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Funeral Pre-Planning: An Overview

2 CE Hours

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Final Exam – Funeral Pre-Planning: An Overview (2 CE Hours)

1. ________: a funeral arrangement made in advance of need that does not include provisions for funding or pre-payment.
   a. Insurance-funded
   b. Pre-paid/pre-funded
   c. Trust-funded
   d. Unfunded/information-only

2. A(n) ________ is one which may be terminated by the purchaser at any time prior to the death, with a refund of some or all the monies (and relevant accruals) paid as prescribed by state law and contract type and terms.
   a. Excusable contract
   b. Irrevocable contract
   c. Revocable contract
   d. Unconditional contract

3. Which of the following is NOT an example of an "excusable error," or an alteration to a guaranteed contract that will not affect or void the agreement?
   a. Address typos
   b. Errors affecting availability of merchandise
   c. Errors in syntax or grammar
   d. Non-material spelling errors

4. A(n) ________ is basically a bank account, set up by the funeral home, specifically for monies given to the funeral home to fund pre-arrangements.
   a. Burial association
   b. Insurance policy
   c. Premium
   d. Trust

5. A(n) ________, funded through a specialized life insurance policy purchased through the funeral home, directs that if the insured dies while making payments on their policy, the remaining balance due on the original contract is paid by the insurance company.
   a. Burial contract
   b. Dollar-for-dollar contract

c. Insured contract
d. Passbook contract

6. Executing an irrevocable funeral trust can assist individuals to qualify for ________, since money funding the irrevocable trust is not counted as assets that would require "spend-down."

a. Medicaid
b. Rebates
c. Tax penalties
d. Veteran services

7. According to the FTC, you must give out a General Price List in all pre-need situations. The triggering event for giving out the General Price List is a(n) ________.

a. Face-to-face meeting
b. Internet inquiry
c. Phone call
d. None of the above

8. The FTC gives purchasers a 3-day right to cancel a sale made at a home, workplace, or a seller's temporary location, such as a trade show or pre-need presentation event. The 3-Day Rule ________.

a. Covers sales of $10 or more at a buyer's residence and $100 or more at a temporary location
b. Covers sales that are made entirely online, or by mail or telephone
c. Requires the seller to tell the purchaser about their right to cancel at the time of sale
d. All of the above

9. In order to help protect the consumer, the National Funeral Directors Association put out the Consumer Pre-Need Bill of Rights. By referencing the document, funeral homes are in effect guaranteeing their clients certain rights and protections, including that they will ________.

a. Guarantee in the written pre-need contract that if any of the merchandise or services a client has selected are not available at the time of need, merchandise or services of equal or greater value will be substituted by them at no extra cost to the client
b. Provide detailed price lists of services and merchandise before clients select services and merchandise
c. State in the written pre-need contract where and how much of the funds clients pay to them will be deposited until the funeral is provided
d. All of the above

10. Research shows that funeral establishments performing less than 200 annual funerals and using a dedicated pre-need sales person average ________ more funded pre-need sales than similarly sized firms using at-need funeral directors who also do pre-need arrangements.

a. 12%
b. 36%
c. 59%
d. 77%

Funeral Pre-Planning: An Overview
(2 CE Hours)

Learning Objectives:
Love it or hate it, funeral pre-planning is here to stay – and successfully incorporating it into your practice is becoming more and more vitally important. This course provides an overview of the intricate topic of funeral pre-planning, incorporating the perspectives of both consumers and funeral professionals.

By the end of the course, learners should be able to:
- Recognize the types of pre-need arrangements and the contracts that apply to each
- Distinguish between providers of pre-need arrangements
- Identify relevant compliance and taxation issues
- Recall pros and cons from the point of view of both consumers and funeral homes

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Introduction

Very few topics in funeral service can be as confusing as funeral pre-planning. New funeral directors will be almost immediately confronted with its myriad aspects, and the need to navigate its intricacies continues throughout a career as a funeral professional. While it is normal to turn to those with more experience to guide and advise you, the unfortunate reality is that even many veterans of the funeral profession have a limited understanding of pre-planning. The difficulty of the situation is compounded by the fact that not only do laws and rules vary by state, but often policies and procedures vary from funeral home to funeral home – or even vary from director to director within a specific funeral home (Fritch & Altieri, 2017).

To better understand pre-planning, its benefits, and its pitfalls, it's important to consider it from multiple angles. After all, the perspective of the funeral home and/or funeral professionals may differ from that of the family, and you need to be able to confidently address all of them. This course examines differently funded arrangements, as well as the types of contracts that may apply to them; considers both trusts and insurance, as well as other options; identifies who can provide which types of pre-need arrangements; addresses the relevant portions of the Federal Trade Commission's Funeral Rule; and responds to concerns that both consumers and funeral homes themselves may have about pre-need programs.

What is Funeral Pre-Planning?

In brief, when we talk about funeral pre-planning, we are talking about helping people create the kind of experience they want those closest to them to have when they die. Pre-planning allows a person to make their funeral arrangements – which may or may not include handling some or all financials – prior to death.

Let's pause to address a potential point of confusion: there are many terms that are used in the funeral and cemetery profession to talk about funeral pre-planning. Often you will use the terms pre-arrange or pre-arrangement, but others you may hear and use include planning ahead, pre-funding, pre-need, advance planning, and so on (Fritch & Altieri, 2017).

There are really no industry-wide, hard and fast rules that apply to how to use these terms – or even how to clearly define what they mean. For example, pre-arranging might mean selecting arrangements as well as paying for them in advance to one funeral director, but might mean only writing down some final wishes to another. So it becomes critical, when talking about pre-planning, to make sure that you are "speaking the same language" as fellow professionals and/or members of the public. Don't assume you're on the same page – be sure to define exactly what you mean before proceeding (Fritch & Altieri, 2017).

In general, the above terms all communicate the concept of making plans ahead of time, and as such they are used interchangeably throughout this overview.

