



BOARD FOR ACTUARIAL STANDARDS

FUNERAL PLANS TECHNICAL ACTUARIAL STANDARD

FEBRUARY 2011

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 Reserved Work completed on or after, and 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. The Generic TASs apply and other 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.

CONTENTS

<i>Part</i>		<i>Page</i>
A	Purpose of the Funeral Plans TAS	3
	A.1 Purpose	3
B	Interpretation	4
	B.1 Interpretation of the text	4
	B.2 Definitions	5
C	Scope	7
	C.1 Work within the scope of this standard	7
D	General principles	8
	D.1 Introduction	8
	D.2 Assumptions	8
	D.3 Models and calculations	10
	D.4 Reporting	11

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;
- calculations are carried out using **measures, methods** and assumptions which are fit for purpose and are performed correctly; and
- the key issues that affect the variability of income and capital returns from assets and projected liability cash flows are taken into account and given the 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. What work is proportionate is a matter for judgement and might depend on factors such as the expertise of **users** in the matters being reported on and their needs.
- 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 performed and the benefit to **users**. The level of detail required is a matter for judgement. Unless stated otherwise, analyses may be quantitative or qualitative.
- B.1.5 Part C of this standard includes a reference to actuarial work. What constitutes actuarial work depends on matters such as whether **users** would reasonably expect the work to be performed using actuarial techniques, and whether the work involves risk, uncertainty or modelling. Actuarial work often involves the exercise of judgement. Some work performed by actuaries might not be actuarial work.
- B.1.6 Lists are not intended to be exhaustive.
- B.1.7 This standard should be interpreted in the light of the purpose set out in Part A.

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

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.
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.
documentation	Records of facts, opinions, explanations of judgements and other matters. Documentation may be paper or electronic based. It is not necessarily provided to users . Documentation is material if it concerns a material matter.
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 <i>Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 art. 60(1)(b)</i> .
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	<p>A representation of some aspect of the world which is based on simplifying assumptions.</p> <p>A model is defined by a specification that describes the matters that should be represented and the inputs and the relationships between them, implemented through a set of mathematical formulae and algorithms, and realised by using an implementation to produce a set of outputs from inputs in the form of data and parameters.</p>
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 produced.
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** 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 This standard also applies to some work that is not Reserved Work.

C.1.5 This standard shall apply to actuarial work concerning the determination, calculation and verification of the assets and liabilities of a **funeral plan trust**.

C.1.6 The work described in paragraph C.1.2 and C.1.5 includes the determination, calculation and verification of the assets and liabilities of a **funeral plan trust**:

- required by the *Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 art. 60(1)(b)(v)* to be carried out at least once every three years; and
- required by the rules of the Funeral Planning Authority to be carried out annually (or at such other intervals as it may determine).

D GENERAL PRINCIPLES

D.1 INTRODUCTION

D.1.1 This Part contains general principles applying 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. It applies to the work specified in Part C.

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 estimate the value of the assets or the liabilities of the **funeral plan trust**;
- the rate of inflation applying to funeral costs; and
- the derivation of other assumptions.

D.1.4 This standard does not require the **documentation** or disclosure of judgements concerning its application unless stated otherwise.

D.2 ASSUMPTIONS

General considerations

D.2.1 Paragraphs D.2.2, D.2.3 and D.2.8 do not apply to assumptions used in **models** if the assumptions are specified in a legal document governing the work, or are determined by the **user**.

D.2.2 Assumptions used in, or proposed for use in, **models** shall be appropriate for the purpose of the calculations for which they are used.

D.2.3 Assumptions used in, or proposed for use in, **models** shall be derived from as much relevant information as is sufficient or, if there is insufficient relevant information, as is available.

D.2.4 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. Information that might be relevant includes matters such as:

- financial and economic outlooks;
- mortality and other demographic projections; and
- recent mortality experience if it is statistically useful.

- D.2.5 If there is substantial relevant information from which assumptions for use in **models** might be derived, what relevant information is sufficient is a matter for judgement and might depend on factors such as the cost of obtaining additional relevant information, the benefit that **users** receive from the use of additional relevant information and the degree of uncertainty that **users** are prepared to accept.
- D.2.6 If there is limited relevant information from which assumptions for use in **models** might be derived, what relevant information is available is a matter for judgement and might depend on factors such as the cost of obtaining additional relevant information and the time it takes to collect. The limited relevant information that is available might need to be supplemented by other information which serves as a proxy, and by judgement.
- D.2.7 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.

D.2.8 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.2.9 For work which includes the determination of present values of cash flows, **aggregate reports** shall explain:

- a) the nature and characteristics of the cash flows being discounted;
- b) 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.2.10 An explanation 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
 - the timing of the cash flows and any uncertainty in that timing.

D.2.11 An explanation of the derivation of the discount rates might need to include matters such as:

- the purpose of the exercise for which the discount rates are being used;
- 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.2.12 An explanation of the implications of adopting particular discount rates might need to include matters such as:

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

Mortality rates

D.2.13 If mortality assumptions are used in, or proposed for use in, an exercise there shall be separate assumptions for base rates of mortality and subsequent changes to mortality rates.

D.2.14 Assumptions for base rates of mortality used in, or proposed for use in, an exercise shall reflect the current plan holders of the **funeral plan trust**.

D.2.15 Assumptions for base rates of mortality will need to be based on the **funeral plan trust's** own experience if it is statistically useful. Otherwise, assumptions will need to be based on statistics derived from a wider base such as publicly published mortality tables. Matters 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 any changes in the **measures, methods** or assumptions between two similar and related exercises and quantify the overall effect on results.

D.3.2 Whether two exercises are similar and related is a matter for judgement. Consecutive exercises performed in a regular cycle of determining, calculating and verifying a **funeral plan trust's** assets and liabilities are similar and related.

- D.3.3 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

Estimating the value of liabilities

D.4.1 **Aggregate reports** which include an estimate of the value of the liabilities of a **funeral plan trust** shall explain:

- a) how adverse risks to and uncertainty in the liability cash flows have been taken into account in the estimate; and
- b) how the estimate allows for any discretionary increments to the amounts payable from the **funeral plan trust**.

D.4.2 **Aggregate reports** which include an estimate of the value of the liabilities of a **funeral plan trust** which is not a **neutral** estimate shall include:

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

Liability cash flows

D.4.3 **Aggregate reports** which include an estimate of the value of the liabilities of a **funeral plan trust** shall:

- a) quantify the liability cash flows expected to arise in each of the first ten years following the effective date of the estimate; and
- b) explain how the estimate is derived from the liability cash flows.

D.4.4 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.

Estimating the value of assets

D.4.5 **Aggregate reports** which include an estimate 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**, an estimate of the fair value of the assets.

Risk and uncertainty

D.4.6 **Aggregate reports** which include an estimate of the value of the assets or of the liabilities of a **funeral plan trust** shall indicate the effect of uncertainty by considering the impact of adverse scenarios.

D.4.7 The adverse scenarios might need to include:

- a combination of increasing longevity and high inflation of funeral costs;
- funeral plans ceasing to be sold by the plan provider resulting in no new money being paid into the **funeral plan trust**;
- a pandemic leading to a large number of claims on the **funeral plan trust** in a short period; and
- income and capital returns from the assets of the **funeral plan trust** being lower than expected.

D.4.8 The indication of the impact of an adverse scenario might need to include:

- an estimate of the change in the value of the liabilities in the adverse scenario; and
- an estimate of any shortfall in the expected cash inflows of income and principal from the assets below the expected cash outflows on the liabilities in the adverse scenario.

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