



BOARD FOR ACTUARIAL STANDARDS

FUNERAL PLANS TECHNICAL ACTUARIAL STANDARD

**ANALYSIS OF RESPONSES TO THE AUGUST 2010
EXPOSURE DRAFT**

FEBRUARY 2011

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PART I

ANALYSIS OF RESPONSES TO THE AUGUST 2010 EXPOSURE DRAFT OF THE FUNERAL PLANS TECHNICAL ACTUARIAL STANDARD

1 INTRODUCTION

CONSULTATION AND RESPONSES

- 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. In August 2010, it published an exposure draft of its Specific Technical Actuarial Standard (Specific TAS)² on *Funeral Plans* (the Funeral Plans TAS).
- 1.2 The consultation period ended on 15 October 2010. Three responses³ were received, one from the Actuarial Profession and two from actuarial firms providing services to funeral plan trusts. We also had a discussion with the Funeral Planning Authority (the FPA), the self-regulatory body established by funeral plan providers. In addition, the FRC's Actuarial User Committee provided input to the consultation. After the formal consultation practitioners had an opportunity to provide further informal input to the development of the TAS. We thank all those who contributed.

SUMMARY

- 1.3 In finalising the text of the Funeral Plans TAS we have taken account of the comments we received in response to the exposure draft. We have also considered the responses to other consultations.
- 1.4 Respondents to the exposure draft generally supported the direction of the draft and the principles proposed in it.
- 1.5 Section 2 of this paper covers the issues raised in response to the consultation as well as some general points. Section 3 explains the changes that we have made to the text that appeared in the exposure draft. Section 4 considers the transition from the adopted guidance note, GN38.
- 1.6 Part II contains the final version of the Funeral Plans TAS, marked up to show changes from the exposure draft.

ASSESSMENT OF COSTS AND BENEFITS

- 1.7 Section 6 of the exposure draft presented our assessment of the costs and benefits associated with the introduction of the Funeral Plans TAS. We thought that compliance with the TASs, while requiring some extra work to be performed, would not lead to a significant increase in the costs incurred by funeral plan trusts. We also expected that there would be a small one-off cost incurred by practitioners in making the transition to the TASs. We expected these costs to be absorbed by practitioners within the costs of implementing the TASs in the rest of their business.

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

² See section 8 of the BAS's *Scope & Authority of Technical Standards*.

³The responses are available at <http://www.frc.org.uk/bas/publications/pub2394.html>.

- 1.8 None of the respondents disagreed with our assessment that the costs of complying with the TASs would not be significant and that the transition costs would be small. However, one respondent was concerned that we had assumed that the costs of transition would be borne by other parts of the business. Our analysis was not based on this assumption. However, we consider that the costs of transition will be reduced because much of the thinking and many of the changes required will already have been done for work within the scope of the Specific TASs on *Insurance* (the Insurance TAS) and *Pensions* (the Pensions TAS).

COMMENCEMENT DATE

- 1.9 In the exposure draft we proposed that the Funeral Plans TAS should apply to work within its scope performed for aggregate reports completed on or after 1 October 2011. One respondent agreed with this proposal. Neither of the other two respondents said that this provided insufficient time to make any necessary changes to practices and procedures in order to ensure compliance with the TAS.
- 1.10 The TAS will apply to work within its scope for which the aggregate report is completed on or after 1 October 2011. This is over seven months after the TAS is issued. We consider that this should give practitioners sufficient time to ensure that systems and procedures are modified to ensure that work within the scope of the TAS can be performed in compliance with the TAS regime.

REVIEW OF THE FUNERAL PLANS TAS

- 1.11 We recognise that our TASs may need amendment after they have been in operation for a period. We are developing mechanisms to obtain feedback from practitioners and users of actuarial information, and will conduct a formal review of each TAS at least every four years. At least every two years we will consider whether immediate changes are required.

2 RESPONSES TO THE EXPOSURE DRAFT

INTRODUCTION

- 2.1 This section summarises the comments that we received on the exposure draft, and our reactions to them. In considering the responses, we have carefully considered the feedback from both users and practitioners.
- 2.2 Respondents suggested three particular areas where they felt that additional principles might be considered covering assets, funeral cost inflation and the impact of new business.

SCOPE

- 2.3 One respondent was concerned that there was overlap between the work brought within the scope of the TAS by paragraphs C.1.2 and C.1.5. We agree that the determination, calculation and verification of assets and liabilities required to be performed at least every three years by regulation⁴ (which is Reserved Work) is within the scope of the Funeral Plans TAS by virtue of both paragraphs C.1.2 and C.1.5. However, we do not consider that this poses a problem. All work that is within the scope of the TAS is subject to the same requirements. There might be Reserved Work other than work that is required by regulation to be performed by members of the UK actuarial profession, such as work required by other contractual arrangements.