Why Pre-Plan Funerals?

There are several reasons people choose to pre-plan and/or pre-fund their own funeral arrangements. A common reason is that it allows the arranger to make their wishes known to the next of kin. With time to plan ahead, arrangers may also be less emotional than those planning in the aftermath of a death, which can help them make clearer and more intelligent decisions. In addition, pre-funding these arrangements relieves the next of kin of the financial burden of the funeral service. And pre-funding arrangements is also a way to reduce assets for Medicaid eligibility – we will discuss this further later in the course (Klicker, 2008).

History of Pre-Planning Funerals

The concept of planning ahead for a person's own death is not a new 21st century phenomenon. On the contrary, it has been around for a long time.

Its roots can be traced back to ancient Rome, where soldiers contributed to burial funds to ensure their own burial with honor (Klicker, 2008). In the Middle Ages, guilds, craft organizations, and fraternal groups collected funds in advance to pay for their members' final expenses. In mid-19th century London there were over 200 burial societies or clubs, each of which spread the cost of burial among its members (Fritch & Altieri, 2017). The Civil War also saw some pre-planning: embalmers followed both the Confederate and Union armies, setting up tents near the site of major battles. Families could pay these embalmers fees ahead of time to prepare their loved ones if they were killed; individual soldiers could also reserve their services (Klicker, 2008). Interestingly, around the same time, members of the clergy banded together and founded what they referred to as "death insurance," a forerunner of today's life insurance (Fritch & Altieri, 2017).

After the Civil War, though, pre-need in the United States returned to relative obscurity, and most funeral homes just did their own thing, if they did anything at all. Until about the 1960's, and even later in some areas of the country, funeral pre-planning was very localized. It was primarily dependent upon what area funeral homes offered to the families of their communities – and these offerings were as different as the funeral homes themselves. Some advertised memberships, both paid and free, in special discount clubs or burial societies. Similarly, "burial associations" charged a nominal fee to cover individuals, or even whole families. Other funeral homes came up with "burial bonds" and "funeral service and merchandise bonds," both of which often had little or no value. Benefits for any of these options varied widely, usually consisting of cash, discounts, credits, or some combination of the three. Even today, it is not uncommon to run across a few funeral homes that offer, or at least honor, these types of arrangements (Fritch & Altieri, 2017).

Pre-need services began to standardize and become more widespread around the mid-20th century, with both the profession and the public taking a new look at the concept (Klicker, 2008). More universally acknowledged methods of paying for funerals ahead of time became the norm among funeral homes. Likewise, cemeteries – which had long been allowing customers to pay for things like grave sites and grave markers or headstones in advance of need – began moving into pre-need to help their customers pay for funeral arrangements as well (Fritch & Altieri, 2017).

Large funeral home corporations, like Service Corporation International (SCI), also fueled the growth of pre-need. These companies aggressively marketed their products and services in an effort to generate more revenue and consolidate the market share. Once these corporations started pursuing pre-need, many private owners began taking more notice, and started their own per-need programs.

Pre-need has grown, and continues to grow. Today, there are firms whose at-need business is comprised of 50% or more of calls that were previously pre-arranged (Fritch & Altieri, 2017).

Types of Pre-Arrangements

There are two types of pre-arrangements made with the funeral home in advance of need. The first is an unfunded, or information-only, pre-arrangement. This type of arrangement is where there are written instructions provided for the final wishes of the deceased, but no funds have been set aside to pay for the arrangements. The second is the pre-paid, or pre-funded, pre-arrangement. This is when the pricing of the selected services and merchandise has been agreed upon by the funeral home and the family, and monies have been given to the funeral home ahead of time to pay for the selected arrangements whenever the death eventually occurs (Fritch & Altieri, 2017).

It is very important, when talking to families, to make the distinction between unfunded and pre-funded pre-arrangements. Many people resist sitting down with a funeral director or pre-need advisor to make final plans because, among other reasons, they think that they will be pressured to buy something. Counter this by letting your families know from the start that pre-arranging is actually a free service offered by the funeral home, with an *option* to pre-fund. You may find them more willing to open the conversation about their eventual deaths, and begin putting a plan in writing to guide their family when the death occurs (Fritch & Altieri, 2017).

Information-Only (Unfunded) Pre-Arrangements

As we've discussed, an unfunded pre-arrangement, also known as an "info only" pre-arrangement, is a funeral arrangement made in advance of need that does not include provisions for funding or pre-payment (Klicker, 2008). It generates some sort of written plan directing what is to happen to a person when they die: this can be anything from a few notes left behind by the deceased, to a more complete file of wishes and preferences, biographical and statistical information, and even archived photos or footage for a future video presentation to be held at the funeral home. An unfunded pre-arrangement file may also include choices concerning funeral or cremation merchandise, along with cost estimates. All of these documents can be important guides for family members left behind; in some states, under certain circumstances, they can also be legally binding on the survivors (Fritch & Altieri, 2017). For example, in California, according to California Health and Safety Code §7100, the funeral instructions you leave for yourself are legally binding if they are clear, complete, and unambiguous, and you have made payment arrangements in advance or have set aside sufficient funds to cover your instructions (note that this example is, in part, reliant on the existence or availability of funding).

Most funeral homes or pre-arrangement companies provide forms that the pre-arrangement advisor or funeral director can use to record these wishes. It is best, when obtaining information, to encourage the participant to plan as if the death were to occur today, rather than leaving specifics to be determined later. Even though certain details may change over time, the file still serves as a kind of road map for those left behind. For example, even if the particular minister requested is no longer available when the death occurs, the family still knows that a minister was wanted by the deceased, and they can find another one if necessary (Fritch & Altieri, 2017).

The information-only pre-arrangement is important for several reasons. For one thing, it is absolutely free, which means that everyone in the community, regardless of their financial resources, has access to pre-planning. It is also a vital first step in helping a family adhere to the wishes of their loved one. Finally, it creates a link between the deceased, the family, and the funeral home, making it very likely that the family will use that particular funeral home when the death occurs – even if the arrangements are not already paid for (Fritch & Altieri, 2017).

