



Preneed Funding Options: Insurance, Trust or Hybrid

by *Paul E. White, Vice President,*

Client Development and Marketing, Funeral Service, Inc. (FSI)

Service is the foundation of the death care industry. Funeral homes are designed to support family and friends as they celebrate the life of a loved one. For this reason and more at-need services often times take precedence over preneed. The immediate revenue generated by the sale of tangible goods is needed to run the day-to-day operations of the business. However, preneed sales and family counseling is instrumental in creating relationships within the community that will not only support your business today, but well into the future.

Preneed funding options have experienced change and criticism over the past decade. New technology has provided instant access to contracts and market values, while industry shortfalls have created a sense of uncertainty surrounding specific funding methods. No matter the level of expertise you have as a death care professional – beginner or novice – taking a closer-look, or a second-look, at what may seem commonplace can help chart the path for a successful year. The following outlines preneed funding options to help empower funeral home directors and management to choose the appropriate funding method to provide their customers with a service that will maximize the business's success – today and tomorrow.

Funding Options

In today's marketplace there are a number of preneed funding methods to choose from and selecting the appropriate funding options can become an overwhelming task. State regulations help determine the funding mechanisms. The common methods are trust and insurance-funded programs. Another method used in the market is a hybrid option, which is a trust-funded program that invests in insurance. This is commonly known as a TIO product. When evaluating

what option is best suited for your funeral, you must consider:

- *Regulatory, licensure and administrative requirements*
- *Risk tolerance*
- *Desired earnings*
- *Clientele*

Trusts

Trust funded programs offer the potential for higher returns, but due to market volatility, has a higher risk compared to an insurance-funded contract. The risk associated with the trust can be mitigated with increased transparency through an Investment Policy Statement (IPS), administration and proper record keeping. A sound trust funded program has a balanced investment strategy where funds are divided among equity investments and fixed income investments, with a small amount of liquid investments available to readily pay fees and distributions from the trust. A funeral home can establish a single trust for the exclusive use of one single firm or join a master trust designed for numerous firms and organizations. Joining a master trust allows the operating costs of the trust to be shared, a larger total asset base for investment and diversification to reduce the risk associated with the trust. Either option, single or master trust funded programs are not prohibitive based on factors such as age and health.

Insurance

An insurance funded preneed program is often times perceived to be a more stable investment strategy. There generally is less risk with insurance than a trust, as it is not directly affected by market volatility due to the insurance company's typical investment in bonds.

Where a trust-funded program can generate a higher rate of return, the insurance method generally offers a set rate of return. This method affords the preneed sales team the opportunity to earn commission. However, in addition to the required preneed sales license, funeral homes that choose to offer the insurance funded program will typically find that their state requires an additional license to sell insurance. The state may also require the funeral home to have an agency license in order to earn commission from the preneed sales. A consumer's age and health may limit the type of coverage available for this type of preneed funding.

TIO

The TIO method combines aspects from both the trust and insurance funding options. A TIO option offers a trust-funded program that invests in life insurance with the funds from a preneed contract sale. It generally offers a set rate of return with the potential for insurance commissions. State laws vary and the TIO option is not permitted in most states. Where it is permitted to be used, there is the potential for earning commissions from the insurance investment; there is also the possibility that the state may permit withholding a portion of the trust payment. Additional insurance licensing is not required for this option as it is sold as a trust. The TIO preneed funding method is an option not affected by the consumer's age or health.

Funding Comparison

	Trust	Insurance	Hybrid
Provides Commissions		✓	✓
May keep a portion of the preneed sale when sold (non-trusted portion)	✓		✓
Has a known, fixed rate of return		✓	✓
Market driven rate of return	✓		
Pays face value if not paid in full (typically after 2 years)		✓	
All consumers qualify	✓		✓
Requires a Preneed Sales License	✓	✓	✓
Requires an Insurance License		✓	
Firm must be registered as an Insurance Agency		✓	

A Model Program

Evaluating the various funding options and selecting the method that best suits your funeral home's needs is the starting point. Building a model program that is financially sound requires key elements specific to the funding method you choose, whether trust, insurance or TIO.

Trust & TIO Preneed Methods

Trust and TIO programs require three key elements: an Investment Policy Statement, segregated roles and responsibilities of the various parties selling and administering the products, and fair market value reporting and distribution of assets. An Investment Policy Statement (IPS) is developed by the trustee in coordination with the funeral home or the master trust to outline the trust's investment goals and objectives. The IPS is the road map for the investment with specific strategies to meet the trust's goals such as asset allocation, risk tolerance and liquidity requirements. For preneed trusts the investment goal is to grow the principal and outpace inflation, while minimizing investment risk.

To ensure transparency of the trust there should be clear segregation of roles and responsibilities of all parties involved in the management of the trust. The roles include a trustee, investment manager, independent investment reporter, trust administrator or record-keeper, and the funeral home or cemetery. The division of responsibilities ensures proper checks and balances. See the roles and responsibilities in the provided relationship graphic. To provide an accurate assessment of how the trust's investments are performing death care professionals should report the fair market value of the trust and each preneed contract within the trust. The fair market value is the cash value of the trust if all investments were sold at the given time. This paints a clear picture of the financial health of the program. In addition to reporting, assets should be distributed at fair market value upon contract fulfillment. This distribution accounts for the earnings as well as realized and unrealized gains or losses.

Insurance-funded Preneed Method

While the elements for an insurance-funded program are different from the trust and TIO options, this preneed funding method requires the same level of due diligence to ensure a financially sound program. For insurance-funded programs the key elements are: insurance company ratings, training and licensure, and returns versus funeral inflation.

