

How to Maximize the Profitability of Your Preneed Trust



A preneed trust is a valuable, mutually beneficial option for end-of-life planning and to assure long-term financial stability for firms. Well-run preneed programs provide considerable peace of mind for families as they look to alleviate the financial burden on their loved ones.

Operators are well aware that preneed trusts also serve as a vital source of long-term revenue, creating a steady income for firms and funds to defray costs when the trust goes into effect. However, as economic and industry

conditions evolve, a strategic approach is necessary to improve preneed trust profitability.

Here, we explore several considerations to ensure the maximum return on preneed trust program management.

ECONOMIC AND INDUSTRY TRENDS IMPACTING PROFITABILITY

Staying attuned to economic trends is essential for maintaining preneed trust profitability. Inflation and fluctuating interest rates create a constantly

shifting and sometimes even volatile financial landscape that can significantly impact investment returns.

A diverse portfolio overseen by an experienced investment manager is critical to minimizing any risk of loss on returns. We want investments to ideally outpace the inflation rate, as inflation reduces the actual value of returns. Rising interest rates can also negatively impact the rate of return, lowering the value of existing bonds and leading to capital losses. Portfolio diversification and management by an investment pro-

professional with a proven track record are essential to weather market swings and generate a successful return on investments.

Preneed trust profitability also depends on operators remaining competitive in the death-care space. The funeral industry has experienced increased consolidation as large conglomerates acquire smaller firms, modernizing their services and offering more competitive pricing. To combat this, smaller firms must stay on top of current trends and consumer preferences. Embracing digital solutions for memorial services, eco-friendly options, and incorporating unique, personalized elements can help differentiate your offerings and set your firm apart in a crowded market. Additionally, while the aging baby boomer population indicates a growing demand for preneed services, the age and health of preneed trust holders can vary. This variance means adapting and catering to the preferences of younger generations involved in planning and decision-making.

INVESTMENT PERFORMANCE AND FEE STRUCTURES

As mentioned above, partnering with a top-performing money manager is paramount to optimize preneed trust profitability. A professional with a wealth of experience navigating market fluctuations and identifying lucrative investment opportunities is ideal. A skilled manager will ensure your investments are handled with the highest level of expertise, maximizing returns and minimizing administrative costs. It's also worth considering managers specializing in investment strategies aligning with preneed trusts' long-term nature. Ideally, with the assistance of an expert investment manager, operators will have a trust that exceeds the value of service prices once adjusted for inflation.

Maintaining a competitive fee structure is equally important in profitability. High fees can erode returns, so comparing your fees against industry standards and negotiating better terms where possible is recommended. Fee structures that reward performance, for example, incentivize the investment

manager to align their interests with your profitability goals. Additionally, a tiered fee structure that adjusts as the size of the trust grows may be worth considering.

To accurately evaluate investment performance and the value your manager brings to the trust, benchmark your portfolio against the appropriate index. The S&P 500 or the Bloomberg U.S. Aggregate Bond Index are indexes widely used to help assess a portfolio's alignment with market performance. This comparison helps to determine if your investments are performing well and whether you need to adjust for better performance. If investments decline or fail to keep pace with the rising operating costs of funeral services, the trust's value may fall short of covering future service expenses. Benchmarking is a temperature check on the health of your portfolio; it is a proactive assessment to ensure a successful return on investment.

CONTRACT MANAGEMENT AND LENGTH

Effective contract management is crucial to the successful administration of preneed trusts. Contract lengths must be regularly reviewed and adjusted to safeguard trust values, so they remain aligned with current service prices. Provisions for periodic reviews will allow for these adjustments.

It is vital to understand these periodic reviews and adjustments. Firms should seek guidance on how contract adjustments contribute to their investment's long-term value and security, including statistics on the average duration of time from contract signature to at-need. Understanding the average time from contract signing to the need for services can help you forecast future financial needs and adjust investment strategies accordingly, enabling you to provide the best service to clients.

REPORTING AND TRANSPARENCY

Regular assessment of preneed trust performance is vital for maintaining profitability, compliance, and client confidence while optimizing investment strategies and managing risks

effectively. At a foundational level, you should receive regular, detailed investment performance reports and meet with your investment manager to review them. These reports should include comprehensive data on investment returns, fees, and any significant portfolio changes. A relationship built on transparency with your investment manager will allow for open communication to address concerns and allow you to make informed decisions about portfolio management. This, in turn, allows for transparency with your clients. Meeting regularly with your investment manager is an opportunity to monitor growth and identify areas for improvement so your trust remains profitable. An active, collaborative approach to investment management will help you achieve your financial goals and ensure client satisfaction.

The death-care industry is a profession built on compassion, trust, and service to those in need. Effective management of preneed trusts is crucial to maintaining these values. The strategies outlined above ensure operators can fulfill their commitment to families. Staying informed about economic trends, working with top-tier money managers, managing contracts effectively, and prioritizing transparency will provide long-term stability and growth. Further, maintaining strong client relationships and embracing innovation in an increasingly competitive industry will bolster your firm's reputation and success in the evolving death-care industry. •



Michael Faherty
has been serving clients in the death-care industry for more than seven years. He has more than 20 years in financial and

investment experience. He holds a blended role with both FSI and Argent Financial Group's Funeral and Cemetery Trust division, where he applies the benefits of both firms to existing and future clients, offering a seamless experience for clients of both companies.