Pre-Paid (Pre-Funded) Pre-Arrangements

Pre-funded funeral arrangements are also made in advance of need, and include provisions for funding or pre-payment (Klicker, 2008). These arrangements go a step further in helping those left behind: they not only provide written instructions as to what happens at the time of death, but also provide funds to cover the expenses associated with carrying out the last wishes of the deceased. As such, this type of pre-arrangement is typically the best for the family (Fritch & Altieri, 2017).

<u>Types of Contracts</u>

Although preneed contracts have existed for many years, it is only in the past 40 years that their use has been widespread. With many funeral homes now actively promoting preneed arrangements – and with the emergence of national marketing programs sponsored by large insurance companies, funeral home chains and state funeral trade associations – the trend toward preneed has been explosive (Gilligan & Stueve, 2011). It has been estimated that, during many years, the number of pre-need contracts actually surpasses the number of at-need contracts.

When dealing with funded pre-arrangements, several types of contracts between members of the public and funeral homes can be used. It is important to have a general understanding of the advantages, differences, and limitations of each, in order to determine which would be the best for the family and for the funeral home (Fritch & Altieri, 2017). When the contract beneficiary dies, the funeral home carries out the terms of the contract and provides the promised funeral goods and services (Gilligan & Stueve, 2011).

Revocable Contract

A revocable contract is one which may be terminated by the purchaser at any time prior to the death, with a refund of some or all the monies (and relevant accruals) paid as prescribed by state law and contract type and terms (Klicker, 2008; Fritch & Altieri, 2017).

Irrevocable Contract

An irrevocable contract is one in which the contract cannot be terminated or cancelled (Klicker, 2008). Most insurance-funded pre-arrangement contracts have a line or box on the insurance application that will make the contract irrevocable. If a trust is used, each state will have specific rules that will need to be followed to make the pre-arrangement irrevocable

If a pre-funded pre-arrangement is made irrevocable, then after a waiting period (generally 30 days) the monies held for payment of the arrangements cannot be cashed in by anyone for any reason, and can only be used to fund the funeral arrangements of the deceased (Fritch & Altieri, 2017). That said, approximately two-thirds of the states allow the purchaser an unconditional right to transfer an irrevocable preneed contract to another funeral home (Gilligan & Stueve, 2011).

People choose to make pre-arrangement contracts irrevocable for several reasons. For example, doing so ensures that no family member may cash in a policy and take the funds, or take out a loan against a policy. Another consideration is that monies held in accordance with irrevocable funeral arrangement policies are not considered assets for the purposes of state aid such as Medicaid (we'll return to this topic later). Irrevocable contracts are also generally exempt from legal collection activities such as bankruptcies and judgments (Fritch & Altieri, 2017).

On the other hand, there are a few issues that the purchaser should carefully consider before electing to make their arrangements irrevocable. First, doing so will generally mean that no one can access the money, for any reason, until the death occurs. Second, once the 30 day free-look period or other similar state mandated period has elapsed, the owner can never get a refund or access the cash value of the policy (Fritch & Altieri, 2017).

Remember, the purpose of a funded pre-arrangement is to essentially buy a funeral ahead of time. The family is spending the money for the funeral today, instead of in the future. A pre-arrangement is not an investment as such, and so it is usually in the family's best interest to make the contract irrevocable (Fritch & Altieri, 2017).

Guaranteed Contract

Under a guaranteed contract, the funeral home guarantees that the services and merchandise will be provided at the time of need for an amount not exceeding the original amount of the contract, plus any interest, regardless of the cost of providing the services and merchandise at the time of death (Klicker, 2008). Whatever is chosen and paid for when doing the pre-arrangement is "frozen," and the family will not have to pay any more for those selected goods and services at the time of death, regardless of what those costs may be by then. In other words, this generally means that the family will owe nothing for the guaranteed goods and services, even if the prices at the time of death exceed the monies available in the pre-arrangement. However, it's important to note that cash advance items, such as death certificates, clergy honorariums, etc., are typically not included under guaranteed contracts (Fritch & Altieri, 2017).

In some cases, there will be more money available in the pre-arrangement than is needed to pay for the guaranteed goods and services; often funeral homes may refund the excess to the family, but this is not always the case. State laws and individual funeral home customs vary regarding excess funds. For this reason, it is important to know what you can and cannot do before advising families (Fritch & Altieri, 2017).

Alterations to guaranteed contracts that will not affect or void the agreement include those errors deemed as "excusable error," such as non-material spelling errors or errors in syntax or grammar. Others include names (where obvious, not to include aliases) address typos, etc. Often, in these cases, the errors do not require any changes beyond a "line out" with party initials, as long as you're acting in accordance with state law by doing so (Leetz, 2020).

Changes to the contract that materially affect the price, time element, terms, type of merchandise, or additional errors that affect the bottom line and pricing must be explained. The client will then have the option to cancel, modify, or re-negotiate the contract. Errors that are found to be intentional may constitute fraud (Leetz, 2020).

Let's look specifically at unavailability of services or merchandise. Simply substituting something that's available for the unavailable item would constitute a material change to the contract, and subsequently a breach. However, the law recognizes that these situations may occur with some frequency – look to the state's rule if provided. In most of these cases, the funeral practitioner must explain to the purchaser that substitutions may be necessary and note the choices that may be acceptable: "like" quality merchandise at an equal or higher value (Leetz, 2020).

For example, some casket styles have been available for a long time and likely will be for the foreseeable future. However, casket companies are catering to modern trends. What happens if the funeral professional cannot get the casket that was selected? As long as the family is comfortable with proof of the casket's prior existence, then there cannot be a question of bait and switch sales tactics being purposely perpetrated to increase revenues by substituting a lower cost or inferior item. If the offered substitutions are deemed unacceptable, some states' rules also allow the purchaser the option to either cancel the contract or to source the unit personally. This would mean the purchaser can find it from another business, or they may be able to fund the same (or similar) merchandise on their own (Leetz, 2020).

