

COLLEAGUE WISDOM

In order to attract prepaid, prearranged funerals, is it necessary to guarantee fully prepaid funeral arrangements at today's costs to be provided without additional costs (excluding unknown cash advances) at an unknown time in the future?

Funds held in trust (principle and interest) are the assets of the client and not the funeral provider. It is not our asset and it is portable by the client (if they so choose) and should not be counted upon as being a future book of business (circumstances change: relocation, change of heart concerning the end of life arrangements, as well as relationships with funeral providers).

The potential return based on the risk-reward element must be considered, in particular if the invested funds consistently prove to be underfunded at the time of the actual need for services. We as providers do not have the same privilege to "guarantee" the vault cost or the casket component cost (and no, I am not speaking about suppliers' Total Casket "cost" Protection), let alone our overhead (have you seen the cost of oil/fuel and health insurance lately?).

The consumer simply is informed that their funds will be invested in a secure, non-countable asset form of investment that will protect them from Medicaid implications and that all of the principle and the growth in their account will be applicable towards the actual market costs at the time of the need for services. This concept is rarely met with passionate discussion about a lack of price guarantee.

**John Davis – McCarthy Funeral Homes –
Greenfield, Massachusetts (125 calls – 2 locations)**

Guaranteed prepaid arrangements are mutually fair to the purchaser and the company when the funds can be invested to keep up with inflation. A "prudent man standard" generally enables a reasonable mix of investments that make this possible. For states that require bank CDs or government-backed bonds/notes, it may not be possible to match the investment with the rate of inflation (currently, the rate of inflation is 4% and government bonds are yielding 3%). Peace of mind, knowing that one's final arrangements are cared for, is a leading motivator for preplanning and pre-funding. So, to attract prepaid services, yes, I think it is important to guarantee the goods and services, but only if the invested funds can reasonably be expected to exceed the rate of inflation.

**John Horan – Horan & McConaty Services –
Denver, Colorado (2,500 calls – multi-locations)**

Most of the preneeds that we sell are 100% trusted and are inflation-protected. That is what most consumers want. Of course it is important to clearly itemize the services and merchandise that are included in the inflation-protected guarantee and those items that are not. We have found that upon delivery of the services and merchandise contained on an inflation-protected preneed, several items will surface that may be targets for dispute: sales taxes, newspaper obituaries, flowers, grave markers, death certificates and honorariums. That problem most likely occurs because "mom" or "dad" told their children: "We have completely paid for our funerals and they won't cost you a dime."

With that knowledge in mind, we make it a point to raise these issues with the purchaser at the time of the sale and denote each item as either "declined by purchaser" or "not guaranteed." With those words clearly placed on the agreement; the chances of misunderstandings upon delivery of the services and merchandise are greatly diminished.

**Beacham McDougald – McDougald Funeral Home –
Laurinburg, North Carolina (125 calls – 1 location)**

If it is necessary, it is because we have made it necessary. In marketing we almost always use the guaranteed angle. In the future, I doubt we will be able to guarantee it. If we do, the sale price would need a "bump" built in to cover the loss of growth. You can market non-guaranteed prepayments (safely placed, growing funds that the family does not have to be concerned with that will be protected, in irrevocable accounts, to be made available when the need is there). Woe to the preneeder who has all guaranteed plans and sold them at a discount for competition reasons. Your "asset" of many prepays is now a major liability of underfunded services.

**Steve Palmer – Westcott Funeral Homes –
Cottonwood, Arizona (525 calls – 2 locations)**

I believe it is necessary to offer guaranteed prepaid arrangements to the client family. When an individual or family comes into our establishment to set up a prearranged plan, without pre-funding it, they are only documenting "wishes" for services and/or disposition and that they may use our firm. This does not guarantee that at time of need our firm will be called to handle the arrangements, particularly in a competitive market. A prearrangement — pre-funded in most cases — assures that our firm will handle the at-need call. By guaranteeing that costs are covered, at today's prices, we are giving the client an incentive to commit to our firm and showing that we are operating a business that *should be* above reproach.

I realize there are downfalls to this arrangement. Current interest rates do not show a return that covers the increased cost of doing business. But unless the majority of the pre-funded arrangements we are servicing are more than a few years old, the slight "hit" we take is incidental. This minor margin of loss could honestly be considered advertising expense, particularly when there is so much to gain in goodwill and "word of mouth" that we made it so easy, without surprises at need.

(If it's) a firm where the majority of its caseload is derived from pre-funded arrangements from more than five years ago and is counting the pennies, I would question its financial health. Also any firm that depends on commissions or hold back from trusts to keep afloat is surely going to fail in the near future. Preneed is great, but it is not the panacea for success in the funeral business.

**Erin Phelps – Omega Funeral & Cremation Service –
Portland, Oregon (800 calls – 1 location)**

If the reason most "guaranteed prepayment funeral plans" do not include a guarantee of "cash advances" is for fear earnings will not keep pace and will erode the ability to cover the advances at need, isn't the probability equally true on "the profit" side of the preneed? Our first guarantee was offered during our brief representation by The Guardian Plan over 20 years ago; at-need payoffs still leave a bitter taste of loss. After two other "learning experiences," we discontinued offering any type guarantee. A "guarantee," coupled with the trusted name of a long-established funeral firm, is a great selling tool for an insurance company that *never loses!* Let the insurance companies offer the "lifetime" guarantees without mortuaries succumbing to death-time losses.

