust, as discussed in paragraphs 1.15 to 1.17. Funeral plan pricing does not involve actuarial techniques, the price charged reflecting current costs plus a margin based on what the funeral director or plan provider considers that the market will bear. We are therefore proposing that work on pricing should not be within the scope of the TAS.

3 PRINCIPLES

INTRODUCTION

- 3.1 In this section we consider the principles we are proposing to include in the Funeral Plans TAS in the light of the comments we received from funeral plan providers and practitioners in our discussions with them.
- 3.2 Section 4 discusses other issues arising from our wider consultations.

APPLICATION OF THE GENERIC TASS

- 3.3 The work within scope of the Funeral Plans TAS will be subject to the principles contained in the Generic TASS on Reporting, Data and Modelling. TAS D requires data issues to be addressed and TAS R requires the approach taken to any uncertainties in the data to be explained. Liability valuation systems will be subject to TAS M: in particular explanations are required of any limitations in these systems and the implications for the results.
- 3.4 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. The material assumptions in determining the amount of liabilities will be the mortality assumption and the discount rate: TAS R requires aggregate reports to describe the rationale for these assumptions.
- 3.5 TAS R also requires an indication of any uncertainty and a statement of the nature and significance of the risks faced by the trust and the approach taken to those risks. The principal risk is that the assets are insufficient to meet the liabilities as they fall due.
- 3.6 TAS R requires an indication of the nature and timing of future cash flows being quantified. As the work within scope includes quantifications of the liabilities, the trustees will be given an indication of the liability cash flows.

SPECIFIC PRINCIPLES

- 3.7 The exposure drafts of both the Pensions and Insurance TASs include principles which apply equally to the work within the scope of the Funeral Plans TAS, covering:
- a) the exercise of judgement;
 - b) the appropriateness of assumptions used in models;
 - c) assumptions being evidence based;
 - d) discount rates;
 - e) assumptions for current mortality rates and future changes in those rates;
and
 - f) changes in assumptions between similar exercises.

- 3.8 We propose to include similar principles in the Funeral Plans TAS. Paragraphs D.1.2, D.2.1, D.2.2, D.2.11, D.2.15, D.2.16 and D.3.1 give effect to this proposal.
- 3.9 In contrast to the valuation of most pension schemes' and insurers' liabilities, where assumptions are the responsibility of the governing body, the actuary is responsible for determining the discount rate to be used in calculating the value of the liabilities of the funeral plan trust. Given the diverse nature of the liabilities to be valued, we consider that the choice of the discount rate should be left to the judgement of the actuary rather than prescribed in the TAS but the principle in paragraph D.2.11 enables the trustees to understand the rationale for the choice and its implications.
- 3.10 There is no regulatory requirement for a prudent estimate of the liabilities of a funeral plan trust to be produced. Moreover the assumptions and measures that are used are a matter of judgement for the actuary performing the work. The work differs in these respects from the estimation of liabilities for insurers and pension schemes, which is often required to be prudent and for which the boards of insurers and trustees of pension schemes are typically responsible for setting the assumptions. We do not propose that the TAS require the actuary to calculate a prudent estimate of the liabilities. Rather, we consider that if a prudent or other non-neutral estimate of the liabilities of a funeral plan trust is calculated then the trustees should be given a neutral estimate in order that they have a better understanding of the financial position of the trust. Paragraph D.4.4 gives effect to this proposal.
- 3.11 Some users requested that information be provided on cash flows to aid their understanding of the financial position of the fund and to enable better decisions to be made, particularly in relation to the selection of assets to be held against the emerging liabilities. The Generic TAS on *Reporting Actuarial Information* requires that the reports indicate the nature of any future cash flows being quantified, including their timing. We consider it is appropriate that more detail be provided to funeral plan trustees in order that they can manage the trust more effectively. Given that the average term of a funeral plan is around seven years, we propose that liability cash flows be quantified on a yearly basis for the ten years following the effective date of the quantification of liabilities. Paragraph D.4.7 gives effect to this proposal.
- 3.12 As well as estimating the value of liabilities, the work within scope includes determining and calculating the value of the assets of the trust. As with liabilities we do not propose to prescribe the measures, methods or assumptions to be used in calculating asset values. However, if fair value measures are not used we propose that the trustees be given an estimate of the fair value of the assets in order that they have a better understanding of the financial position of the trust. Paragraph D.4.9 gives effect to this proposal.