Likewise, sometimes certain services are no longer provided, such as the use of an organ for a contract organist to play. Such an instrument will need to be substituted or rented for the occasion at no further expense to the purchaser, or the purchaser will have the option of a refund at current market value, or accepting similar provisions at the same or greater cost. A similar example would be if a hearse, limousine, or lead car was to be provided and the funeral home no longer keeps such vehicles within its fleet (Leetz, 2020).

Non-Guaranteed Contract

Under a non-guaranteed contract, the funeral home agrees that the amount prepaid plus any interest will be credited to the balance due; however, the price of the funeral will be whatever the current price is for the services and merchandise at the time the death occurs (Klicker, 2008). In other words, the family will be charged the going rate at the time of death for those goods and services that were pre-selected. If there is enough money in the pre-need when the death occurs, then the family owes nothing, and may even receive a refund of unused funds. If there is not enough money, which would be due to prices increasing faster than the growth or interest in the pre-arrangement, then the family will owe the difference to the funeral home (Fritch & Altieri, 2017).

A Final Word on Contracts

Once the death has taken place, all elements necessary to execute the pre-need contract have occurred. When the family – or other people with the priority right of disposition – are in agreement with the decedent's plans, then it becomes a matter of fulfillment according to the contract and logistics. But it's not always that simple: what about when there is disagreement? Whose wishes take precedence?

Some states recognize "decedent's rights." Within these states, and depending upon the availability of the documentation necessary to show cause, then the pre-arrangement may proceed. However, in other states, pre-arrangements – even those specifically funded and enumerated by the deceased – can be rescinded by the person with priority right of disposition, especially the spouse or next of kin, and demands to have the money refunded must be honored. That said, some courts may be willing to entertain these types of cases if witnesses can provide clear and convincing arguments as to the reason to proceed otherwise (Leetz, 2020).

<u>Types of Funding Vehicles</u>

When a family chooses to pre-fund their arrangements with a funeral home, they have in essence pre-purchased their funeral. By doing so, they (in theory) have shifted the ultimate burden of responsibility for payment at the time of death from themselves to the funeral home. Therefore, it is critical for the funeral home that the monies collected be safeguarded and placed in a funding vehicle that will make sure they are available when needed (Fritch & Altieri, 2017).

A funeral home cannot simply take pre-arrangement monies from a customer and deposit them in their operational accounts to use immediately, because services and merchandise have not actually been purchased by and delivered to the buyer. But the funeral home has to store the money somewhere for safekeeping, so that it will be available when a death occurs and the services and merchandise have to be provided. So, generally speaking, funeral pre-arrangements originating with a funeral establishment are funded either through trust accounts or through specialized life insurance policies (Fritch & Altieri, 2017). Requirements vary by state, so it is very important to be familiar with all state and local regulations regarding funeral trusts and insurance policies.

Trust Accounts

Owing to the very nature of pre-need sales, income credited for a sale today may not perform actual services for 20 years or more. Therefore, to avoid fraud inherent with this type of funding, most states require that pre-need funds be placed into a trust. For about one-half of the states, the trustor must be licensed. This has two possible advantages: the trustor contractually holds the funds until the death of the beneficiary can be proven, and the funds accrue interest (Leetz, 2020).

Although nothing is failure proof, pre-need funds are deposited within insured banks and savings and loan companies; these funds are further diversified within low-risk investments (Leetz, 2020). A trust, then, is basically a bank account, set up by the funeral home, specifically for monies given to the funeral home to fund pre-arrangements. In most states, the funeral home must apply to a state agency such as an insurance department or banking commission for a permit to open a trust; after that, a federal tax identification number is obtained, and the funeral home sets up a separate trust account at a bank. In some states, the trust must be set up through a trust department; other states allow a funeral home to open a regular bank account (Fritch & Altieri, 2017).

Where permitted, funds from a single funeral home entity may be comingled into one master funeral home account, to return a higher rate of return (Leetz, 2020). Rarely, some funeral homes actually set up separate trust accounts for each individual customer. Either way, as monies come in from customers, they are deposited into the trust account and records are kept reflecting each individual's deposits, interest credited, and account balance (Fritch & Altieri, 2017).

Rules and practices vary from state to state regarding how much should be deposited and how much a funeral home can keep for operating expense or other overhead. Many states require the sum total of "trusted" funds to be paid in full. Other states require less than 100% funding, citing that the demand for 100% funding deprives pre-need sellers of available income (Leetz, 2020). Each state handles this question in its own way: for example, the funeral home may be able to keep the first 10% of the contracted total and only deposit the remaining 90% into trust. Rules also vary as to what happens if a customer wants to cancel the trust and get a refund of any monies deposited: some states say that all monies plus interest must be refunded, and others have different rules. Again, be sure to know your state's laws, as well as your funeral home's policies, before advising families (Fritch & Altieri, 2017).

Usually, when a death occurs, all monies credited to that particular deceased are withdrawn from the trust and deposited into the funeral home's account to cover the at-need costs of funeral goods and services. However, some funeral homes leave some of the interest, or even some of the principal, in the trust to act as a cushion against any future losses, or even as a "savings account" for future funeral home needs. Again, laws and rules vary, as do tax and other implications (Fritch & Altieri, 2017).

Laws, rules, and funeral home policies also vary when it comes to how monies are credited to the family at the time of death. For example, as we've mentioned, in some instances interest is credited on an at-need contract for goods and services, but not for cash advance items. Also, if there is an overage in the trust account, some funeral homes give the extra to the families, and some keep it. There are opposing opinions among funeral professionals when it comes to interest or account overages. Some say it is the family's money, and any extra funds should be returned to the survivors no matter what. Others see the trust income as theirs, since they took the risk of guaranteeing the pre-need contract. There is no firm right or wrong, other than state laws and rules that may be in place. In most states, it is legal for the funeral home to keep all growth, even if it is in excess of the at-need contract amount. Often, what is done with excess funds is left to the conscience of the funeral professional. That said, it is a best practice to treat all customers equally: if money is given back to one family, it should be given back to all families that have excess funds (Fritch & Altieri, 2017).

