

## **Appendix F: Evidence on pre-paid and at-need funeral pricing**

1. This Appendix summarises the available evidence regarding the interaction between pre-paid and at-need funeral pricing.
2. It details the link between at-need and pre-paid prices by:
  - (a) first, providing a high-level background on the pre-paid plan market;
  - (b) second, analysing the average revenue per funeral (excluding disbursements) (ARF), average disbursements (ADF), and average total revenue (ATR) per funeral provided by the Large and Smaller funeral directors; and
  - (c) drawing on the RFI responses and internal documents of the Largest funeral directors and to a lesser extent that of smaller funeral directors.

### **Context**

3. This section briefly provides some high-level background on the pre-paid plan market. It first discusses how the market has developed recently, a description of how the market currently works, and a description of pre-paid customers.

### ***Market development***

4. The Funeral Planning Authority publishes statistics on the annual number of pre-paid plans drawn down. Table 1 shows that the number of pre-paid funeral plans drawn down has increased between 2005 and 2019, and the proportion of all deaths within the UK for which the funeral is pre-paid has grown since 2015.

**Table 1: Number of pre-paid funeral plans drawn down and proportion of all deaths for which a pre-paid plan is in place (2005-2019)**

Year	Number of pre-paid funeral plans drawn down	Proportion of all deaths for which the funeral is pre-paid
2005	30,018	5%
2006	31,158	5%
2007	34,861	6%
2008	40,846	7%
2009	38,282	7%
2010	41,727	7%
2011	44,293	8%
2012	51,041	9%
2013	57,001	10%
2014	60,622	11%
2015	88,100	15%
2016	90,600	15%
2017	89,800	15%
2018	98,800	16%
2019	105,800	18%

Source: Number of pre-paid funeral plans drawn down sourced from [Funeral Planning Authority](#); England & Wales deaths sourced from [ONS](#); Northern Ireland deaths from [NISRA](#); and Scottish deaths from [NRS](#).

- With regard to future changes in the pre-paid plan market, an internal document from Dignity from early 2018 indicated that it expects that growth will be reduced in the near-to-mid term, but in the longer term there is headroom for growth.

### **How the market currently works**

- The Largest funeral directors sell their own funeral plans which can then be redeemed within their network of branches. Funeral plan providers who are not funeral directors primarily engage with third parties as a means to sell, market and promote their funeral plans. These third parties are primarily funeral directors and third-party distributors (such as ‘cold-call centres’, lead generation websites and will writers).<sup>1</sup> The funeral directors are typically remunerated at the point of need, and are predominately concerned with securing future business for their firm.<sup>2</sup>
- [✂].
- Golden Charter submitted that a higher proportion of customers who purchased a Golden Charter pre-paid plan in 2019 made a comparison with another provider as compared to the at-need market (27%, which it compared to the 17% found in the at-need market by our consumer survey).<sup>3</sup> Further, in a 2017 document Funeral Partners noted that an emerging market trend was

<sup>1</sup> [HMT Regulation of pre-paid funeral plans: consultation on a policy proposal](#), paragraph 2.20.

<sup>2</sup> [HMT Regulation of pre-paid funeral plans: consultation on a policy proposal](#), paragraph 2.21.

<sup>3</sup> [Golden Charter September 2020; Submission to the CMA: Consultation response to the CMA's Funeral Director Market Investigation Provisional Decision Report](#), page 7; [Market Investigation consumer survey](#), Tables 40-42, Question FD1+FD2 (SUMMARY). Base: all UK adults 18+ involved in making at need burial or cremation funeral arrangements since J/A/S/O 2017 who used a funeral director (n=279).

that although at-need demand was remaining inelastic there ‘is increasing price comparison for pre-need’.

