How important are perpetual care funds for cemeteries?

Mannix: Perpetual care funds are essential for any cemetery. The income from a perpetual care fund is meant to pay for the upkeep of the cemetery in perpetuity. However, it is used for more than that. Many of the cemetery operators I have come in contact with view their cemeteries as a promise. They take pride in every aspect of the cemetery to ensure it is a place where families can gather, pay respects, have fond memories and be at peace with the natural occurrence of someone passing. Perpetual care funds are a means to help keep that promise.

Williams: Perpetual care funds are crucial. For cemetery operators, income earned from perpetual care trusts offset annual maintenance costs, helping to ensure long-term care of the cemetery. General maintenance and repair of cemetery grounds including lawns, roads and paths, and signage is key to positively marketing the cemetery. For existing and potential client families, perpetual care funds offer the assurance of a safe, well-kept resting place. Perpetual care trusts are vital to sustaining the value of a cemetery and communicating that value to clients.

In your opinion, how would an ideal cemetery perpetual care fund operate?

Mannix: An ideal perpetual care fund would generate enough income for both annual expenditures (e.g., mowing the grass, planting flowers, trimming trees, etc.) as well as contribute to a nest egg for unexpected or nonannual maintenance costs (e.g., road paving, fence or stone wall repair, building maintenance for chapels or administrative buildings, etc.) far into the future. An ideal fund would be managed with an understanding and plan for costs — normal and unexpected — into the future. It would not only place enough investment funds in the care fund early on, but also manage the investments appropriately for the desired amount of growth needed per year to meet future expectations. When cemeteries get behind in funding or growing the perpetual care account
or don’t have a detailed, multiyear budgeted business plan to guide them, they may need to be more aggressive than they can really afford to be. A well-planned care fund should manage a desired return that meets the calculated growth and income forecasts well into the future.

**Williams**: Traditionally, cemeteries have utilized income rule trusts for perpetual care funds.

With income rule trusts, trustee investment duties adhere to the Prudent Person Rule, directing a trustee to invest in a manner that seeks “reasonable income” and preserves capital. The trustee invests assets with the objective of producing as much income as possible. The trustee distributes these earnings, which are used to offset a cemetery’s general maintenance costs, while retaining the original amount invested in the trust. This type of investment approach typically yields a lower total rate of return, minimizing growth of the principal in the trust.

Today, a much better trust solution, the total return trust, is available in some states (and should be adopted by all states) for perpetual care funds. A total return trust accounts for both income and capital appreciation, the increased value of the original investment. Total return trusts allow the trustee to focus on the total return – maximizing the growth of both income and principal.

One type of total return trust is the unitrust. With the unitrust, the trustee distributes a percentage of the trust based on the fair market value of its assets, regardless of income earned or the original amount invested in the trust.

As opposed to withdrawing only income, the unitrust allows cemeteries to withdraw a percentage, no less than 3 percent and no more than 5 percent, of the total fair market value of the trust for annual care and maintenance.

Typically, a unitrust:

- Produces a return 2 to 4 percent greater than an income trust
- Allows cemetery operators to withdraw almost twice as much care and maintenance funds
- Grows principal at a greater rate than an income trust
- Shows exactly how much funds will be available for withdrawal in advance, which is key for budgeting purposes.

**What are some common mistakes that can be made when it comes to perpetual care funds, and how can they be avoided?**

**Mannix**: A very common mistake is lack of planning. This doesn’t just refer to investing, but also a detailed future plan of costs and what percent of those costs need to come from the fund versus cemetery operations. It’s an annual budget that projects far into the future and is amended with each passing year as the business changes due to internal and external factors. Many, but not all large cemeteries do this. Many smaller to mid-size cemeteries do not. The key thing to remember is that it is never too late. It’s called “perpetual” care, not “next year’s” care, so it is important to understand it is a marathon, not a sprint. Those without a plan should create one and start with small expectations of how to improve incrementally year after year.

Another common problem is underfunding a perpetual care fund. When evaluating a trust’s performance, a trust’s investment strategy should be measured against a similar investment strategy with similar indices. The historical rate of return and level of risk should be taken into account when comparing trust earnings.

Trust returns should be measured regularly against similar indices to judge investment performance.