Some advantages of a trust include (Fritch & Altieri, 2017):

- Placing funds in a trust gives options to a family, whereas an insured product may be too expensive or require regular monthly payments.
- Monies held in trust can always be withdrawn in case of emergency if the contract is not irrevocable.
- It is good for public relations, and the funeral home's reputation, to not turn anyone away.

However, the internet is full of stories regarding funeral director fraud or theft. Misuse of a trust account, in particular, seems to be a common theme when monies go missing, as it can be fairly easy for an unscrupulous director to hide their actions for quite some time. For example, in most states, the funeral director can just write a check out of the trust account for any reason unless the monies are overseen by a trust department. It is not uncommon (although potentially unethical and illegal) for funeral professionals to "borrow" from their trust to pay for operational expenses and put the money back when business recovers. Many times, the anticipated recovery never happens, and the trust is left short and even sometimes goes insolvent (Fritch & Altieri, 2017). Given these factors, how do you assure your pre-need clients that trusts are a safe option?

Because state laws and funeral home policies differ so much regarding trusts, it is vital that customers know exactly what they are purchasing. First, the purchaser should know where the trust is located. Is it in a local bank? If not, where are the monies kept? Who administers the trust? Is it a bank trust department or is it the funeral home staff? Is it a state "master trust," which is where monies are deposited into a large pool of funds administered by a state association and invested according to state law? What are the state laws and funeral home's policies concerning cancellation and refunds? How much of the money can be transferred to another funeral home in the same state or in another state? What will the original amount deposited into the trust be? Can the funeral home can keep a certain percentage of the trust before depositing the remainder? What is the interest paid, what are any fees, how does a family get a refund if they cancel a trust, and how much of the trust proceeds (original amount deposited plus any interest) will be returned to the purchaser if the trust contract is cancelled? The more information you can provide, the better (Fritch & Altieri, 2017).

For funeral home owners, there are even more concerns. Who pays the taxes on the growth? What are the fees? What are the regulatory requirements such as annual reports and state audits? Does the trust department require certain procedures by followed before withdrawals are made? There are various safeguards to ensure that a trust is not misused or stolen from, such as state audits by banking or insurance authorities, and some state boards have rules in place regarding trusts as well – which of these apply to you? Trust requirements can be somewhat confusing and also may change, so it is important to have accurate information and to keep current with new laws and rules (Fritch & Altieri, 2017).

Insurance Companies

The other option for funding pre-arrangements offered by the funeral home is to place the monies in a specialized insurance product or policy. These are referred to as insurance funded pre-arrangements (as opposed to trust funded pre-arrangements). The person for whom the funeral pre-arrangements are made is called the insured. The person who pays for the policy is called the owner. The insured can be, and in many cases is, the same as the owner. The funeral home is typically the assignee of the policy, which means that the funds in the policy will be paid to the funeral home. The funeral home is generally not the beneficiary of the policy, or the person who will receive any unused funds if there is more money in the policy than is needed to pay for the funeral arrangements – assuming, of course, the funeral home's policy is to refund excess funds (Fritch & Altieri, 2017).

Regarding pre-need insurance companies, funeral home owners and directors must have a basic understanding of the company chosen as well as the basic elements of any policies offered. First, and most importantly, what is the fitness of the chosen company? How old is the company? What percentage of their business is from pre-need funeral funding? Is pre-need the primary focus of the company, or is it just a sideline business? Is the company a "stock" company focused on shareholder value and profit, or is it a "mutual" company owned by policy holders? Very importantly, is the company rated on its financial fitness by one of the primary insurer ratings companies such as A.M. Best? If so, how long have they been rated, and how does their rating compare to other similar companies? Far too often, funeral directors lack any understanding of the companies they choose to do business with, and all too often suffer from a poor decision when the company chosen goes into insolvency or does not perform satisfactorily financially (Fritch & Altieri, 2017).

Another factor to consider with an insurance company a funeral home is using to offer pre-need insurance is the company's growth. Growth is the amount of money credited to the face amount of the original insurance contract each year. It is the hope of the funeral home that growth accumulated over time will be enough to cover any increase in funeral cost when the death occurs. This growth of the original amount is how the funeral home is able to guarantee funeral pre-arrangements. Insurance companies calculate the growth available each year as a percentage, such as a 1.75% growth this year. The growth is subject to change, usually annually. Growth can be simple or compound, and can be paid and credited very differently depending on the company (remember, for trust growth, interest is only paid on the amount in the trust; for insurance-funded contracts, growth is paid on the face amount of the contract, even if payments are being made) (Fritch & Altieri, 2017).

Another thing for funeral homes to consider and to understand is how premiums are charged and how they work. Generally speaking, when a family chooses to make payments on their pre-arrangement by using an insurance policy, part of each payment is credited toward the pre-need contract face amount, and part of the payment is considered an insurance premium designated to pay off the balance of the funeral contract price, plus growth, if the insured dies before all contracted payments are made. In most cases premiums are higher the older the insured, and the total cost of insurance increases with the number of payments, or the payment term, agreed upon (Fritch & Altieri, 2017).

When using an insurance company to hold the monies for a funded pre-arrangement, another type of contract applies: either an insured contract, or a non-insured/dollar-for-dollar contract. Even though the insurance company is the entity actually issuing the contract, it is very important that the funeral professional and the family making arrangements thoroughly understand what kind of policy they have purchased. There are important differences between the two types that must be known and disclosed, so that there is no confusion when the death occurs and the contract goes at-need (Fritch & Altieri, 2017).