9. Recent investigations by HM Treasury indicate that the market for pre-paid funeral plans may itself not function effectively. In particular, following a call for evidence and meetings with stakeholders from across the sector, the government identified that consumer detriment is present within the funeral plan market, both at the point of sale and after a funeral plan has been entered into. This has taken the form of high pressure and misleading sales tactics, including cold-calling, poor levels of disclosure around what was included as part of the plan and reports of the mismanagement of trusts in the market.<sup>4</sup> The call for evidence also identified consumer detriment after a funeral plan had been entered into. Respondents noted concerns about the removal of high up-front costs from funeral plan monies and reports of conflicts of interest within some of the trusts’ investment strategies.<sup>5</sup>
10. The government has concluded that the current framework of self-regulation is not sufficient to ensure the fair treatment of consumers, and that a more robust regulatory framework is required. Secondary legislation to bring pre-paid funeral plan firms within the remit of the Financial Conduct Authority was laid before Parliament on 26 November 2020.<sup>6</sup>

### ***Pre-paid funeral plan customers***

11. In total, 84 respondents to the CMA’s Market Investigation consumer survey had activated a pre-paid funeral plan (PPFP) since J/A/S/O 2017. Of these, n=12/84 had redeemed a ‘contribution plan’, where the plan provider agrees to pay a pre-set amount towards the third-party costs/disbursements which may not cover the third-party costs/disbursements in full. Most (n=54/84) had redeemed a guaranteed plan, where the plan provider agrees to cover/pay the third-party costs/disbursements.<sup>7</sup>
12. In over half of cases (n=46/84) respondents stated that the plan already named a funeral director, while n=5/84 stated that the plan provider chose a funeral director when they activated the plan, n=1/84 stated that the plan provider asked them to choose a funeral director from the shortlist they supplied when they activated the plan, and n=11/84 stated that the plan

---

<sup>4</sup> [Bringing all funeral plan providers within the remit of the FCA: Annex B Impact Assessment](#), paragraph 3.

<sup>5</sup> [Bringing all funeral plan providers within the remit of the FCA: Annex B Impact Assessment](#), paragraph 18.

<sup>6</sup> <https://www.gov.uk/government/consultations/regulation-of-pre-paid-funeral-plans-consultation-on-a-policy-proposal>

<sup>7</sup> [Market Investigation consumer survey](#), Tables 274-276, Question PFP2. Base: All 18+/UK who activated a pre-paid funeral plan (PPFP) since J/A/S/O 2017 (n=84).

provider left the choice of funeral director entirely to them when they activated the plan.<sup>8</sup>

13. In under half of cases (n=32/84) respondents stated that they paid for at least one top-up above the amount covered by their pre-paid funeral plan. The most commonly chosen top-up paid for was the funeral director's professional fees (n=19/84), with the majority stating that this was an elective top-up (n=16/84) rather than it being needed (n=3/84). After this, the most commonly chosen top-ups paid for were for care of the deceased (n=16/84), a coffin (n=15/84) and collection of the body (n=15/84).<sup>9</sup>

## ARF, ADF and ATR data

14. Table 2 below shows the level of ARF, ADF and ATR in 2018, and the CAGR between 2013 and 2018, for the Largest funeral directors individually and combined. The benefit of using these figures is that they reflect the total amount paid by the customer, including additional extras. However, we have not been able to clarify whether all revenue associated with pre-paid plans are consistently recorded across the Largest funeral directors (eg administration fees). Table 2 includes both standard and simple funerals, as we do not have the data to break down pre-paid funerals into different funeral packages.<sup>10</sup>

**Table 2: Largest funeral directors at-need and pre-paid funerals' ARF, ADF and ATR (2018)**

	ARF (without Disbursements) (£)				Average Disbursements (£)				Average total revenue (£)			
	Co-op	Dig.	F.P.	Comb.	Co-op	Dig.	F.P.	Comb.	Co-op	Dig.	F.P.	Comb.
<i>At-need</i>												
Level	[£]	[£]	[£]	[£] [3.0 – 3.5k]	[£]	[£]	[£]	[£] [1.0 – 1.5k]	[£]	[£]	[£]	[£] [4.0 – 4.5k]
Real CAGR (2013–2018)	[£]	[£]	[£]	0.2%	[£]	[£]	[£]	1.6%	[£]	[£]	[£]	0.6%
<i>Pre-paid</i>												
Level	[£]	[£]	[£]	[£] [2.0 – 2.5k]	[£]	[£]	[£]	[£] [1.0 – 1.5k]	[£]	[£]	[£]	[£] [3.0 – 3.5k]
Real CAGR (2013–2018)	[£]	[£]	[£]	4.0%	[£]	[£]	[£]	1.7%	[£]	[£]	[£]	3.2%
<i>Difference (At-need – pre-paid)</i>	[£]	[£]	[£]	[£] [0.5 – 1.0k]	[£]	[£]	[£]	[£] [0 – 0.5k]	[£]	[£]	[£]	[£] [1.0 – 1.5k]

Notes:

(1) The at-need funerals include standard, simple and direct cremation for Co-op; standard, simple, limited and direct cremation for Dignity; and standard and simple for Funeral Partners. Includes both burials and cremations. The pre-paid funerals include both pre-paid burials and cremations.

