

IFDA Trust Transition / Frequently Asked Questions

Existing Preneed Trust Accounts

Q: What is happening to the money I have had in the IFDA Trust before October 23rd?

A: In transitioning to MLTC, IFDA has adjusted all current funeral director preneed trust accounts to reflect actual investment performance. We have discontinued the prior use of applying a crediting rate to all account balances.

Q: How will you know how much each account was adjusted?

When the existing accounts are rebalanced, IFDA will maintain a record of the adjustment so that we can track this amount after completion of the actuarial study of the life insurance policies.

Q: Down the line, can that amount of adjustment be restored by proceeds from life insurance policies ?

A: Once the value of the life insurance policies is determined, a mechanism of allocating proceeds of the life insurance policies will be formulated. However, please note: while proceeds from the life insurance policies would provide additional support to trust participants in the long term, until the actuarial study determines the value of those policies, we cannot predict any additional proceeds to trust participants.

Q: Where did my earnings go?

A: IFDA's financial investments earned too little to meet the interest crediting rate we set going back several years. This put the Trust out-of-balance. In order to re-balance the Trust, those "estimated" earnings in each account had to be adjusted downward.

But keep in mind, the money for those earnings is not gone – it is held in life insurance policies. We are working toward a plan we hope will help funeral directors recover earnings as we receive the proceeds of those life insurance policies over the long term.

Q: Why won't this "deficit" just happen again?

A: Moving forward on October 23, 2008, one of the major changes in administering all of the common trust funds within the IFDA Preneed Trust will be to value assets on an actual value basis, also known as mark-to-market. In this way trust participants will receive all the benefit of the actual returns on a current basis. In other words, there can be no deficit because there are no crediting rate offers. Instead, the value of each account is the very value it holds – nothing more, nothing less.

Q: How will I know what my account balance is in the old accounts?

A: Exhibit A to the Agreement mailed to trust participant funeral directors October 15, 2008 reflects the current value of all of your accounts as of the transfer of the trust accounts to MLTC using the mark-to-market valuation methodology. The value of the account will go up or down based on investment performance. Account balances will be reported to funeral directors monthly and to consumers at least annually.

Imbalance in Trust

Q: How did this deficit happen?

A: The IFDA Trust has been in deficit and in surplus throughout the years. But at the beginning of this decade, a series of unfortunate events led to a very serious shortfall in the IFDA Proneed Trust.

Over the last two years, IFDA has come to recognize that financial challenges were created years ago when:

1. IFDA Trust crediting rate policies set too high an interest rate for what the Trust actually earned in the financial markets.
2. Substantial losses in the financial market

Together these factors were the source of the imbalance between assets and liabilities in the IFDA Trust.

Q: Did someone steal the money?

A: Absolutely not. The imbalance between the assets and liabilities was created years ago when IFDA Trust crediting rate policies set too high an interest rate for what the Trust actually earned in the financial markets. This, coupled with serious losses in the financial market, was the source of the imbalance between assets and liabilities in the IFDA Trust.

Q: Why did you fire the old executive director ? Did he have something to do with this ?

A: IFDA and our former executive director parted ways earlier, but we are in the process of hiring a new Executive Director. We anticipate making that hire before the end of the year.

We don't have time to play the blame game. For the last two years, IFDA has been focused on meeting the directives of regulators while we worked to pursue the best possible resolution for our trust participants. Now we are excited that IFDA has a new trustee for our Trust in Merrill Lynch Bank and Trust Co., and we remain focused on working to resolve final issues with the IFDA Trust in the best interests of our trust participants.

Q. Is there a criminal investigation into this?

A: No. There would be no basis for it. All of the experts have seen what happened in retrospect. The reason for the imbalance in the Trust was crediting rate policies set too high an interest rate for what the Trust actually earned in the financial markets and there were serious setbacks in the financial markets.

Q: Has anybody sued IFDA over this?

A: No. But we can only control what IFDA does. For 128 years our association has been the leading voice for funeral directors in Illinois. We will continue to work to live up to that standard. Not everyone else has IFDA's best interests at heart.

Q: Who is to blame for this?