- 3.13 In order for plan providers and trustees to understand the nature of the risks and the uncertainty attaching to any estimates of value, we consider that they should be shown the effect of adverse scenarios. This should enable the trustees to make better risk management decisions concerning the assets of the trust and benefit additions. Adverse scenarios might, for example, affect the amount and timing of the liabilities or the ability of the current assets to meet the full amount of liabilities as they fall due. The principle in paragraph D.4.11 gives effect to this proposal.

4 GENERAL COMMENTS AND FURTHER PROPOSALS

INTRODUCTION

- 4.1 Some of the comments which we have received on other consultations or in other contexts are also relevant to the development of the Funeral Plans TAS.

COMMON PRINCIPLES IN TECHNICAL ACTUARIAL STANDARDS

- 4.2 We are aware that some of the principles we propose to include in the Funeral Plans TAS will also appear in other Specific TASs. We intend to review the structure of the TASs when they become effective. It is possible that we will modify the structure of the standards and move principles which are common to more than one Specific TAS (such as those on assumptions) to one of the Generic TASs.
- 4.3 However, it is not necessarily the case that a principle that is capable of being applied to other areas of actuarial work should be so applied. It is possible that a principle that is proportionate in one field of work would be disproportionate in another. The Generic TASs apply to a broad range of actuarial work, and even principles that are both applicable and proportionate to work for funeral plans and pensions might be inapplicable or disproportionate for work in other areas. The appearance of a principle in more than one Specific TAS does not therefore imply that it should be in a Generic TAS.

COMMENCEMENT OF THE FUNERAL PLANS TAS

- 4.4 We are proposing that the Funeral Plans TAS should apply to work within its scope performed for aggregate reports completed on or after 1 October 2011. This means that it will apply to aggregate reports completed on or after 1 October 2011 and to data and models used in the preparation of aggregate reports completed on or after 1 October 2011.
- 4.5 As we intend to issue the TAS in early 2011 we consider that practitioners will have sufficient time to ensure they can comply with the standard, especially as they will have become familiar with the application of the Generic Standards.
- 4.6 We would be interested in respondents' views on the practicality of the proposed commencement date. If respondents are in favour of a later commencement date they should explain how the needs of users will be met.

5 TRANSITION FROM ADOPTED GUIDANCE NOTES

- 5.1 The BAS has responsibility for the Guidance Notes that it adopted from the Actuarial Profession (the adopted GNs). The adopted GN that cover topics related to funeral plan trusts is GN38. It contains recommended practice for actuaries valuing the assets and liabilities of a trust. Its recommendations are not mandatory. We intend to withdraw GN38 when the Funeral Plans TAS becomes effective. The transition from GN38 to the new TAS is considered below.
- 5.2 GN38 provides guidance on the verifications and valuations required by regulation. It also recommends the provision of significant additional advice regarding the financial circumstances of the trust.
- 5.3 We consider that it is not the purpose of our TASs to provide guidance on regulation. The proposed TAS therefore contains a set of principles that, together with the principles contained in the Generic TASs on Reporting, Data and Modelling, will be mandatory for work within the scope of the TAS. The principles include some that cover matters that are included in GN38's recommendation of additional advice to be given. We consider that information about these matters is necessary in order to enable the trustees to gain a proper understanding of the risks and uncertainties surrounding the calculation of the amount of liabilities.
- 5.4 Our standards primarily cover technical areas. The Actuarial Profession is responsible for ethical and conduct standards, subject to oversight by the Professional Oversight Board. We do not consider that it is our role to determine what actuarial work funeral plan providers or trustees should commission. We consider that the question of the scope of an assignment, and whether it is sufficiently broad, is an ethical and conduct issue for actuaries to consider when deciding whether or not to accept the assignment.