(2) Dignity data takes into account Dignity's miscellaneous invoices.

15. Table 2 shows that across all of the Largest funeral directors, the ARF was significantly higher for at-need funerals as compared with pre-paid funerals.

<sup>8</sup> [Market Investigation consumer survey](#), Tables 277-279, Question PFP3. Base: All 18+/UK who activated a pre-paid funeral plan (PPFP) since J/A/S/O 2017 (n=84).

<sup>9</sup> Source: CMA analysis of consumer survey dataset.

<sup>10</sup> [£].

However, the rate of growth of the ARF, ADF and ATR is higher for pre-paid funerals for Co-op and Dignity.

16. Table 2 shows that the ADF was higher for at-need funerals, but that the difference was smaller than the difference for the ARFs. [✂].
17. Figure 1 shows the monthly ARF for at-need and pre-paid funerals for the Largest funeral directors. This shows that for all of these funeral directors, [✂] consistent with there being no or little link between the pricing of at-need and pre-paid funerals.
18. We note that in analysing Dignity's pre-paid ARF, more focus should be put on its changes across time and less on its level. This is because Dignity's pre-paid ARF may be underestimated for reasons explained in paragraphs 22 and 23.

**Figure 1: Pre-paid and at-need average revenue per funeral (excluding disbursements) 2013 – 2018**

[✂]

Source: [✂].  
Note: [✂].

19. Figure 1 shows that both at-need and pre-paid ARFs [✂].
20. Figure 1 includes both standard and simple funerals in both categories, as we do not have the data to break down pre-paid funerals into different funeral packages.
21. In explaining the difference between the ARF for standard and pre-paid funerals, Dignity stated that one of the reasons is that:

[T]here are the effects of the elapsing of time between when the pre-need funeral was purchased, and ultimate delivery of the funeral. When a pre-paid funeral plan is taken out, the price of the services to be provided is 'locked in' as of that date.<sup>11</sup> At the time of redemption, typically several years later, the cost of the services will have risen as a result of inflation. [...] As the pre-paid funeral price is fixed at an earlier point in time, the difference between the price and the equivalent at-need price is booked as a 'Pre-need discount' in Dignity's management accounts. This will

---

<sup>11</sup> Dignity noted that it 'guarantees that all pre-paid funerals will be redeemable without the need to pay any additional sum to that agreed at the point that the pre-paid plan was taken out, with the exception of any additional services added at the discretion of the customer.'

result in a lower ARF and ATR than for an equivalent funeral paid for by the consumer at the point of need.

22. Dignity stated that one of the reasons for the differences in ARF between at-need and pre-paid funerals relates to its accounting practices:  
  
[✂].
23. This indicates that the revenues recognised by Dignity's Funeral Services division for carrying out a pre-paid funeral, which is measured in the ARF, is [✂].
24. In explaining the difference between the ARF for standard and simple funerals, Funeral Partners stated the main factor is linked to the fact that the majority of pre-paid funerals conducted by Funeral Partners [✂].
25. Funeral Partners also stated that many [✂].
26. With regard to disbursements, Funeral Partners explained that fewer additional disbursement-related items are typically selected for pre-paid funerals as compared with at-need. There is no particular basis for this difference, other than plan holders perhaps looking to have reduced and more modest funeral services in place for them at the time of their death. The disbursement revenue-related items selected for at-need funerals are often linked to items such as [✂].
27. Table 3 shows the ARF, ADF and ATR for at-need and pre-paid funerals for Central England, East of England and Southern Co-ops. These funeral directors sell and redeem their own funeral plans. This table shows that in comparison with the Largest funeral directors, the level and the growth rate of the average total revenue for at-need and pre-paid funerals were approximately in line with each other.