GENERAL PRINCIPLES

Assumptions

- 2.4 One respondent pointed out that the assumption concerning inflation of funeral costs has at least as great an impact on a funeral plan trust's liabilities as the assumptions concerning mortality. The respondent noted that paragraph D.1.3 of the exposure draft singled out inflation as an assumption requiring judgement but the exposure draft included no specific principle addressing it. We agree that the inflation assumption is material and that, considering the relatively short term nature of a funeral plan trust's liabilities, it might be as important as the mortality assumptions.
- 2.5 However, the general principles in paragraphs D.2.2 and D.2.3 of the TAS concerning the appropriateness of assumptions and the evidence on which they are based apply to all assumptions including inflation. Past experience shows that funeral costs have their own particular inflation characteristics reflecting the various components that contribute to the cost of a funeral. Standard inflation indices such as the Consumer Price Index or the Average Earnings Index have been poor proxies for the rate of inflation in funeral costs in recent years.
- 2.6 The Generic TAS on *Reporting* (TAS R) requires that aggregate reports state the material assumptions used and provide a rationale for them (TAS R paragraphs C.4.4 to C.4.9). TAS R also requires that reports indicate the

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

nature and extent of any material uncertainty in the information they contain (TAS R paragraphs C.5.2 to C.5.4).

- 2.7 We consider that the requirements in TAS R, together with paragraphs D.2.2 to D.2.3 of the Funeral Plans TAS, are sufficient to ensure that inflation assumptions are chosen appropriately.
- 2.8 Another respondent noted that at least one practitioner included an allowance for new business when calculating the value of liabilities whereas others did not. We consider the practice of including an allowance for new business when determining liabilities to be unusual. In determining the liability for an insurance contract a liability is not established until the period of cover commences or when binding terms have been agreed (if earlier), and we consider the situation of funeral plans to be analogous.
- 2.9 TAS R requires that for calculations of the liabilities of a funeral plan trust, reports should explain any specific measures adopted and provide a rationale for their use (TAS R paragraphs C.5.8 and C.4.6). Therefore if new business is included in the value of liabilities, a rationale would have to be provided.
- 2.10 The inclusion of an allowance for new business in the value of liabilities would introduce the need for a number of additional assumptions, for example concerning the volume and profitability of new business. The additional assumptions would result in increased uncertainty in the value of the liabilities of the trust as well as additional risks affecting the value. TAS R requires reports to indicate the nature and extent of any uncertainty in the information they contain (TAS R paragraphs C.5.2 to C.5.4). TAS R also requires reports concerning the value of the liabilities of a funeral plan trust to state the nature of each material risk concerning the value placed on the liabilities and the approach taken to the risk (TAS R paragraphs C.5.5 to C.5.7).
- 2.11 Paragraph D.4.6 of the TAS requires the effect of adverse scenarios to be considered, and paragraph D.4.7 suggests that a scenario that might need to be considered is one that involves a cessation of new business.
- 2.12 We therefore consider that the requirements in the Funeral Plans TAS and TAS R are sufficient to ensure that no additional principle is required concerning the assumption about new business.
- 2.13 Respondents to some of our other consultations considered that adjusting one assumption to compensate for shortcomings in another unrelated assumption was a valuable technique in some circumstances. They thought, for example, that it might be proportionate to adjust an unrelated assumption for a known shortcoming of a model which did not allow for a material assumption adequately, rather than delaying the work in order to develop a better model. It was also argued that the proposed principle was too prescriptive.
- 2.14 We consider that using inappropriate assumptions to cover up for known inadequacies in other unrelated assumptions confuses users and reduces transparency. In particular, adjusting the discount rate to compensate for shortcomings in a wide variety of other unrelated assumptions such as future mortality improvements or uncertainty about expense inflation is unlikely to be easy to explain clearly.

- 2.15 An explicit adjustment to the results is, we consider, more transparent and usually more comprehensible than an adjustment to another unrelated assumption. This approach is also consistent with the reasoning underlying the requirement in the Generic TAS on *Modelling* (TAS M) that users are made aware of material limitations in models and their implications. The *Funeral Plans TAS: Significant Considerations* document gives further detail of our thinking.

Models and calculations

- 2.16 One respondent asked for clarity over what we considered to be similar exercises for the purposes of the principle requiring an explanation of changes in measures, methods and assumptions. We have made it clear in paragraph D.3.2 of the TAS that we consider that consecutive exercises performed in a regular cycle of determining, calculating and verifying the assets and liabilities of a funeral plan trust are similar exercises.

Reporting

- 2.17 A respondent suggested that the principle concerning risk and uncertainty requiring the consideration of adverse scenarios should not be restricted to reports estimating the value of liabilities but should also include reports considering the value of the assets of the trusts. We agree and have amended the principle in D.4.6 of the TAS to include reports estimating the value of assets.