6 IMPACT ASSESSMENT

INTRODUCTION

- 6.1 In this section we consider the impact of the introduction of the Funeral Plans TAS, identifying benefits to users and costs of compliance and transition.

SUMMARY

- 6.2 We have considered the ongoing costs of compliance with our TASs in funeral plans work, and have concluded that there might be a small increase in the work that actuaries perform. However, we consider that the increase will not be significant or have a material effect on the costs of actuarial work to funeral plan trusts. In coming to this view we assume that practitioners apply reasonable judgement, especially on materiality and proportionality.
- 6.3 We expect that there will be a small one-off cost for actuarial firms in making the transition to the TASs. This is primarily related to the time that will be required to ensure that existing actuarial models comply with the Generic TAS on *Modelling*. However, we expect this cost to be absorbed within the costs of implementing the changes needed to comply with TASs in the more significant parts of the actuarial firms' businesses.
- 6.4 We consider that the benefits outlined below justify any additional costs.

BENEFITS

- 6.5 All work that is within the scope of a Specific TAS, such as the Funeral Plans TAS, is also within the scope of our Generic TASs. We consider that the Funeral Plans TAS in conjunction with the Generic TASs will, in those cases where work falls short of the standards, result in:
- a) better communication of risk and uncertainty, enabling funeral plan providers and trustees to make more informed decisions;
 - b) better understanding of the rationale underlying the selection of assumptions including mortality rates and discount rates;
 - c) greater focus on cash flows; and
 - d) greater focus on users' needs.

ONGOING COSTS

- 6.6 We consider that the TASs will not result in any significant additional time being spent on work related to the determination, calculation and verification of assets or liabilities other than where fair values are not used in calculating the value of assets and non-neutral measures and assumptions are used to calculate liabilities. However, even if other values are calculated the requirement to report a fair value of assets and a neutral estimate of the amount of liabilities should not add a significant cost compared to the value of the additional information it provides.

- 6.7 The requirements to quantify liability cash flows and to consider adverse scenarios when quantifying liabilities might require additional work to be carried out. We consider that the cost of this additional work will not be significant. In order to quantify the liabilities it is likely that the emerging benefits will be estimated and then discounted to a present value, so the amount and timing of the cash flows should be available. Some thought might be required to develop appropriate adverse scenarios but the quantification of the impact should be straightforward.

TRANSITIONAL COSTS

- 6.8 Transitional costs include those of training, establishing compliance processes, reviewing and documenting models and reviewing reporting needs. Practitioners will have to invest time in these areas. Actuarial firms already invest in the professional training of their staff and in reviewing processes and reports on an ongoing basis to reflect changes in the business environment in which they operate. All practitioners working in this area also do work in either pensions or insurance. They will already have considered or be considering the impact of TASs as they affect work in these fields and have taken or be taking the necessary actions to ensure compliance. We would expect then that any transitional costs affecting funeral plans, which will be a very small part of the business for the actuarial firms involved, will be absorbed within the other transitional costs resulting from the implementation of the TASs more widely across their businesses.

7 INVITATION TO COMMENT

QUESTIONS

- 7.1 The BAS invites the views of those stakeholders and other parties who wish to comment on the content of this document. In particular the BAS would welcome views on the following issues:
- 1 the proposed commencement date of the Funeral Plans TAS (paragraphs 4.4 to 4.6);
 - 2 our impact assessment and the effects that the introduction of the Funeral Plans TAS is likely to have on actuarial information (see section 6);
 - 3 the text of the exposure draft as a means of implementing the proposals presented in this document.
- 7.2 In addition to the specific questions listed above, the BAS invites respondents' views on any other aspects of the proposed TAS. To ensure that the significance of their point is fully appreciated by the BAS, respondents are asked to indicate how their comments would address the BAS's aim of increasing the reliance that users of actuarial information can place on it.