INSURED CONTRACTS – An insured plan, funded through a specialized life insurance policy purchased through the funeral home, directs that if the insured dies while making payments on their policy, the remaining balance due on the original contract is paid by the insurance company (Fritch & Altieri, 2017).

An insured plan may pay limited benefits for the first year or two years, depending on how any health questions are answered on the original insurance application – if an applicant is in poor health, or otherwise does not meet a certain standard set forth by the insurance company, they may end up paying more in total. For example, a person selects a $7000 pre-need from a funeral home. Instead of paying the full $7000 up front, the person pre-funding the funeral agrees to pay monthly over a period of five years. Each monthly payment will consist of two things: one part of the payment will be to pay for the $7000 funeral pre-arrangement, and one part will be an insurance premium that is used to pay off the contract, if the pre-arranger dies before they make all scheduled payments. Because they are paying both the funeral cost and the insurance cost, the total of the monthly payments will exceed the $7000 contract or face amount of the funeral that was pre-arranged. If the payments made for the entire five years are added up, the difference of the total minus the $7000 contract amount is the cost of insurance. In many instances, the cost of insurance may exceed the cost of the original arrangements, often by as much as two or three times, depending on how long payments have been made (Fritch & Altieri, 2017).

So why would someone choose to make payments for years that end up totaling more than the original funeral cost? Many people purchase this type of contract so that they can get monthly payments they can afford – while at the same time ensuring that if they die, their survivors will not be billed for any remaining contract balance. They may choose a monthly payment because they cannot afford or do not want to make a large lump sum payment up front. And, some may choose up to ten or even twenty year terms, because if they cannot make large up-front payments, they probably cannot make large monthly payments for three or five years (Fritch & Altieri, 2017).

In reality, most people who choose long-term payment options do not make payments for the entire term. They will either pay off early or they will die. Most insured policies have some type of early pay off option that can reduce the amount of insurance premium paid. These options vary widely by insurance company, so it is important that the funeral professional have a thorough understanding of all insurance products offered by the funeral home, in order to help their customers make informed decisions (Fritch & Altieri, 2017).

NON-INSURED/DOLLAR-FOR-DOLLAR CONTRACTS – While this option is not very common, it is still provided by some insurance companies. This type of contract allows customers to select funeral services and merchandise, agree on a price, and then fund the selections by making monthly payments on an insurance-funded policy that equals the original contract amount. For example, the customer chooses a $6000 funeral during a pre-arrangement, and agrees to 60 monthly payments of $100. There is no additional insurance premium associated with the payments, so if the customer dies before they have made all payments, the survivors must pay any contract balance due at the time of death. These contracts may or may not be price-guaranteed by the funeral home, and growth paid by the insurance company may be different than growth paid on an insurance-funded contract (Fritch & Altieri, 2017).

Other Funding Options

LIFE INSURANCE – Often, when a death occurs, families use life insurance to pay for funeral expenses, so it is important for funeral professionals to know as much as they can about how these policies work and how they either help or hurt a family at the time of need.

Unlike those discussed above, these policies were not purchased through the funeral home to pay for previously-selected goods and services, but were usually obtained or purchased through an employer or insurance agent. These may be whole life, term, or another form of insurance. When a funeral home accepts an insurance policy for payment of at-need goods and services, the beneficiary assigns the proceeds of the policy to the funeral home. Funds in excess of the assignment, if any, are sent to the beneficiaries (Fritch & Altieri, 2017).

Some funeral homes will allow a family to pre-assign a life insurance policy, or even make the funeral home the beneficiary of an existing life insurance policy, but as always, it's important to know what's allowed in your state: some states do not allow funeral homes to be beneficiaries of life insurance policies. Even if a pre-assignment is made, funeral homes usually will not specify the goods and services to be provided at the time of death, and even more rarely will they guarantee the pricing. This is because the policy being assigned may not actually pay off at the time of death; even if it were to do so, it is most likely a policy that will only pay the face amount and not any additional growth (Fritch & Altieri, 2017).

It is important to remember that, as a very general rule, a regular life insurance policy (whether a whole life or a term policy) only pays off if the policy is in good standing and payments on the policy are up-to-date. A life insurance policy pre-assigned to a funeral home may be no good at the time of death for many reasons. For example, the policy may have lapsed for non-payment, it may be in reduced paid-up status, it might have been cancelled, loans may have been taken out on the policy, the assignee may have been changed, or there may have been changes to the owner or the beneficiary, among other things (Fritch & Altieri, 2017).

Many people who are currently employed and have some type of life insurance provided by their employer hesitate to purchase a pre-arrangement from a funeral home. This can be a mistake, especially if the provided life insurance expires when employment ends or if any benefits during retirement are reduced (Fritch & Altieri, 2017).

FUNERAL INSURANCE vs. BURIAL INSURANCE – While they sound confusingly similar, these are very different types of policies.

Funeral insurance, as we've discussed, is a type of insurance policy that is sold by an individual who works at a funeral home, or is affiliated with selling what funeral homes refer to as pre-need funeral insurance. It pays a death benefit directly to a named beneficiary, who may use the money in any manner they choose. The agents who write this type of policy usually hold a limited life insurance license, although some states require a regular life insurance license. Likewise, in some states, this type of insurance license is restricted to writing contracts of this nature only, and in some cases also restricted in terms of dollar amounts. In general, these policies have a higher average age, smaller commission, and lower dollar amount than traditional insurance. These limitations in scope mean that nationally, there are only a handful of companies who sell this specific type of product: some of the most well-known pre-need insurance companies include Forethought, Homesteaders, NGL American, and Assurant (Leetz, 2020).

Burial insurance, on the other hand, is a type of life insurance policy. It's focused specifically on funeral expenses, designated to cover the cost of a funeral or cremation upon death. These policies are written by life insurance agents, such as those who represent insurance products from companies like Farmers, Prudential, etc. These companies offer consumers products like term life, whole life, universal life, annuities, long term care, etc. (Leetz, 2020).

