



TRUST SOLUTIONS

A well-oiled machine: Building high-powered preneed and perpetual care trusts

Ensuring a preneed or perpetual care trust operates effectively requires an integrated approach — collaboration among several moving parts, each with a separate role and distinct set of responsibilities. Due diligence and a well-defined structure designed with inherent checks and balances, is paramount to ensuring regulatory compliance and the financial health and stability of a trust.

Overview

For more than a decade, media coverage has depicted the broken state of preneed and perpetual care trusts across the country. Instances of negligence, investment shortfalls and inadequate funds tarnished the reputations of all parties from funeral and cemetery professionals to regulators, trustees and investment managers. Generally, the culprit has been poor and improper management of preneed and perpetual care funds. Recognizing the breakdown, consumers, regulators and leaders in the death care and financial services industry, called for expanded structure and increased oversight of preneed and perpetual care trusts.

This paper examines the need to distinguish the duties of all parties of a preneed or perpetual care trust: the funeral or cemetery firm, the trustee, the investment manager, independent impartial performance analyst, and the third-party trust administrator and record-keeper.

Segregation of Duties

To protect death care professionals from unforeseen investment shortfalls, the duties of creating and operating a trust should be separated among several parties. This kind of compartmentalization also helps verify the actual rate of return of the trust's investments. In addition, it helps avoid conflicts of interest while creating a system of healthy checks and balances, benefitting the death care firm and its clients.

Typically, duties are divided among four parties to the trust:



Trustee



Investment manager



Trust administrator/record-keeper



Funeral home/cemetery

We will briefly examine the roles of each in regard to their duties and responsibilities toward the trust.



Trustee

The trustee should be a state or nationally chartered trust company or a bank with trust powers. The trustee has the fiduciary responsibility of the entire trust, and their duties include working with the funeral home or cemetery to develop an investment policy statement and overseeing the work of the investment manager. The trustee should never be a group of individuals (such as funeral directors or cemeterians) because this would put them in a position of personal liability.



Investment manager

This individual or organization makes the decisions on how to invest the funds of the trust. Often, the trustee will also serve in this role. The investment manager must decide what instruments to invest in by closely following the guidelines put forth in the IPS.



Independent impartial performance analyst

This is usually an individual who analyzes the performance of the trust's investments. To avoid conflicts of interest, it is critically important that this analyst be completely independent of either the trustee or the investment manager. Duties include calculating and reporting the rates of return on the trust's investments. This should be given proper context by comparing performance to a widely known benchmark, such as the S&P 500.



Trust administrator/record-keeper

This independent party processes and reports on trust transactions. In the case of preneed trusts, the trust administrator and preneed contract record-keeper reports and manages distribution for individual preneed contracts. Duties include supporting trustee and firm compliance with state preneed and perpetual care regulations. This function alone can substantially affect the growth of a trustee's business. The administrator can also substantially reduce a trustee's workload while optimizing the efficiency and effectiveness of the trustee's business.