**Table 3: Regional Co-op's at-need and pre-paid funerals' ARF, ADF and ATR (2018)**

	ARF (without Disbursements) (£)				Average Disbursements (£)				Average total revenue (£)			
	Cent.	East	South.	Comb.	Cent.	East	South.	Comb.	Cent.	East	South.	Comb.
<i>At-need</i>				[£]				[£]				[£]
Level	[£]	[£]	[£]	[2.0 – 2.5k]	[£]	[£]	[£]	[1.0 – 1.5k]	[£]	[£]	[£]	[3.5 – 4k]
Real CAGR (2013–2018)	[£]	[£]	[£]	0.5%	[£]	[£]	[£]	-0.1%	[£]	[£]	[£]	0.3%
<i>Pre-paid</i>				[£]				[£]				[£]
Level	[£]	[£]	[£]	[2.0 – 2.5k]	[£]	[£]	[£]	[1.0 – 1.5k]	[£]	[£]	[£]	[3.5 – 4k]
Real CAGR (2013–2018)	[£]	[£]	[£]	1.0%	[£]	[£]	[£]	0.1%	[£]	[£]	[£]	0.7%
<i>Difference (At-need – pre-paid)</i>	[£]	[£]	[£]	[£] [0 – 0.5k]	[£]	[£]	[£]	[£] [0 – 0.5k]	[£]	[£]	[£]	[£] [0 – 0.5k]

Source: CMA analysis of revenue and sale data submitted by Central, Eastern and Southern Regional Co-ops.

28. Table 4 shows the ARF of three Other Large funeral directors for which we have data.<sup>12</sup> This shows that the difference in ARF between at-need and pre-paid funerals is [£] that of the Largest funeral directors; the ARF for at-need funerals is approximately £950 more expensive as compared to pre-paid funerals.

**Table 4: Other Larger funeral directors at-need and pre-paid average revenue per funeral (ARF) (2018)**

	At-need ARF (£)	Pre-Paid ARF (£)	Difference (At-need – pre-paid)
[£]	2,685	2,142	544
[£]	2,490	1,906	583
[£]	4,207	2,470	1,738
Average	3,128	2,173	955

Source: CMA analysis of revenue and sale data.

29. Table 5 shows the ATR for the Smaller funeral directors for which we have data. Note that the number of Smaller funeral directors for which we have gathered data is small, and therefore the data below is only shown for illustrative purposes.

<sup>12</sup> We are not able to show the ADF or ATR, as these funeral directors provided their disbursements across all funeral types and not broken-down by at-need and pre-paid funerals.

**Table 5: Smaller funeral directors' at-need and pre-paid average total revenue per funeral (ATR) (2018)**

	<i>At-need ATR (£)</i>	<i>Pre-Paid ATR (£)</i>	<i>Difference (At-need – pre-paid)</i>
[X]	1,223	800	423
[X]	2,622	2,656	-34
[X]	3,523	3,059	463
[X]	3,560	3,078*	482
[X]	4,083	3,163	920
[X]	3,735	3,433	302
[X]	2,950	3,490*	-540
[X]	3,492	3,492*	0
[X]	4,029	3,703	326
[X]	4,295	3,927	368
[X]	5,530	3,990*	1,540
[X]	4,175	4,546*	-371
Average (Excluding [X])	3,818	3,503	314

Source: CMA analysis of revenue and sale data submitted by smaller funeral directors.

\* These funeral directors conducted less than 15 pre-paid funerals, and therefore we should place only limited weight on the average total revenue.

Note:

- (1) We use the average total revenue per funeral because for a number of funeral directors, the data provided did not split the revenue between funeral directors' fees and disbursements with a sufficient level of accuracy.
- (2) We use the CAGR between 2016 and 2018 as a number of funeral directors did not provide data for before 2016.
- (3) [X] is excluded because it did not provide full data for the portion of pre-paid plan revenue for which Golden Charter paid.

30. Table 5 shows that across most Smaller funeral directors for which we have data, the ATR per funeral is lower for pre-paid funerals as compared with at-need funerals. On average, the difference between at-need and pre-paid funerals ATR is relatively small for Smaller as compared with the Large funeral directors. [X].