SAVINGS/PASSBOOK ACCOUNTS – Where allowed, these accounts may be set up in the name of the beneficiary and the funeral home in joint tenancy, requiring both signatures for removal. Upon death, either the signature is required of a durable power of attorney for finance, or a Small Estate Affidavit may be required for withdrawal. A Small Estate Affidavit is a legal transference of property document, usually executed in situations when no estate or only a small estate exists. Another option required for withdrawal might be a Letter Testamentary, or an Order from the Probate Court authorizing the estate. The latter may take time and follow weeks after the death (Leetz, 2020).

Taxation and Other Asset-Related Issues

Questions and issues of taxation and asset allocation also apply to funeral pre-need. Let's take a look at some of the most common areas of concern.

What's Taxable?

A pre-need funeral account or trust is an arrangement under which someone pays for funeral services, merchandise from a funeral home, or cemetery before he dies. There is no federal income tax exemption for interest earned in a pre-need funeral account. If the pre-need arrangement is in the form of a trust, trustees can elect to pay taxes on the trust's aggregate income according to rates that apply to estates and trusts. Otherwise, trust earnings are taxable as part of the purchaser's income (Leetz, 2020).

Interest received on funds in a pre-need funeral account is federally taxable, and may be taxable in some states. But someone who sets up a qualified funeral trust to pre-fund funeral expenses is eligible for simplified tax treatment under federal law and some state law. One state, Iowa, exempts qualified funeral trusts from its income tax; California, Hawaii, Virginia, and Wisconsin grant them the same simplified treatment available under federal law (Leetz, 2020).

Supplemental Security Income (SSI) Restrictions on Pre-Need

Supplemental Security Income (SSI) is a means-tested government program that provides payment to low-income people who are either aged 65 or older, blind, or disabled. Administered by the Social Security Administration, SSI is funded from the treasury, not directly from Social Security funds. SSI was created to replace federal-state adult assistance programs that served the same purpose. There is an individual and couple limit on countable resources. All irrevocable pre-need funds are excluded, and any revocable funds to current limits for funeral expenses and unlimited burial space expenses per individual are excluded, with exceptions for SSI eligibility purposes (Leetz, 2020).

Medicaid Restrictions on Pre-Need

Medicaid, a federal government health-care assistance program run on the state level to assist those with low income and/or long-term medical custodial health care costs, is a needs-based program. As long as an individual has money available, he or she is expected to use that money to pay for medical and/or nursing home care. Medicaid applicants must spend down their available assets until they reach a qualifying level (Leetz, 2020): eligible applicants cannot retain more than $2,000 in countable assets (Fritch & Altieri, 2017).

Executing an irrevocable funeral trust can assist individuals to qualify for Medicaid, since money funding the irrevocable trust is not counted as assets that would require "spend-down." Also, the cremation of these trusts does not violate the 60-month asset transfer "lookback" rule. Be aware, though, that almost all states impose a limit on the amount of money that can be placed in a funeral trust. These limits are approximately equal to the average cost of a funeral (Leetz, 2020): pre-paid burial assets are exempt up to $15,000 in some states, and less in others, provided, again, that the funds are placed in an irrevocable contract (Fritch & Altieri, 2017).

Though beneficial for many families, there are legitimate reasons and situations when the purchase of an irrevocable funeral trust does not make economic sense. It is important to remember that the creation of an irrevocable funeral trust is, in fact, irrevocable. It cannot be reversed, dissolved, or used for any purposes other than for the individual's funeral. This must be considered prior to make the decision. If a client is not anticipating Medicaid, executing an irrevocable funeral trust is not necessarily in their best financial interest. Other methods to fund a funeral, such as insurance, might be a better option (Leetz, 2020).

Who Can Provide Pre-Arrangements?

Who can offer pre-need services to a family varies, depending on circumstances and state law. When it comes to unfunded arrangements, nearly any member of a funeral home staff can meet with a family and commit plans to writing. The ability to provide funded arrangement services, however, is usually restricted in some way: in fact, in a few states, only a licensed funeral director can offer pre-paid funeral arrangement services (though often they must meet other requirements as well).

In terms of insurance funded pre-arrangements, these usually may be offered by any funeral home employee (although, as previously mentioned, in a few states only a funeral director can provide these services). Some states have a specialty type of license for persons who only sell funeral pre-arrangements. Other states may require a standard life insurance license, with all the training and continuing education requirements that go along with it (Fritch & Altieri, 2017). Some states restrict the sale of the amount of insurance by funeral directors to the amount needed for disposition. And it's important to note that in all states, life insurance may only be sold by a licensed insurance agent (Leetz, 2020).

In terms of trust-funded pre-arrangements, often these may be offered by any employee of the funeral home, while a few states limit these offerings to funeral directors. Some states permit these arrangements without any other special license or requirements, while others may require some type of permit or other regulatory permission (Fritch & Altieri, 2017).

Many funeral homes retain the services of a pre-need salesperson that is not actually an employee of the funeral home. These are known as 1099 independent contractors, or simply as 1099 agents, because they receive an IRS 1099 form from the insurance company for commissions earned. Persons who are 1099 agents usually work on straight commission and pay their own taxes, including Social Security taxes. These independent contractors cannot be directed or controlled by the funeral home since they are not employees. The funeral home or 3rd party marketing company they work with cannot direct their activities, as no employment relationship exists. If the 1099 agent is not doing satisfactory work, then the funeral home simply tells them that their services are no longer needed. The majority of pre-need salespeople are 1099 agents (Fritch & Altieri, 2017).

That being said, there are still many salespeople who are actually employees of the funeral home. In those cases, the funeral home may receive the commissions, pay the salesperson a portion of commission, and keep the rest to pay for taxes, insurance, and other overhead as well as a base salary or hourly rate. And, in other instances, the salesperson is a funeral home employee who receives a standard salary or rate of pay, and the funeral home keeps all commission income. It is becoming increasingly common for funeral home owners and managers to include some kind of pre-need income when creating a compensation package for a new employee (Fritch & Altieri, 2017).

