

The Insurance-Trust Debate Continues...

Dear Editor,

If you were to ask me to write an article for you on preneed, you could expect the tone of the article to be slanted toward trusts over insurance. When you ask a preneed insurance person to write an article for you, you can expect it to be slanted toward insurance – but in either case, there should be some balance. Craig Vogel (AFD June 2008) went way over that line and said things that were not true in his effort to discredit trusts and promote insurance.

I'll assume he wrote this article months ago. The National Prearranged Services scandal should wipe out the entire first paragraph of his article. Preneed scandals involve insurance, too, and NPS is only one of them. He then references Indiana HB 1026 as evidence of the need to further regulate trusts. If he were familiar with Indiana law, he would know that all preneed contract funds, whether trust deposits, escrows or insurance funded, are held in "trust." So all preneed contracts, regardless of the funding vehicle, are covered.

And before you bring up the name of Clayton Smart or Robert Nelms, let me remind you that those scandals mostly involved cemetery maintenance funds.

Then let's talk about cookies. Does Mr. Vogel honestly think anyone believes that insurance companies have no expenses and that they pay commissions out the kindness of their corporate hearts? Obviously, all of these expenses come from the amount they receive in premiums, and they don't necessarily have any more or any less money left over to invest than a trust does. They just don't disclose it. The reason insurance companies can still offer the face amount from the first day of the policy (sometimes with restrictions) is because of underwriting. They don't accept customers with health problems or those over a certain age. Many won't even accept a client over age 85.

Let's talk about growth. Comparing preneed growth (whether trust funded

or insurance funded) to the rate of inflation, or the CPI, is meaningless. It costs more to run a funeral home than it does the average household. Over the past two decades, the cost of funeral service has grown an average of 4.7 percent per year, according to Dan Isard of The Foresight Companies. Inflation has averaged about 3 percent. If you invest in policies with a 3 percent growth, you are going to lose money. The challenge today, of course, is to even find an insurance company paying 3 percent. As of last month, the highest rate I could find was 2.7 percent on their youngest, healthiest clients.

He did get one thing right. Trusts usually have a higher return. Our master trust returns consistently outperform insurance. Even in this economy our one-year returns beat those insurance numbers. But since the length of the average preneed contract is somewhere between 7-10 years, we think longer range returns are more meaningful. The five-year return on our balanced fund is currently 9.52 percent less our administration fee of 1.5 percent for a net return to the funeral home of 8.02 percent.

Trust returns can be higher because they don't have large corporate office staffs to support, don't pay high commissions, don't offer bonus trips, don't award prizes or other sales gimmicks, don't have sales reps in the field to pay and, most importantly, don't have corporate shareholders to satisfy. In addition, state master trusts return whatever they make back to their members in the form of additional services or reduced dues and fees. Finally, our rate of return is determined by the market minus our administrative fee, which was set by our board in 1983 and has never changed.

Mr. Vogel also implies that insurance is safer because the money is only released upon provision of a death certificate. The payment of claims is a matter of policy and procedure among trusts and insurance companies, and in the case of Indiana is also a matter of

law. Proof must be provided. If Mr. Vogel thinks his statement is true, then he [is unfamiliar with] ex-funeral director and current prisoner Kent Kellogg, who filed more than \$120,000 of false claims on people who were still very much alive using a program where claims are called in over the phone. If he had used our master trust, he would not have been able to pull off this felony because we do require a copy of the death certificate before we will pay a claim. Kellogg is not the first or only person to perpetrate a fraud on a preneed insurance company.

So who is being fed? Certainly not just the two parties Mr. Vogel says – the consumer and the funeral director. When the funeral home uses preneed insurance, they are feeding a corporate entity (usually in another state) and its stockholders – and if they're not careful, they will not only eat their cookies, they'll eat their lunch.

Of course Mr. Vogel recommends that you only use trusts for short-term preneed accounts and use insurance for long-term accounts. That is not for the good of the client or the funeral home. It's for the survival of the insurance company. That is how they get paid back for all the money they have paid out in commissions, expenses and perks. Over time, the trust will generally return more than an insurance company. If the funeral director is more concerned about survival than about dividends to the insurance company stockholders, he will do exactly the opposite – use the insurance company to pay full face value on short-term accounts and invest all long-term clients in a trust.

Finally, let's look at the first "comparison" box for the outright false statements it contains.

1. Preneed trust accounts are not necessarily processed through the funeral home. We recommend that client families make their checks out directly to the trust company or the insurance company the funeral home is using. In the case of our master trust,

most checks are made out that way. The chart incorrectly states that all payments to an insurance company are made out directly to the insurance company.

2. I'd love to see a list of states that have no laws regarding funeral trusts. Most states govern preneed trusts quite extensively. Read the laws in states like New York, which bans preneed insurance altogether. I wonder why? Indiana's Preneed Act is 23 pages long – not counting additional laws dealing with trusts in general.

3. Mr. Vogel wrote, "Generally, no money is refunded because of the funeral home's early withdrawal." Again, I'd like to see a list of states that allow these "interim withdrawals." To my knowledge, the only ones that do also require guaranteed funerals in return. The chart implies that only insurance funding provides for a guarantee of services. The guarantee is a

provision of state law and the individual contract, and is not tied to the funding vehicle. It's not a feature of preneed insurance over trusts.

Yes, Indiana funeral homes are allowed to retain 10 percent on trust accounts, which they may use to pay commissions or other expenses. In return, however, they are required to guarantee all funeral goods and services.

As a final exercise, let's talk about stability and make a list of all the state master trusts that have gone out of business and all the preneed insurance companies that are no longer around.

I'll start. State master trusts no longer in business:

1.) Minnesota closed because its investments were ruled not in accordance with state laws. The board decided to cease operations rather than change the trust program. The trust was solvent.

Oops, that's it.

Preneed insurance companies sold, consolidated, merged, or no longer in business: NPS/Lincoln Memorial Life (okay, maybe premature to say, but I'm willing to bet); Fortis Family; United Family Life; Pierce National; Brookings International; Howard Life; American Memorial; Estate Assurance

Okay, your turn... there's at least a dozen more.

I have always maintained that if the funeral home wants to protect its client families and its own future profitability, preneed trusts generally offer the best chance of doing that. I have never been opposed to preneed insurance per se and believe it actually might be best in some client situations. But I have always been against bad preneed insurance, and despite Mr. Vogel's contention, there is plenty of it out there.

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Indiana Funeral Directors Association

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