Years ago, we stopped offering any type of guarantee. Of course, we're not represented by a *guaranteed-never-to-lose* insurance company anymore and simply use a statewide trust for those needing to prepay. Most families, after a brief discussion, understand why we do not offer guarantees.

**Ron White – White's Funeral Home –
Azusa, California (200 calls – 1 location)**

It is of course necessary to offer guaranteed services in a competitive market. Given the projected increase in one-person households, there is no doubt the pressure for such arrangements will increase. Should one find clever ways to get around the problem? No, one should find ways to accommodate the consumer.

**Ted Wigger –
Treadway &
Wigger Funeral
Chapel & Crematory
– Napa, California
(225 calls –
1 location)**

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I have had this discussion with my sons over and over. I believe I must guarantee cash advances, because people usually decide to make them to save their survivors from making these decisions and experiencing these expenses. If I could, I would only guarantee our end, casket and services (I would feel comfortable), but unfortunately as I tell my sons, *The people that you make them with, are not the people-you service them for!* And unfortunately this opens a wide window of suspicion. When the person you service them for is confronted with additional expense, they suspect something amiss: "My Dad told me he took care of everything at the funeral home!" Preneed — ughhhh — not all it is cracked up to be, but one must deal with it in funeral service.

**Wayne F. Brasco Sr. – Brasco & Sons Memorial Chapels –
Waltham & Belmont, Massachusetts
(300 calls – 2 locations)**

My late business partner and I shared the belief that a price guarantee on prepaid funeral contracts was not a good idea. This philosophy has continued to be the practice of this firm to this day. I cannot remember when by law we could make prepaid funeral contracts — I think late '70s, early '80s. We have never retained any percentage of the contract up front, rather deposited all monies into the account from day one.

In our area, price guarantee has never been an issue and seldom are we asked about a price guarantee. If I am asked, I simply explain that any growth over the cost of goods and services at death is retained by the funeral director on guaranteed contracts and that our experience has taught us that in many cases, our policy of not offering the guaranteed contract results in a refund of the overage to the family. Simply put, all we expect is for the contract to pay our current charges and any overage from growth is theirs. We never have any problems past that explanation.

It is important to remember that we do everything in our power to keep our cost of doing business under control to ensure that growth will be sufficient to cover the cost of arrangements when death occurs. And our most important duty is to ensure that the family's monies are in a safe investment and accounted for. Our reputation is the greatest asset we have and we guard it carefully. Commissions on insurance-funded preneed contracts have never been an influence on where the monies are placed and the family is given the choice at the time the contract is made along with clear explanation, pro and con of each funding vehicle.

**Shane Earley – The Padgett and King Mortuary –
Forest City, North Carolina**

It is not necessary to guarantee. We do not guarantee prepaid funerals; more recently in Massachusetts regulators require FD's to spell it out "Cost Protected" or "Not Cost Protected" for goods and services and/or non funeral establishment charges to the preplanning public. We disclose: "All prices are subject to inflation and regulation and prices will be changed without notice."

Learning from our clients, helping to reaffirm our decision not to guarantee, a preplanning Certified Public Accountant asked who will pay the proposed 20 to 25% national sales tax if passed? Another: an attorney preplanning client suggested surviving family members could expect the interest back as the signed contract was not clear enough on who keeps the interest — he rewrote the contract for us. Our advertising and promotions all speak to the value of preplanning and not to pre-finance. In today's world survivors most often will not pay any amount when the funeral is prepaid.

**John McDonough – McDonough Funeral Home –
Lowell, Massachusetts (150 calls – 1 location)**

The key word in your question is "attract." The funeral industry, fed by commissions, less than 100% funding laws and "shifty" funeral directors who have found ways to use and manipulate monies that don't belong to them have created a monster out of a once caring profession. The purpose of preneed is not for us to "attract" it, but provide a safe, responsible way to answer the consumer's need for services in the future. Our industry isn't led by a group of fortune tellers that can predict what, when or where prices, services or merchandise will be a year from now, let alone 10 or more! How can anyone in their right mind justify a guarantee of any price in the future with such a volatile economy and an industry that is experiencing variables that didn't exist even five years ago?

The only reason a funeral home would have any desire to guarantee future prices is greed...a desire to control something that truly isn't theirs until services are provided. It seems to me that New York state has the best answer to this question with their master trust where monies are required to be deposited for any advance funeral provisions. Preneed greed has been and will be the death of more funeral homes and cemeteries in our country. The erosion of our reputation as a collective follows the same path. Do we want to be here and financially healthy years from now? Then we must stop guaranteeing anything in the unknown future...period!

**Michael Tod Good – Good Funeral Home & Cremation
Centre – Reamstown, Pennsylvania (75 calls – 1 location).** *M.M.*