A: There are many factors that together caused the imbalance in the Trust. However, what IFDA is focused on is moving forward and continuing to work to find a resolution that is in the best interests of our trust participants.

How the Existing Trust Accounts Are Being Handled Now

Q: What happens if I pull my money out of that account now?

A: IFDA has a process in place for you to request that the funds be transferred to another trustee. We have received some requests for the withdrawal of individual accounts or all accounts deposited by a funeral home. We have received approval and processed a few requests for individual withdrawals. As you are likely aware, we are restricted from doing anything on a request without the approval of the Illinois Department of Financial and Professional Regulation (ISFPR), but we have forwarded every request as we are required to do and we will continue to do so until further order of the IDFPR.

Q: Will the life insurance policies make up the difference in what has been written down in my account?

A: At this time, no one knows that answer. We are waiting for the determination of how to maximize the value of the life insurance policies held by IFDA.

The actuarial study to make that determination should be completed by the end of this month and then a mechanism of allocating proceeds of the life insurance policies for the benefit of trust participants will be formulated.

While proceeds from the life insurance policies would provide additional support to trust participants in the long term, until the actuarial study determines the value of those policies, we cannot predict any additional proceeds to trust participants.

Q: When will you know on the life insurance policies?

A: The actuarial study to make that determination should be completed by the end of this month and then a mechanism of allocating proceeds of the life insurance policies for the benefit of trust participants will be formulated.

Q: How will the life insurance policies make up the difference?

A: While proceeds from the life insurance policies would provide additional support to trust participants in the long term, until the actuarial study determines the value of those policies, we cannot predict any additional proceeds to trust participants.

The actuarial study to make that determination should be completed by the end of this month and then a mechanism of allocating proceeds of the life insurance policies for the benefit of trust participants will be formulated.

Q: How long will it take the life insurance policies to make up the difference?

A: At this time, while proceeds from the life insurance policies would provide additional support to trust participants in the long term, until the actuarial study determines the value of those policies, we cannot predict any additional proceeds to trust participants.

Funeral Director Responsibilities With Preneed IFDA Contracts

Q: Are funeral directors required to provide FULL SERVICES for the guaranteed contracts they sold?

The signed guaranteed preneed contracts clearly state those services are guaranteed in full. It is the position of IFDA that those contracts are guaranteed and services should be provided to consumers in full.

Q: What is a funeral director's responsibility on a "non-guaranteed" preneed contract?

A: The value of non-guaranteed contracts is determined at the time of need and any paid principal is a deposit toward the final cost. If there are any earnings in the Trust investments, they are credited toward the final purchase price. If there are no earnings, the amount of principal paid is still protected and applied to the final purchase price.

How Do Funeral Directors Proceed Now ?

Q: What is the plan going forward for the IFDA Trust?

A: Effective October 23, 2008, Merrill Lynch Bank & Trust Co. FSB ("MLTC") will formally assume the responsibilities as trustee of the IFDA Preneed Trust. While the IFDA Preneed Trust will have a completely new legal structure, you can be assured that you will still continue to receive the same daily attention that you expect from our Association plus you will also receive the professional investment and trust management from MLTC, as trustee.

IFDA working with a new trustee means that our association will continue to provide administrative functions and you will still be able to contact IFDA to handle any processing and any questions you have regarding your preneed deposits.

Q: What do I need to do to keep using the IFDA Trust, now that Merrill Lynch is the Trustee?

A: In order to participate in the IFDA Preneed Trust, either with your existing funds or with any new preneed deposits, you will need to execute the Agreement with MLTC that IFDA has mailed to you.

This Agreement is quite lengthy and you should know that the Agreement has been reviewed and approved for use by the IDFP and the IOC. The Agreement specifies the terms and conditions under which MLTC will act as trustee of your existing preneed deposits.

You are required to execute the Agreement in order for any further action to be taken with respect to your existing preneed accounts. We are asking that this be done by October 22, 2008.

Q: How do I get this information back to IFDA?

A: For your convenience, we can accept notification by fax or e-mail, but we will have to receive the executed original by mail.

Q: What happens if I don't sign the Agreement?