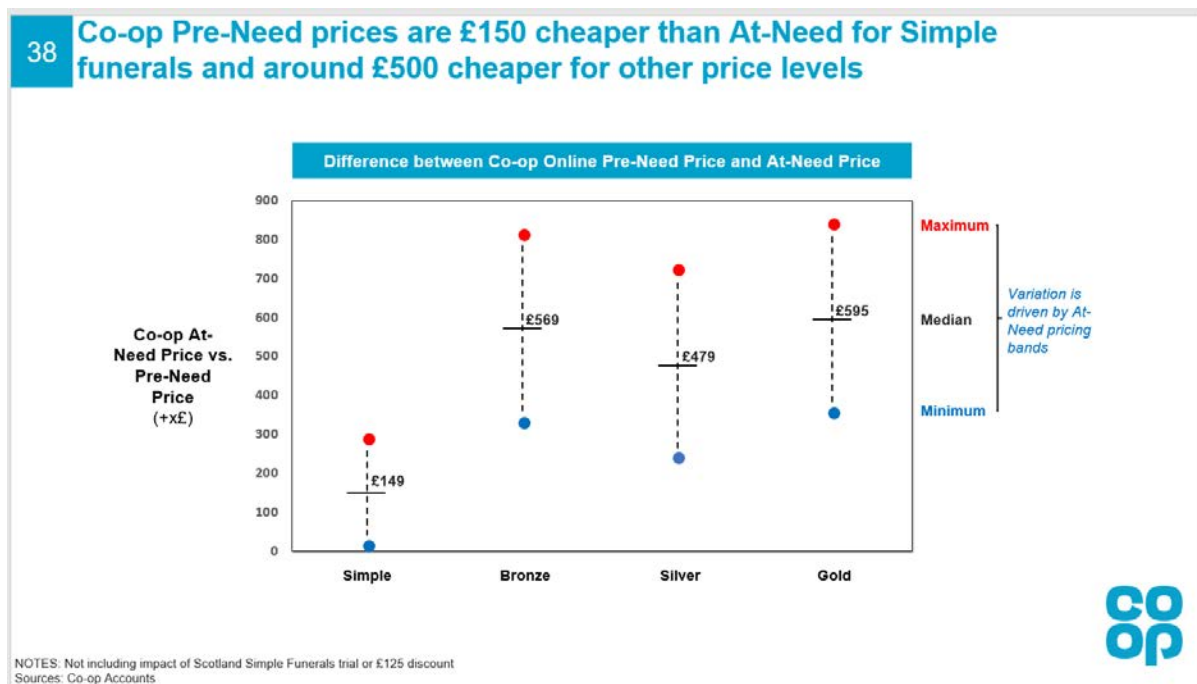
## Qualitative information from Largest funeral directors

### *Link between at-need and pre-paid prices*

31. We asked the Largest funeral directors to provide evidence as to whether pricing for at-need funerals is influenced by their own or rivals' pre-paid funeral prices.
32. Co-op stated that 'when making pricing decisions, we do take into account the relationship between our own at-need and pre-need pricing'. [X].
33. Figure 2 shows Co-op's pricing from 2017. It shows that Co-op considered the difference in prices across its at-need and pre-paid offerings. It shows that across different funeral packages, the price differential is relatively small for simple funerals (£149) compared with its other funeral packages (between £479 and £595). Further, it observes that variation between at-need and pre-paid funeral prices is driven by at-need pricing bands, rather than a mix of pre-paid and at-need drivers.



Figure 2: Co-op comparison of at-need and pre-paid prices



Note: [redacted].

34. From an internal strategy document from 2017, in the executive summary of its at-need offering, it notes that a 'highly competitive pre-need market' is one of six trends 'that have driven recent price dynamics, most of which are still in development and could drive a further acceleration in the shift towards the low-end'.
35. From an internal strategy document from 2017, in the executive summary of its pre-paid offer, it mentions its position compared with major pre-paid competitors and Guaranteed Over 50s products, noting that pre-paid funerals are sold at a discount compared with at-need funerals and that 'the discount versus At-Need also needs to be checked, ensuring the rationale for this advance purchase saving'.
36. Further, in the discussion of its at-need prices it does not make reference to pre-paid prices.
37. This shows that there is some consideration of the price differences between at-need and pre-paid funerals, and that at-need and pre-paid funerals were considered in relation to each other but with no significant prominence. However, it does not show that at-need funeral prices were set with regard to pre-paid funeral prices or that there is a strong link between at-need and pre-paid pricing.
38. A Co-op internal strategy document from 2017 relating to pre-paid funerals notes that [redacted]. This shows that Co-op predominantly seeks to set pre-paid

funeral plan prices with regard to competing pre-paid packages, rather than in reference to the at-need funeral price.

