

Mid-Year Tune-up Tips to Enhance Your Preneed Program Performance

By Michael Faherty

Most areas of your firm's business will benefit from an annual tune-up. With 2024 hitting the halfway mark, now is a good time for funeral directors to re-evaluate preneed operations to ensure you are maximizing the revenue and income potential of trust assets and buttoning down compliance matters to make sure this all-important program is functioning at peak performance.

A preneed program – especially in areas related to trust investments and administration – is not a “set it and forget it” type of undertaking. That approach, however, is not uncommon – and for many valid reasons. For example, many funeral directors would prefer spending time with families during their time of need when a loved one passes or helping families plan for the future and create a truly memorable celebration-of-life service. Trust administration and recordkeeping duties tend to get pushed to the back burner.

Your preneed program will require more demands on your time. Demographic trends in our country are not going to change, and current consumer behavior points to preneed being the preferred option for end-of-life planning. Given that backdrop, funeral directors will need to feel confident that the funds placed

in trust will cover the cost of services and merchandise when the contract goes at-need in seven to 10 years (on average).

There are two other noteworthy reasons to tune up your preneed program. As you sell more preneed contracts, those trust investments will become a larger percentage of the enterprise value of the business should you decide to sell your funeral home. Also, an uptick in the number of executed contracts increases the margin for unintended bookkeeping mistakes, which could result in unwanted attention from state or federal regulators.

Undertaking a periodic review to ensure preneed trust investments and accompanying books and records are compliant and properly maintained is a task that funeral directors know should be on an annual to-do list. But when was the last time you did it? If the answer is, “Within the past year,” then congratulations. You are ahead of the curve. If the answer is, “I cannot remember,” then here's our advice – Do it soon and focus on these five areas:

1. TRUST INVESTMENT PERFORMANCE

This is one of the most important areas to review because fixed-income securities have a significantly higher yield compared to several years ago

when the yield was next to nothing. In a conservative allocation of 60% equities and 40% fixed-income securities, those fixed-income assets now have the potential to generate substantially more income during the next several years.

The investment performance of your trust portfolio is a key driver in the profitability of your preneed program, so you should have a solid understanding of the asset allocation of trust investments. Trust portfolios should be benchmarked to appropriate indices, such as the Bloomberg Barclays U.S. Aggregate Bond Index for fixed-income securities and the S&P 500 for equities. It is the best way to evaluate the performance of your investment manager.

2. ACCESS TO TOP INVESTMENT MANAGERS/FIRMS

Put simply, your funeral home should have access to leading money managers who can provide plenty of investment options, and those professionals must have an extensive, proven track record of successfully managing preneed trust investments. If not, it is time to look for someone else.

Preneed trust investment regulations vary by state. A minor clerical error or portfolio allocation misstep can cause your program to be out of compliance or miss invest-

ment return goals. Here is a prime example: Many state regulations permit funeral homes to retain a certain percentage of the trust-funded preneed sale. Suppose non-trusted funds are deposited in short-term investments (money market funds, certificates of deposit or similar investments) and not allocated proportionally to longer duration fixed income securities and equities, per the investment manager's strategy. In that case, the owner is likely leaving money on the table in the form of higher long-term returns and investment income.

3. TRUST INVESTMENT MANAGEMENT FEES

Most funeral directors would be hard-pressed to know the management fees that investment managers charge. Those fees, however, over time can have a major impact on portfolio performance. Get reassurance from your trust administrator that the management fees are appropriate and reasonable. Only work with respected, top-performing money managers who offer a competitive fee structure. Many companies have run into trouble with regulators for paying high fees to investment managers.

4. FINANCIAL REPORTING

I cannot overstate the importance of having user-friendly preneed trust reporting and recordkeeping technology at your fingertips. Today's digital tools allow funeral directors to generate – with a few clicks of a mouse – monthly reports on the market value and income for each trust and each item for every preneed contract. The technology also makes it easy to allocate earnings, fees, expenses, and taxes to individual contracts every month. If your trust and recordkeeping application cannot do that, it is time to find a new solution.

5. INVESTMENT POLICY STATEMENT

Your preneed trust's investment policy statement is another area that is sometimes overlooked. Your IPS must accurately reflect how preneed funds are invested. It should include specific language that describes investment objectives, rules for buying/selling securities and related financial products, and the roles and responsibilities of the plan's fiduciary. Yes, this is about as boring as it seems, but funeral homes can run into trouble with auditors and regulators if they neglect to update the IPS when changes are made.

Preneed likely will be the fuel that drives the growth of the death-care industry. Tuning up your preneed engine will serve as a catalyst to increase revenue and profits, so your funeral home has the necessary resources to serve the families in your community better. •



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