A: If we do not receive the Agreement signed by you, we have been advised that you will not be in compliance with the Illinois Funeral or Burial Funds Act and you will be subject to regulatory action by the IOC and/or the IDFPR. Trust participants must act by October 22, 2008, to remain in compliance with state regulators.

Q: How can the IFDA Trust guarantee it will not have a deficit again?

A: By valuing accounts through "mark-to-market," an account is worth exactly what it is worth -- there will be no "set" crediting rate of interest earnings. What the investments do or don't do will determine the value of the account.

Q: Who will I call with questions on the IFDA Trust after October 23?

A: Just as you have all these years, you call IFDA.

Q: Who will I call for payouts on death claims after October 23?

A: Just as you have all these years, you call IFDA.

Q: Who will make decisions on investment of IFDA Trust Funds going forward?

A: Merrill Lynch Bank & Trust Co. is the new Trustee. Those decisions are made by MLTC's professionals.

Q: How can you keep new money separate from the older accounts?

A: In order to satisfy the applicable regulatory requirements, IFDA Preneed Trust will be segregated into three separate common trust funds. Existing deposits will be divided into two separate common trust funds, one for the taxable accounts and one for the tax-exempt accounts. All new accounts will be deposited into a third common trust fund that is separate from any of the existing accounts.

Q: Why are you segregating the accounts like this?

A: The advantage of using three separate common trust funds is to ensure that investments for each fund are not dependent in any way on any of the other funds.

We know that many of you are concerned about the investments of the current tax-exempt accounts through the key person life insurance policies. By establishing a separate common trust fund for these tax-exempt accounts, these investments will be maintained but will not impact in any way the investments of the taxable accounts or the new trust accounts.

Consumers, IFDA and the Future

Q: Will consumers be hurt? Will people be less likely to keep their preneeds with us?

A: Consumers should feel perfectly confident in IFDA preneed contracts. Consumers who have purchased preneed contracts are protected. Guaranteed preneed contracts are guaranteed to provide services in full. Non-guaranteed contracts are subject to the ups and downs of the market – like many other investments. Their principal is protected by the funeral director who sold them the “non-guaranteed” preneed policy.

Q: Does IFDA recognize how unhappy funeral directors are about this situation?

A: We certainly understand their feelings. Remember, many Board members themselves have deposits in the Trust. It is a difficult situation and there is no easy fix.

The Association regrets and apologizes for the near-term inconvenience these challenges may create for all funeral directors who hold accounts in the Trust.

Q: Why should I stay with IFDA to deposit preneed funds?

A. There are numerous reasons to stay with IFDA.

- IFDA provides exceptional administrative services to trust participants and those services will continue to be available to trust participants even with Merrill Lynch as Trustee.
- By keeping each investment fund separate they are not dependent in any way on any of the other funds. Tax exempt investments will be maintained but will not impact in any way the investments of the taxable accounts or the new trust accounts.
- The “mark to market” valuation method more accurately reflects the value of preneed accounts based on the market value of their earnings. There cannot be a deficit with a mark to market policy.
- IFDA represents you and hundreds of Funeral Directors like you. Collectively you provide a strong voice for Funeral Directors throughout the State and in Springfield. For 128 years, we have stuck together to improve our businesses and our profession. We will continue to do just that.

IFDA Trust Asset Allocation

Q: What is the current asset allocation for IFDA Preneed Trust Funds?

A: **Taxable** trust assets are allocated in a defensive manner as is indicative of the current market environment. (This is also the allocation for the new IFDA Trust accounts with MLTC as trustee.) Approximately:

- 27% of the portfolio resides in bonds, comprised of US Government Issues, and good-quality corporate bonds;
- 21% allocated to stocks with emphasis on large capital high quality blue chip type of companies;
- 44% in money market, and
- 8% in private notes through IFDA Capital.

Tax Advantaged trust assets are also reflective of a conservative assets allocation for the same market reasons. The investments of the Tax Advantaged are in mutual fund type investments and have in aggregate the following allocation.

- 46% of the portfolio is allocated to fixed income/bonds with emphasis on US Government issues and good quality corporate bonds;
- 30% in a widely diversified group of stocks again with an emphasis on large cap, however still hold exposure to mid and small cap, all with a slant toward growth as opposed to value;
- 24% in cash/money market.

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