RESPONSES

- 7.3 For ease of handling, we prefer comments to be sent electronically to basfuneralplans@frc.org.uk. Comments may also be sent in hard copy form to:
- The Director
Board for Actuarial Standards
5th Floor, Aldwych House
71-91 Aldwych
London
WC2B 4HN
- 7.4 Comments should reach the FRC by **15 October 2010**.
- 7.5 All responses will be regarded as being on the public record unless confidentiality is expressly requested by the respondent. A standard confidentiality statement in an e-mail message will not be regarded as a request for non disclosure. We do not edit personal information (such as telephone numbers or email addresses) from submissions; therefore only information that you wish to publish should be submitted. If you are sending a confidential response by e-mail, please include the word "confidential" in the subject line of your e-mail.
- 7.6 We aim to publish non confidential responses on our web site within ten working days of receipt. We will publish a summary of the consultation responses, either as a separate document or as part of, or alongside, any decision.

EXPOSURE DRAFT OF
FUNERAL PLANS TECHNICAL ACTUARIAL STANDARD

FUNERAL PLANS TAS

Status

This standard (the Funeral Plans TAS) is a Specific Technical Actuarial Standard (Specific TAS), as defined in the *Scope & Authority of Technical Standards (Scope & Authority)* of the Board for Actuarial Standards (BAS).

This standard should be read in the context of the *Scope & Authority*.

The *Scope & Authority* sets out circumstances in which material departures from this standard are permitted or required and the disclosures which are required in respect of them.

A separate document, *Funeral Plans TAS: Significant Considerations*, issued at the same time as this standard, reviews the considerations and arguments that were thought significant by the BAS in developing this standard.

Scope

This standard applies to the work specified in Part C of the standard.

Wider adoption is encouraged.

Commencement

This standard applies to work performed for aggregate reports completed on or after 1 October 2011.

Earlier adoption is encouraged.

Relationship with other TASs and with Guidance Notes

This standard sets out principles to be adopted across the range of work to which it applies, as described above. Other Generic and Specific TASs may apply to work that is within the scope of this standard, setting out additional principles that should be adopted.

In the event of a conflict between this standard and a Guidance Note adopted by the BAS (as described in the *Scope & Authority*), this standard shall prevail.

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A PURPOSE OF THE FUNERAL PLANS TAS

A.1 PURPOSE

A.1.1 The BAS's Reliability Objective is that the **users**¹ for whom a piece of actuarial information was created should be able to place a high degree of reliance on the information's relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information.

A.1.2 The purpose of this standard is to assist the achievement of the Reliability Objective by ensuring that in the performance of work within its scope:

- information provided to trustees is relevant, comprehensible and sufficient to support decisions about the **funeral plan trust** and includes information on risk and uncertainty; and
- calculations are carried out using **methods** and assumptions which are fit for purpose and are performed without mistakes and, if they include the projection of cash flows, the key issues that affect the cash flows' variability or discounted value are taken into account and given appropriate weight.

¹ Terms appearing in **bold** in the text are explained in the Definitions set out in Part B.

B INTERPRETATION

B.1 INTERPRETATION OF THE TEXT

- B.1.1 All text in this standard has equal status unless stated otherwise. Paragraphs setting out explicit principles are emphasised with boxes for convenience.
- B.1.2 The **Scope & Authority**² states that a failure to follow the principles in this standard need not be considered a departure if it does not have a **material** effect. The contents of this standard should be read in that context, even where the term **material** is not explicitly used or where the word “shall” is used.
- B.1.3 Nothing in this standard should be interpreted as requiring work to be performed that is not proportionate to the scope of the decision or assignment to which it relates and the benefit that **users** would be expected to obtain from the work.
- B.1.4 The form that is taken by any explanations, rationales, descriptions, indications or other analyses required by this standard will need to depend on the scope of the work being performed and the benefit to the **users**. The level of detail required is a matter for judgement. Unless stated otherwise, analyses may be quantitative or qualitative.
- B.1.5 Lists are not intended to be exhaustive.
- B.1.6 This standard should be interpreted in the light of the purpose set out in Part A.