3 CHANGES TO THE TEXT

INTRODUCTION

- 3.1 As a result of the responses we received to the exposure draft, and comments we have received in other contexts, we have made a number of changes to the text in the exposure draft. Some changes have been made to ensure consistency with other Specific TASs which were issued in 2010. The changes made are described in this section. Part II contains a version of the final text that shows the changes from the text in the exposure draft. Changes to paragraph numbering are not shown.
- 3.2 We are publishing a separate document, *Funeral Plans TAS: Significant Considerations*, explaining the development of the Funeral Plans TAS, including the significant considerations underlying the principles.
- 3.3 A number of minor changes have been made throughout the text in order to add clarity. They are not described individually in this section.
- 3.4 All references in this section are to the final version of the Funeral Plans TAS, unless stated otherwise.

Introductory rubric

- 3.5 The specification of the commencement date has been amended to make it clear that it applies to both Reserved Work and aggregate reports completed on or after 1 October 2011.
- 3.6 The description of the relationship with other TASs has been amended to make it clear that Generic TASs apply to all work within the scope of the Funeral Plans TAS.

PART A: PURPOSE

Purpose

- 3.7 Paragraph A.1.2 has been amended to be consistent with the Insurance TAS and to make it clear that the key issues that affect the variability of cash flows from both assets and liabilities need to be considered.

PART B: INTERPRETATION

- 3.8 Paragraph B.1.3 has been extended to emphasise that proportionality is a matter for judgement, and to give some examples of matters that might be taken into account when making that judgement.
- 3.9 A new paragraph B.1.5 has been introduced describing some characteristics of actuarial work. The same paragraph appears in the other Specific TASs.

Definitions

- 3.10 A definition of the term “documentation” has been introduced. The same definition is used in other TASs.

- 3.11 Other definitions have been amended for consistency with those in other TASs.

PART C: SCOPE

- 3.12 Paragraph C.1.4 has been amended to make it clear that the standard also applies to some work that is not Reserved Work. This paragraph also appears in the other Specific TASs.
- 3.13 Paragraph C.1.6 has been amended to include both work required by regulation (that was included in paragraph C.1.4 of the exposure draft) and work required by the FPA.

PART D: GENERAL PRINCIPLES

Judgement

- 3.14 Paragraph D.1.4 has been added. It states that the TAS does not require the documentation or disclosure of judgements concerning its application to work within the scope of the standard unless stated otherwise. This is consistent with judgements required concerning the application of other TASs. A consequent amendment is the inclusion of a definition of documentation (see paragraph 3.10).

Assumptions

- 3.15 Paragraph D.2.1 has been added to allow for the possibility that trustees or other users might require the actuary to calculate the value of assets and liabilities using assumptions set by the user. Paragraph C.4.9 of TAS R requires that if the assumptions are considered to be materially inappropriate by the person responsible for a report then the report will need to include a statement to that effect, or other explanations.
- 3.16 Paragraph D.2.3 has been modified to allow for the circumstance in which there is insufficient relevant information available from which to derive assumptions. Paragraphs D.2.5 and D.2.6 have been added to cover the situations in which there is either substantial relevant information or limited relevant information available for the derivation of assumptions. The same paragraphs appear in the Pensions TAS and the Insurance TAS.
- 3.17 Paragraph D.2.8 of the exposure draft repeated text from TAS R which covered the situation when assumptions are specified by a user or by regulation and are materially inappropriate. It has not been included in the TAS.
- 3.18 Paragraph D.2.10 of the exposure draft repeated text from TAS R concerning material assumptions. It has not been included in the TAS.
- 3.19 Paragraph D.2.11 of the TAS has been amended to include the purpose of the exercise, recognising that the choice of discount rates might be influenced by that purpose.
- 3.20 Paragraphs D.2.13 to D.2.15 of the TAS (concerning mortality assumptions) have been amended to make them consistent with the Pensions TAS.

Models and calculations

- 3.21 In paragraph D.3.1 (explaining the rationale for changes to measures, methods and assumptions) “similar exercises” has been changed to “similar and related exercises”. This is consistent with the Insurance TAS. Paragraph D.3.2 has been added to explain what exercises might be similar and related.

