

Adjusting **FOR** Cremation



**Exploring
a proactive
tool for
maintaining
and even
growing
returns despite
the rise in
cremation.**

BY BILL WILLIAMS

Traditionally, the deathcare industry at large has adapted to change at a slower pace than consumers. And in recent years, many consumers have altered their views on what they expect from end-of-life ritual. This has created a sizable change in how the deathcare industry operates and the resulting modifications our profession can expect to see – and should plan for – in the future.

People are increasingly opting for cremation over burial, and recent numbers from NFDA research support this trend, with the projected cremation rate in the United States expected to rise more than 20% over the next two decades – from 57% in 2021 to 78% by 2040. It's also part of what has been a meteoric rise in the number of people choosing cremation rather than burial over the last half-century, with an increase of more than 1600% since the 1960s. COVID-19 accelerated this tendency even more in 2020 because of safety and necessity, but the movement in no way appears to be short term.

Consequently, this prevailing choice of cremation means less money per contract and less money in preneed trusts. What options are there for funeral businesses looking to ensure a more profitable future when faced with this data? This article will explore a proactive way funeral homes can maintain and even grow returns despite the rise in cremation rates – by considering a master trust.

Master trusts allow multiple firms to participate in a single, larger trust, which can offer a wider variety of investment options.

IMPACT ON PRENEED CONTRACTS

Burial is more costly than cremation, and this is having a large effect on funeral homes' bottom line. However, investment in a master trust can be an effective tool for funeral home operators to counteract the shift toward cremation and maximize return on investment. Master trusts can help in shar-

ing overhead costs between different contributing firms, while also sharing the benefit of more proactive investment management.

HOW DO MASTER TRUSTS WORK?

Individual, smaller trusts do not gain the same benefits of master trust investing. Small trusts typically sit with local banks, can be limited in investment options and therefore can miss out on the opportunity for greater ROI.

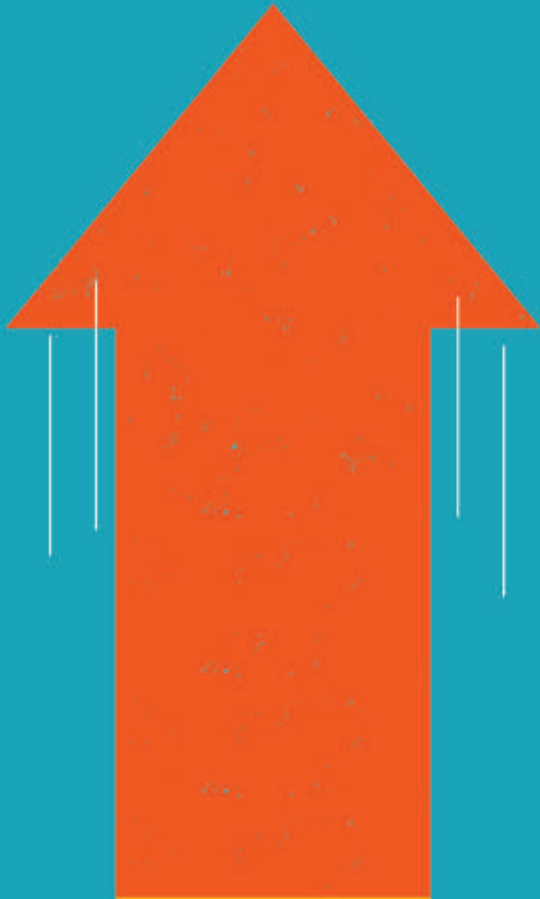
Conversely, a master trust allows multiple firms to participate in a single, larger trust. These master trusts can have hundreds of millions of dollars invested cumulatively and offer a much larger variety of investment options. Moreover, expanded investment options can often result in the expectation of a better rate of return for the trust.

Master trusts give independent firms the chance to compete with the returns publicly held companies can generate.

For funeral home operators who utilize insurance to fund preneed contracts, a minimum policy size is typically required, and insurance companies may not write a policy for a relatively small contract. Therefore, now is the time for funeral home and cemetery operators to consider participating in a master trust, which gives independent funeral homes the chance to compete with the returns that publicly held companies can generate by offering the benefits of a share in the costly fees of the trust, active management by trust managers and the expectation of better returns.

HOW TO PARTICIPATE IN A MASTER TRUST

State funeral associations are the most widely available master trust options for independent funeral homes. But due diligence is required when assessing opportunities to make sure that any trust fund used is operated within state/federal regulations. Here are several best practices for evaluating a master trust:

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- Obtain copies of the investment policy statement, trust documents and past investment performance.
 - Request a complete breakdown of all fees the trust is charged, including association sponsorship fees, trustee fees, investment management fees and recordkeeping fees.
 - Understand who is managing the recordkeeping for the trust, their user capabilities and their understanding of how their data are secured.

By relying on a trust administrator, your firm will need to perform less due diligence to verify the master trust.

In addition, independent funeral home operators should find a partner who can help with the due diligence process. This is where the trust administrator and recordkeeper can serve a vitally important role. By relying on a trust administrator, your business will need to perform less due diligence to verify the master trust. It will also give you the comfort and peace of mind that comes from knowing that your advisors are skilled at performing their services.

FINAL THOUGHTS

Consumers' preference for cremation over burial is not a shift likely to deviate in coming years, and thus the resulting impact on preneed sales requires independent funeral home operators to seek alternative strategies to better boost their financial bottom line by exploring master trusts.

But they should do so carefully and with the support of a reputable and reliable trust administrator. A funeral home's reputation is too important to risk unwanted attention from state and federal regulators. Consider a master trust – but only with someone you trust. ☰

Bill Williams is president and CEO of Funeral Services Inc. and serves on the FSI Board of Directors as vice chairman. He joined FSI in 2001 as vice president and was named president in 2003. Under his leadership, FSI has expanded to offer services in more than two dozen states across the country.