B.2 DEFINITIONS

- B.2.1 Terms appearing in **bold** in the text are used with the meanings set out below. Some of the definitions are taken from the **Scope & Authority**. The definitions are used consistently in the **Scope & Authority** and other BAS standards.

aggregate report The set of all **component reports** relating to a piece of work within the scope of this standard. The **aggregate report** for a decision taken by a **user** in connection with work within the scope of this standard is the set of all **component reports** containing information **material** to that decision.

² Paragraph 23 of the **Scope & Authority**.

component report	A document given to a user in permanent form containing material information which relates to work within the scope of this standard. A component report may be given to the user in hard copy or electronically. Formal written reports, draft reports, emails and presentations are examples of component reports . Possible contents of component reports include tables, charts and other diagrammatic presentations as well as or instead of text. A component report may form part of one or more aggregate reports .
data	Facts or information usually collected from records or from experience or observation. Examples include membership or policyholder data, claims data, asset and investment data, operating data (such as administrative or running costs), benefit definitions and policy terms and conditions.
funeral plan trust	A trust established to hold money paid by customers to funeral plan providers for the purpose of providing funerals and which meets the requirements listed in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 s. 60 (1) (b).
Generic TAS	A Technical Actuarial Standard which applies to all work specified in the Schedule to the Scope & Authority .
implementation	The formulae and algorithms of a model in a form that will perform the calculations required by the specification . In many cases an implementation is a computer program, but other types of implementation are possible – for instance, manual calculations are often used for simple models .
material	Matters are material if they could, individually or collectively, influence the decisions to be taken by users of the related actuarial information. Assessing materiality is a matter of reasonable judgement which requires consideration of the users and the context in which the work is performed and reported.
measure	The approach that is used to define how an (uncertain) asset or liability amount is quantified. Two different measures of the same asset or liability may produce different results.
method	The mechanism that is used to quantify an (uncertain) asset or liability amount. Two different methods of calculating the same asset or liability measure should produce similar results.
model	A representation of some aspect of the world which is based on simplifying assumptions. A model is specified by describing the matters that should be represented and the relationships between them, implemented through a set of mathematical formulae and algorithms, and realised by using the implementation to produce a set of outputs from inputs in the form of data and parameters.

neutral	A neutral measure , assumption or judgement is one that is not deliberately either optimistic or pessimistic and does not incorporate adjustments to reflect the desired outcome. A neutral estimate is one that is derived using neutral measures , assumptions and judgements. There may be a range of neutral estimates, reflecting inherent uncertainty.
report	An aggregate report or a component report .
Scope & Authority	The BAS's <i>Scope & Authority of Technical Actuarial Standards</i> .
Specific TAS	A Technical Actuarial Standard that is not designated by the BAS as a Generic TAS . A Specific TAS is limited to a specific, defined context.
specification	A description of a model that describes the matters to be represented, the inputs and their interactions with each other, and the outputs to be processed.
users	Those people whose decisions a report is intended (at the time of writing) to assist. Those to whom the report is addressed, regulators and third parties for whose benefit a report is written are examples of possible users .

C SCOPE

C.1 WORK WITHIN THE SCOPE OF THIS STANDARD

C.1.1 Work that is within the scope of this standard may also be within the scope of other BAS standards. In particular, the **Generic TASs**, including those on *Reporting Actuarial Information, Data and Modelling*, apply to all such work.

C.1.2 This standard shall apply to all Reserved Work concerning **funeral plan trusts**.

C.1.3 Reserved Work is defined in the **Scope & Authority**.

C.1.4 The work described in paragraph C.1.2 includes the determination, calculation and verification of the assets and liabilities of a **funeral plan trust** that is required to be carried out at least once every three years.

C.1.5 This standard shall apply to all actuarial work performed in connection with the determination, calculation and verification of the assets and liabilities of the **funeral plan trust**.

C.1.6 The work described in paragraph C.1.5 includes any interim valuations of the assets and liabilities of the **funeral plan trust**.

D GENERAL PRINCIPLES

D.1 INTRODUCTION

D.1.1 This Part contains general principles relating to actuarial work concerning **funeral plan trusts** that support the purpose of this standard set out in Part A. It should be interpreted as described in Part B.

Judgement

D.1.2 Judgements concerning the application of this standard shall be exercised in a reasoned and justifiable manner.