Reporting

- 3.22 Paragraph D.4.1 of the exposure draft repeated text from TAS R concerning material calculations. It has not been included in the TAS.
- 3.23 Paragraph D.4.1 of the TAS has been amended to include a requirement to explain how adverse risks to and uncertainty in the liability cash flows have been taken into account in estimating the value of the liabilities rather than providing only a statement of whether neutral measures and assumptions have been used.
- 3.24 Paragraph D.4.2 of the TAS has been amended to remove the requirement to explain the relationship between the estimate of the value of liabilities and a neutral estimate of the same liabilities. This is now covered by the requirement in paragraph D.4.1 to explain how adverse risks and uncertainty have been taken into account.
- 3.25 Paragraph D.4.3 of the exposure draft repeated text from TAS M concerning estimates that are not neutral estimates. It has not been included in the TAS.
- 3.26 Paragraph D.4.5 of the exposure draft has not been included in the TAS as a consequence of the amendment to paragraph D.4.2 of the TAS.
- 3.27 Paragraph D.4.6 of the exposure draft repeated text from TAS R concerning the nature of future cash flows. It has not been included in the TAS.
- 3.28 Paragraph D.4.6 of the TAS has been extended to require that reports which include an estimate of the value of the assets of a funeral plan trust also include indications of the effect of uncertainty by considering adverse scenarios.
- 3.29 Paragraph D.4.10 of the exposure draft repeated text from TAS R concerning material risks and uncertainty. It has not been included in the TAS.
- 3.30 Paragraph D.4.7 includes an example of an adverse scenario in which no further funeral plans are sold by the funeral plan provider (see paragraphs 2.8 to 2.12).

4 TRANSITION FROM THE ADOPTED GUIDANCE NOTES

INTRODUCTION

- 4.1 Section 5 of the exposure draft described our intention that the adopted Guidance Note concerning funeral plans (GN38) would cease to apply when the Funeral Plans TAS becomes effective. No respondents commented on this proposal. We confirm that we intend to withdraw GN38 with effect from 1 October 2011.

PART II

TRACKED CHANGES FROM THE AUGUST 2010 EXPOSURE DRAFT OF THE FUNERAL PLANS TECHNICAL ACTUARIAL STANDARD

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 [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. ~~Other~~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.

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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 measures, methods and assumptions which are fit for purpose and are performed ~~without mistakes and, if they include the projection of cash flows, correctly; and~~
 - the key issues that affect the ~~cash flows' variability or discounted value 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 ~~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 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. |
| <u>documentation</u> | <u>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.</u> |
| 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 <u>Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 art. 60(1)(b)</u> 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 <u>defined</u> by describing <u>a specification that describes</u> the matters that should be represented and the <u>inputs and the</u> relationships between them, implemented through a set of mathematical formulae and algorithms, and realised by using the an <u>implementation</u> 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 <u>produced</u> . |
| 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 [This standard also applies to some work that is not Reserved Work.](#)

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

C.1.6 The work described in paragraph C.1.2 and C.1.5 includes ~~any interim valuations~~ 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 ~~relating~~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 ~~determine~~estimate 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.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. Examples of information-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 data, the resulting improvement in reliability-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, it may need to be supplemented by judgement 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. 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~~ 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 the indication of any material uncertainty arising from a lack of information on which to base the selection of assumptions.~~

~~D.2.5~~ 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.2.7~~ ~~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.2.8 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.2.8~~ ~~The Generic TAS on Reporting Actuarial Information requires that an aggregate report shall describe the rationale for any material assumptions used.~~

~~D.2.9~~ ~~The description in an aggregate report of the rationale for assumptions about discount rates shall include:~~

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

- 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.2.10 ~~A description~~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
 - ~~any other uncertainty over~~ 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 ~~about mortality rates~~ are used in, or proposed for use in, an exercise there shall be separate assumptions for base [rates of mortality](#) ~~rates~~ and ~~for~~ subsequent changes to ~~those~~ [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** ~~in question~~.

D.2.15 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 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 ~~the rationale for~~ 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

~~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.~~

Estimating ~~Quantifying~~ the **amount**-value of liabilities

D.4.1 **Aggregate reports** which include ~~a quantification~~ an estimate of the value of the liabilities of ~~the a~~ **funeral plan trust** shall ~~state~~ 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**; ~~and.~~

~~b) whether the quantification has been performed using **neutral measures** and assumptions.~~

~~D.4.2 The Generic TAS on Modelling requires that **aggregate reports** that include estimates that are not **neutral** shall indicate their relationship to **neutral** estimates.~~

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

- a) a **neutral** estimate of the value of those liabilities; and
- 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 similar and related exercise, if any.

~~D.4.4 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.4.5 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.4.3 **Aggregate reports** which include ~~a quantification~~ an estimate of the value of the liabilities of a **funeral plan trust** shall:

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

~~Determining~~ Estimating the value of assets

D.4.5 **Aggregate reports** which include ~~a quantification~~ 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.4.9 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.4.6 **Aggregate reports** which include ~~a quantification~~ 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 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 expected cash inflows of income and ~~capital—returns~~principal from the assets below the ~~outgo~~expected cash outflows on the liabilities in the adverse scenario.

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The Actuarial Profession

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PricewaterhouseCoopers



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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