Selecting a credible, financially strong organization is key when providing an insurance-funded program. Death care professionals should select a program from an A.M. Best top-rated insurance company. Doing business with an organization of this caliber provides

an added sense of security not only for the funeral home but also the consumer.

It is important when selecting this method that the funeral home and all professionals within the organization understand the regulations for both the death care and insurance industries. Typically, this type of program requires state licensure for both the funeral home and the individual selling the contracts. Along with licensure, periodic training updates are required.

The goal of any preneed funding program is to outpace inflation. Death care professionals who select the insurance-funded method should analyze the investment's rates of return alongside the projected rate of inflation. Understanding how these two elements of the contract will work is key to meeting the program's financial goals.

The Future of Preneed

The industry has faced a number of cases of fraud where consumer's investments were misused and leaving them in vulnerable positions regarding their

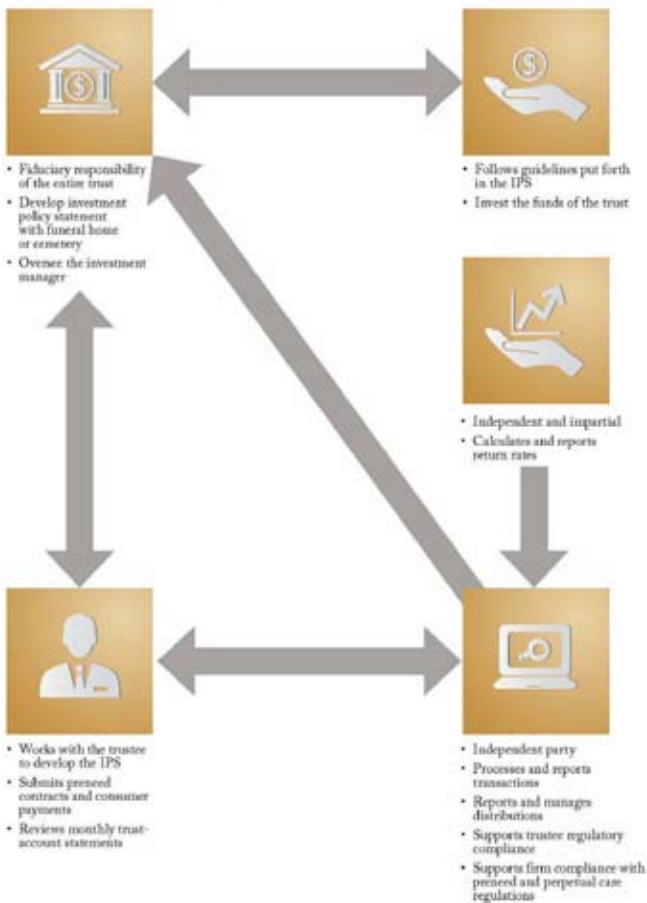
end of life plans and preparations. As the whirlwind of those high-profile cases begins to dissipate, death care professionals should actively look at strategies to develop sound relationships within the industry and build trust within their communities. Selecting and understanding the preneed funding options for your funeral home is the beginning. Preneed sales are the future of your funeral home, and should be an integral part of your team's goals and objectives. Taking the time to assess your needs and select the option best suited for your business is time well spent and will allow you to safeguard your firm's reputation and financial success.

Technology continues to shape the landscape of the death care industry, more specifically, the preneed side of the business. Preneed contracts are now available electronically, not only on your desktop computer but also on your iPad or handheld device. Death care professionals have access to the details of their trust and insurance contracts at their fingertips. This is a trend that will continue to grow and improve the efficiency of the funeral home's and cemetery's daily operations. The generation targeted for preneed sales may be more comfortable and open to technology – and as the target audience continues to shift, technology will not be an added selling point but an expected offering.

Finding balance between the at-need and preneed services your funeral home provides is a delicate process. You should assess your internal resources and processes, and your future goals. Preneed is your service backlog – it is essential for the firm's long-term financial security. Building that backlog is about the customer relationships and a strong preneed funding program.

Whether you are looking for a new preneed funding option or satisfied with your current program, staying abreast of current industry standards and trends will help your business succeed. Preneed funding methods are different today than they were twenty years ago and will continue to change as industry regulations, standards and technology evolve within the next twenty years. The key to staying relevant and providing the best service to your preneed clients – is finding the right option for your funeral home.

Relationship Among the Parties





Paul E. White is vice president of client development and marketing for Funeral Services, Inc. In this role, he is responsible for educating prospective and existing clients about FSI's products and services and maintaining the highest quality of customer service. He has a 40-year career in at-need and preneed

operations and an extensive background in funeral home client development and sales and marketing services.

Prior to joining FSI in 2005, Mr. White was a partner in and served as vice president of sales for one of the country's leading preneed sales and marketing organizations. Prior to that, Mr. White held numerous management level positions in both preneed and atneed operations for the country's largest publicly held deathcare provider. Mr. White began his deathcare career at age 15 in a family funeral business in western Pennsylvania. He graduated from the Pittsburgh Institute of Mortuary Science in 1975 and became a licensed funeral director and embalmer in 1976. Mr. White trained and became a Certified Celebrant in 2010.

Mr. White actively participates in several industry organizations including the Florida Cemetery, Cremation & Funeral Association, the International Cemetery, Cremation & Funeral Association, the National Funeral Directors Association and the Cremation Association of North America. He leads training sessions and writes articles on topics including celebrant services, preneed funding, program technology and preneed sales and marketing.

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