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# ANNEX 1 – EXPOSURE DRAFT : Technical Actuarial Standard 400.



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## Technical Actuarial Standard 400: *Funeral plan trusts*

This standard should be read in conjunction with Technical Actuarial Standard 100: *Principles for technical actuarial work* (TAS 100) and the *Framework for FRC technical actuarial standards*. Terms in **bold** are defined in the *Glossary of defined terms used in FRC technical actuarial standards*.

### Purpose

Technical Actuarial Standard 400: *Funeral plan trusts* (TAS 400) promotes high quality **technical actuarial work** for funeral plan trusts on matters where there is a high degree of risk to the public interest. TAS 400 supports the Reliability Objective that “**users** for whom **actuarial information** is created should be able to place a high degree of reliance on that information’s relevance, transparency of assumptions, completeness and comprehensibility, including the communication of any uncertainty inherent in the information”.

### Scope of application

TAS 400 is applicable to **technical actuarial work** in the geographic scope of FRC technical actuarial standards<sup>1</sup> *concerning the determination, calculation and verification of the assets and liabilities of a funeral plan trust required by legislation or the rules of the Funeral Planning Authority.*

### Compliance

Members of the Institute and Faculty of Actuaries are required to comply with TAS 400 for work in its scope. Wider adoption is encouraged.

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

Work in the scope of TAS 400 is also in the scope of TAS 100. Each of the provisions in TAS 400 shall be followed where they are relevant to the work.

Departures from the provisions in TAS 400 concerning **communications** to **users** are permitted if they are unlikely to have a **material** effect on the decisions of **users**.

Nothing in TAS 400 should be interpreted as requiring work to be performed that is not proportionate to the nature, scale and complexity of the decision or assignment to which the work relates and the benefit that **users** would be expected to obtain from the work.

**Communications** shall include a statement confirming compliance with TAS 100 and TAS 400.

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<sup>1</sup> The geographic scope of the FRC’s technical actuarial standards is limited to **technical actuarial work** done in relation to the UK operations of entities, as well as to any overseas operations which report into the UK, within the context of UK law or regulation (paragraph 5.5 of the *Framework for FRC technical actuarial standards*).

## Commencement date

This standard applies to **technical actuarial work** in the scope of TAS 400 which is completed on or after 1 December 2020.

## Provisions

The following provisions support the principles in TAS 100 and apply to all **technical actuarial work** within the scope of TAS 400.

## Assumptions

1. **Communications** shall explain the derivation of the discount rate, mortality (base rates and projections), funeral cost inflation, expense, tax and other **material** assumptions.
2. Assumptions for base rates of mortality shall reflect the current plan holders of the **funeral plan trust**.
3. **Communications** shall explain any **material** difference between the actual experience emerging over the period since the previous exercise carried out for the same purpose (if one exists) with that assumed in that previous exercise.

## Models

4. **Communications** shall explain any changes in the **measures, methods** or assumptions since the previous exercise carried out for the same purpose (if one exists) and quantify the overall effect on the results.

## Communications

### *Estimating the value of liabilities*

5. **Communications** shall explain the obligations under the trust deed underpinning the estimate of the liabilities of the **funeral plan trust** and describe where the liabilities of the **funeral plan trust** may differ from the liabilities of the trust-based funeral plan provider.
6. **Communications** shall explain how risks to, and uncertainty in, the liability cash flows have been taken into account in the estimate of the liabilities of the **funeral plan trust**.
7. **Communications** which include an estimate of the value of the liabilities of the **funeral plan trust** which is not a best estimate shall include a best estimate of the value of those liabilities; and an explanation of the change to the relationship between the estimate and the best estimate from the previous similar and related exercise, if any.
8. **Communications** shall explain any allowance for discretionary elements in the amounts payable from the **funeral plan trust** in the estimate of the liabilities of the **funeral plan trust** and how the allowance has changed since the previous exercise carried out for the same purpose (if one exists).

### *Illustrating cash flows*

9. **Communications** shall quantify the liability cash flows expected to arise in each 12 month period following the effective date of the estimate of the liabilities of the **funeral plan trust** for an appropriate number of years with an explanation of why the number of years chosen is appropriate.
10. **Communications** shall explain how the estimate of the liabilities of the **funeral plan trust** is derived from the liability cash flows.

### ***Estimating the value of assets***

11. **Communications** shall include an explanation of, and a rationale for, the **measures** used to quantify the value of the assets; and if the **measures** used are not fair value measures, an estimate of the fair value of the assets.

### ***Asset Adequacy Report***

12. When an actuary participates in the production of the Asset Adequacy Report, that report shall be consistent with the requirements of paragraph 5.7.6 and Appendix 2 of the Rules of the Funeral Planning Authority effective from 1st January 2020 and shall state the assumptions that the actuary has made for this purpose. The actuary shall also state how the key assumptions used for the AAR have been varied from those used in the ongoing trust valuation.
13. Where the actuary relies on the opinion of a third party for any aspect of the Asset Adequacy Report, **communications** shall state the reasonableness and supporting evidence for the third-party estimate and those matters on which the actuary has relied.
14. Where the **funeral plan trust** has a deficit for the purposes of the Asset Adequacy Report, **communications** shall comment on the suitability of the trustees' plan for eliminating the deficit over an appropriate time period and state that period.

### ***Communicating risk and uncertainty***

15. **Communications** shall include sufficient **actuarial information** to enable **users** to understand the sensitivity of the current financial position and the potential future development of the financial position of the funeral plan trust to:
  - (a) risks arising from closure of the **funeral plan trust** to new business;
  - (b) risks arising from differences between the nature, term and characteristics of the liability cash flows and the nature, term and characteristics of the cash flows from the assets of the **funeral plan trust**; and
  - (c) all other **material** risks.

Approved on            xxxxxxxxxx 2020

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