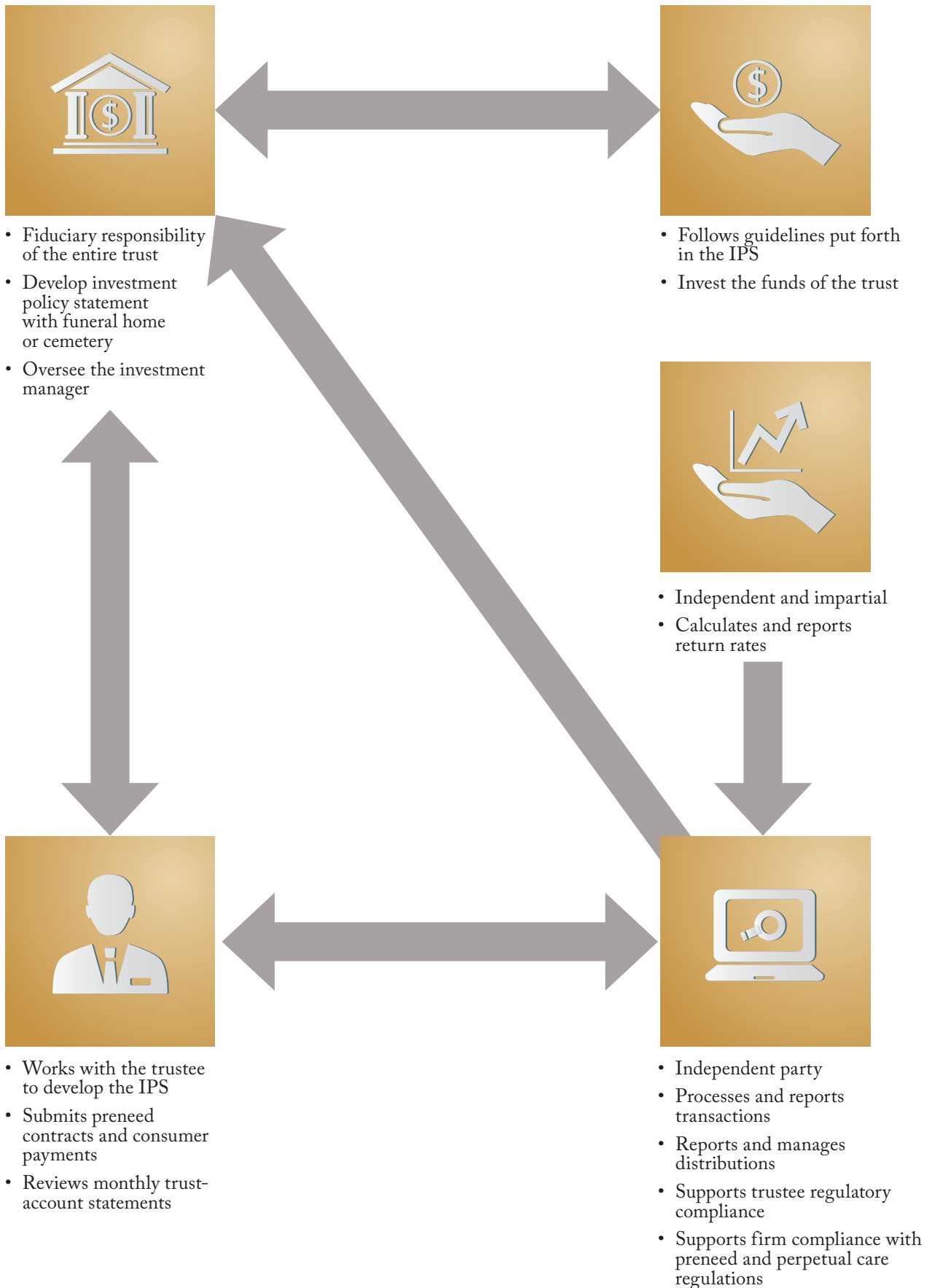
Funeral home/cemetery

Of course, the death care provider also plays an important role in the trust. This includes working closely with the trustee to develop the investment policy statement, submitting preneed contracts and consumer payments on time, and reviewing every monthly trust-account statement. The importance of this last item cannot be overstated; careful attention must be paid to assure a complete understanding of each monthly statement. One final responsibility is also very important: asking questions about anything and everything that is not understood completely.

The more those in the death care industry know about trusts and how they work, the better they will be able to create trusts that truly serve the interests of everyone involved.

Investment Policy Statement (IPS) – general guidelines outlining a trust's investment objectives and strategies

Relationship Among the Parties



About FSI

Funeral Services, Inc. (FSI) is a preneed administration and contract record-keeping company that provides trust solutions to funeral homes, cemeteries, industry associations and financial institutions. FSI offers web-based technology designed for preneed and perpetual care programs and expert knowledge of the death care profession. FSI, a company created by death care professionals for death care professionals, has more than 35 years of industry experience and actively serves more than 500 clients in 19 states.

For more information about FSI and its services, contact info@fsitrust.com.