D.1.3 Judgement might be needed on matters such as:

- the **measures** to be used to determine the value of the assets or amount of the liabilities of the **funeral plan trust**;
- the rate of inflation applying to funeral costs; and
- the derivation of other assumptions.

D.2 ASSUMPTIONS

General considerations

D.2.1 Assumptions used in, or proposed for use in, **models** shall be appropriate for the purpose of the calculations for which they are used.

D.2.2 Assumptions used in, or proposed for use in, **models** shall be derived from sufficient relevant information.

D.2.3 If there is limited relevant information from which assumptions for use in **models** might be derived, it may need to be supplemented by judgement. The **Generic TAS on Reporting Actuarial Information** requires the indication of any **material** uncertainty arising from a lack of information on which to base the selection of assumptions.

D.2.4 What information is sufficient is a matter for judgement and might depend on factors such as the cost of obtaining additional **data**, the resulting improvement in reliability and the degree of uncertainty that **users** are prepared to accept.

D.2.5 What information is relevant is a matter for judgement and might depend on factors such as the effective date of the calculations and the purpose and the nature of the calculations for which the assumptions will be used. Examples of information that might be relevant include:

- financial and economic outlooks;
- mortality and other demographic projections; and
- recent mortality experience.

- D.2.6 The selection of assumptions might also take account of any **material** events which are known to have occurred after the effective date of the calculations. The **Generic TAS** on *Reporting Actuarial Information* requires that the **aggregate report** shall indicate any **material** changes or events that are known by any person responsible for the **aggregate report** to have occurred since the effective date of the **data** and other information on which it is based.
- D.2.7 The assumptions to be used for some purposes might be specified in regulations (or in some other legal document governing the work) or they might be the responsibility of a **user** or another party.
- D.2.8 The **Generic TAS** on *Reporting Actuarial Information* requires an **aggregate report** to include sufficient information to enable its **users** to judge its relevance to the decisions for which they use it.

D.2.9 No adjustment shall be made to any assumption used in, or proposed for use in, a **model** to compensate for a shortcoming in another unrelated assumption.

Discount rates

D.2.10 The **Generic TAS** on *Reporting Actuarial Information* requires that an **aggregate report** shall describe the rationale for any **material** assumptions used.

D.2.11 The description in an **aggregate report** of the rationale for assumptions about discount rates shall include:

- a) a description of the nature and characteristics of the cash flows being discounted;
- b) an explanation of the derivation of the discount rates;
- c) the rationale for the inclusion of and the derivation of any illiquidity premium included in the discount rates; and
- d) the implications of adopting the discount rates.

- D.2.12 A description of the characteristics of the cash flows being discounted might need to include matters such as:
- the discretion allowed to the trustees of the **funeral plan trust** to determine the amounts of the cash flows or to defer payments as they fall due; and
 - any other uncertainty over the timing of the cash flows.

D.2.13 An explanation of the derivation of the discount rates might need to include matters such as:

- a comparison with low credit risk rates, such as rates based on nominal gilt or swaps yield curves published by the Bank of England;
- a description of any **model** used to assist the setting of discount rates including the assumptions underlying it and its limitations; and
- a range of reasonable alternative discount rates.

D.2.14 An explanation of the implications of adopting particular discount rates might need to include matters such as:

- the effects on the value of the liabilities; and
- the effects on the surplus or deficit of the value of assets over the value of the liabilities.

Mortality rates

D.2.15 If assumptions about mortality rates are used in, or proposed for use in, an exercise there shall be separate assumptions for base mortality rates and for subsequent changes to those rates.

D.2.16 Assumptions for base rates of mortality used in, or proposed for use in, an exercise shall reflect the plan holders of the **funeral plan trust** in question.

D.2.17 Assumptions for base rates of mortality will need to be based on publicly available statistics and the **funeral plan trust's** own experience if it is statistically reliable. Factors which might need to be taken into account when using publicly available statistics include the socio-economic groups and the locations of the funeral plan provider's customers.