39. Dignity has stated that:

Dignity notes that pre-need is a highly competitive market and that pre-need plans are a material part of the wider funeral market: 27% of Dignity funerals come from pre-need plans and Dignity expects the pre-need funerals to be [redacted] funerals across the UK.

Although pre-need is a material part of the market which can influence the at-need funeral prices, Dignity has not conducted any specific analyses exploring the impact of the pre-need prices on at-need prices.

40. Dignity has not provided specific evidence in its response.

41. [redacted]. As an example, it stated that 'Dignity's full-service at-need funeral is typically priced from £3,545 and the comparative pre-need product (the 'Amber Plan') is priced at £3,395, inclusive of a cremation or burial contribution that increases each year in line with the Retail Price Index (RPI) and Minister fees'.

42. Internal documents provided by Dignity show that it is aware that 'sometimes at need pricing is considerably more expensive than pre need'. However, this is noted only in the context of it being confusing for branch staff to explain this to customers, and Dignity does not state that this affects its pricing decisions.

43. Funeral Partners explained that 'the price of our internal pre-paid funeral plan offering (called Choice) is set in comparison with [redacted].' Funeral Partners did not establish a link between at-need and pre-paid funeral prices.

### ***Do pre-paid funerals represent incremental funerals***

44. If pre-paid funerals cannibalised at-need funerals (ie pre-paid customers would have otherwise purchased at-need funerals from the same funeral director) then this may incentivise funeral directors to align their pricing strategies.

45. Co-op has stated that a recent model shows that through the funeral home channel [redacted].

46. A Dignity strategy document acknowledges that pre-paid funerals may 'cannibalise' future at-need sales, but that pre-paid sales represent a 'safe'

sale in the context of regulatory and market uncertainty. This document states that:

[redacted].

Comparison of the annual death rate with the number of annual plan sales suggests that c. [redacted] of the future 'at need' market has been cannibalised to date.

47. Funeral Partners provided a market background document which details its understanding of the pre-paid funeral market. One strategy document discusses why funeral homes generally (not specifically Funeral Partners) are not perceived to be a natural route to market for pre-paid funeral plans. One reason it gives is that:

Many funeral home owners started from the point that pre-need funeral plans were a suppressant on their margins. This view was not groundless. Prescribed packages were nationally priced, often below the funeral home's at-need price list. The more time consuming, bespoke pre-payment plans were often priced at uplifts of typically 15% over the funeral director's at list price, on the basis that customers could not possibly expect "tomorrow's service at today's prices". Given the parochial markets in which funeral homes operate, the funeral directors perceived that they would be selling a percentage of plans to families who would, in any event, have used their at-need services away.

48. This suggests that Funeral Partners considers a portion of pre-paid sales to be 'cannibalised' funerals that would have otherwise been at-need funerals.

### **Qualitative information from smaller funeral directors**

49. We have also gathered evidence from a number of smaller funeral directors regarding whether pre-paid funeral prices are set by reference to at-need or vice versa. This section summarises the available evidence from these funeral directors. It should be noted that due to the nature of the funeral director industry, the funeral directors below consist of a very small sample.

(a) [redacted] stated that it increases the price of its at-need funeral packages to grow in line with the price of pre-paid plans. This is to ensure that when the pre-paid plans are redeemed, it received the same amount as it would receive if it were at-need.

(b) [redacted] stated that when it sells a pre-paid plan, the initial price is set directly in reference to at-need prices. However, it said Golden Charter takes a

significant number of fees and commissions off the amount paid to the funeral director, such that it may sometimes become economically unviable for [REDACTED] to redeem the plan at the point of need.<sup>13</sup>

- (c) [REDACTED] stated that it set its at-need prices by deducting approximately £200 from the pre-paid Golden Charter plan price, and that it would follow increases by Golden Charter by increasing its at-need funeral prices.

---

<sup>13</sup> Golden Charter stated that [REDACTED] per cent of its plans in the year 2019/20 had a total deduction of £[REDACTED] on maturity, and that the maximum deduction that Golden Charter makes on any plan is £[REDACTED] but that this occurs in [REDACTED]% of all its plans.