D.3 MODELS AND CALCULATIONS

Changes in measures, methods or assumptions

D.3.1 **Aggregate reports** shall explain the rationale for any changes in the **measures, methods** or assumptions between two similar exercises and quantify the overall effect on results.

D.3.2 An assumption might concern the **specification** of a **model** rather than a particular numerical parameter. For example, if an economic parameter is linked to an index, a change in the value of that index over the period might not constitute a change in assumptions. A change in the relationship between the parameter and the index or the use of a different index would be a change in assumptions.

D.4 REPORTING

D.4.1 The **Generic TAS** on *Reporting Actuarial Information* requires that, for any **material** calculations that have been performed, an **aggregate report** shall

explain the nature and the objectives of the calculations and the **measures** used.

Quantifying the amount of liabilities

D.4.2 **Aggregate reports** which include a quantification of the value of the liabilities of the **funeral plan trust** shall state:

- a) how the quantification allows for any discretionary increments to the amounts payable from the **funeral plan trust**; and
- b) whether the quantification has been performed using **neutral measures** and assumptions.

D.4.3 The **Generic TAS** on *Modelling* requires that **aggregate reports** that include estimates that are not **neutral** shall indicate their relationship to **neutral** estimates.

D.4.4 **Aggregate reports** which include an estimate of the value of the liabilities of a **funeral plan trust** which is not a **neutral** estimate shall also include:

- a) a **neutral** estimate of the value of those liabilities;
- b) an explanation of the relationship between the estimate and the **neutral** estimate; and
- c) an explanation of the change to the relationship between the estimate and the **neutral** estimate from the previous exercise, if any.

D.4.5 An explanation of the relationship between the estimate and the **neutral** estimate of the liabilities might need to include matters such as:

- a comparison of the assumptions underlying the estimate with the assumptions underlying the **neutral** estimate and an explanation of the differences;
- a rationale for the difference between the estimate and the **neutral** estimate.

Liability cash flows

D.4.6 The **Generic TAS** on *Reporting Actuarial Information* requires that an **aggregate report** shall indicate the nature of any future cash flows being quantified, including their timing.

D.4.7 **Aggregate reports** which include a quantification of the value of the liabilities of a **funeral plan trust** shall:

- a) quantify the liability cash flows expected to fall due in each of the first ten years following the effective date of the quantification; and
- b) explain how the value of the liabilities reconciles to the liability cash flows.

D.4.8 There are many ways of presenting the liability cash flows. The amounts themselves could be either discounted or undiscounted, and either real or nominal. They could be presented in charts or other diagrams, in tables or within text.

Determining the value of assets

D.4.9 **Aggregate reports** which include a quantification of the value of the assets of a **funeral plan trust** shall include:

- a) an explanation of and a rationale for the **measures** used to quantify the value of the assets; and
- b) if the **measures** used are not fair value **measures**, the fair value of the assets.

Risk and uncertainty

D.4.10 The **Generic TAS** on *Reporting Actuarial Information* requires that, for each **material** risk or uncertainty faced by a **funeral plan trust** in relation to the work being reported on, an **aggregate report** shall state the nature and significance of the risk and explain the approach taken to the risk.

D.4.11 Aggregate reports which include a quantification of the value of the liabilities of a **funeral plan trust** shall indicate the effect of uncertainty by considering the impact of adverse scenarios.

D.4.12 The adverse scenarios might need to include:

- a combination of increasing longevity and high inflation of funeral costs;
- a pandemic leading to a large number of claims on the trust in a short period; and
- income and capital returns from the assets of the trust being lower than expected.

D.4.13 The indication of the impact of adverse scenarios might need to include:

- providing an estimate of the change in the value of the liabilities in the adverse scenarios; and
- providing an estimate of any shortfall in the income and capital returns from the assets below the outgo on the liabilities.

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FINANCIAL REPORTING COUNCIL

5TH FLOOR

ALDWYCH HOUSE

71-91 ALDWYCH

LONDON WC2B 4HN

TEL: +44 (0)20 7492 2300

FAX: +44 (0)20 7492 2301

WEBSITE: www.frc.org.uk

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