Funeral directors who have the necessary license may sometimes decide to sell pre-need full-time. Others may sell pre-need as needed, or as part of their normal duties. Still others may sell pre-need after hours or on the side for extra income (Fritch & Altieri, 2017).

Regulatory Oversight

Persons engaged in the selling of pre-paid funeral goods and services may be subject to oversight from many different governmental authorities, including the Federal Trade Commission (FTC), state funeral boards, state banking and insurance commissions, and even state's attorney generals (Fritch & Altieri, 2017). It's critical for you to be aware of your state's requirements – and to remember that every state is subject to the FTC.

The Federal Trade Commission's Funeral Rule

The FTC's Funeral Rule applies to anyone offering pre-paid funeral goods and services. The Funeral Rule guidelines that must be followed include the General Price List, the Casket Price List, the Outer Burial Container Price List, permission to embalm (if applicable), and mandatory disclosures, as well as additional applicable guidelines.

General Price List

According to the FTC, you must give out a General Price List in all pre-need situations. Because you may sell different goods and services on a pre-need basis, your pre-need General Price List may vary from the General Price List you use in at-need situations. However, any General Price List that is used for pre-need arrangements must include all required disclosures and offer goods and services on an itemized basis: you cannot offer only package funerals to pre-need customers. In addition, you must give a General Price List to anyone who wishes to modify the funeral goods and services already purchased under a pre-need contract, or to a survivor who must pay an additional sum because prices have increased since the time the arrangements were pre-planned (Fritch & Altieri, 2017).

The triggering event for giving out the General Price List is a face-to-face meeting. The face-to-face meeting can occur anywhere, not just at the funeral home. For example, you must give out a General Price List even if the discussion of prices or arrangements takes place in the family's home or elsewhere. It is a good practice for pre-need salespersons to always carry extra copies of the General Price List (Fritch & Altieri, 2017).

Casket Price List

The FTC states that you must show the Casket Price List to anyone who asks in person about the caskets or alternative containers that you offer, or inquires about their prices. You must offer the Casket Price List when you begin discussing caskets or alternative containers, but before showing these items. Consumers must be able to look at the price list before discussing their options or seeing the actual caskets (Fritch & Altieri, 2017).

Outer Burial Container Price List

The FTC also requires that you show the Outer Burial Container Price List to all persons asking about outer burial containers or their prices. You must offer this price list when you begin to discuss outer burial containers, but before showing the containers. Consumers must be able to look at the price list before discussing their options or seeing the actual containers (Fritch & Altieri, 2017).

Permission to Embalm

Per the FTC, if embalming is anticipated or required for a pre-need arrangement, the client may give express approval for embalming at that time: you do not need to get any additional approval to embalm at the time of death. This may be written or verbal and must comport with your state requirements. However, due to the time between the arrangements and death, common sense would dictate written consent (Leetz, 2020).

Mandatory Disclosures

Funeral professionals have a duty to make all comprehensive disclosures. These must be conspicuous, readable, and understandable. Print must be large enough so as not to hide or deliberately conceal information, and contractual information can not contradict information found within the General Price List (Leetz, 2020).

Additional Guidelines

Other FTC guidelines include phone, mail, or internet requests; selling pre-need contracts on behalf of funeral homes but not personally providing funeral goods and services; and the 3-Day Rule. In addition, the FTC recommends that consumers ask specific questions before entering into pre-need arrangements.

Phone, Mail, or Internet Requests

According to the FTC, you must give certain information to people who telephone, but the Funeral Rule does not require you to send callers a General Price List. Similarly, you do not have to send a General Price List in response to mail or internet inquiries about funeral goods and services. If a telephone or mail inquiry is followed up by a meeting at the funeral home or elsewhere, a General Price List must be provided at that time. As a note, some states require funeral providers to mail a price list upon request. Funeral professionals should be aware of all state funeral laws (Fritch & Altieri, 2017).

Selling vs. Providing

The FTC also requires salespersons to comply with the Funeral Rule if they sell pre-need contracts on behalf of one or more funeral homes, but do not, themselves, provide funeral goods and services. In such a case, even though the salesperson does not provide the funeral items, they are an agent of a funeral provider and therefore are covered by the Funeral Rule (Fritch & Altieri, 2017).

3-Day Rule

The FTC gives purchasers a 3-day right to cancel a sale made at a home, workplace, or a seller's temporary location, such as a trade show or pre-need presentation event. This "Cooling Off Rule," or the 3-Day Rule, also applies whenever someone has invited a salesperson to make a presentation in their home. The 3-Day Rule covers sales of $25 or more at a buyer's residence and $130 or more at a temporary location, and thus would apply to the sale of pre-paid funeral goods and services. The 3-Day Rule also states that by law, the seller must tell the purchaser about their right to cancel at the time of sale. The seller also must give the purchaser two copies of a cancellation form, one to keep and one to send if they were to decide to cancel their purchase, and a copy of their contract or receipt. The contract or receipt should be dated, show the name and address of the seller, and explain their right to cancel. The contract or receipt must be in the same language that is used in the sales presentation. The purchaser has the right to cancel for a full refund that extends until midnight of the third business day after the sale (Fritch & Altieri, 2017).

That said, some sales are exempt and may not be cancelled, even if they take place in places normally covered by the 3-Day Rule. This rule does not cover sales that are (Leetz, 2020):

- Under $25.00 for sales made at your home
- Under $130.00 for sales made at temporary locations
- Made entirely online, or by mail or telephone
- The result of prior negotiations at the seller's permanent place of business where the goods are sold regularly.

It is important to note that insurance companies who fund pre-paid funeral pre-arrangements generally have their own "free look" or cancellation period, during which time the purchaser of an insurance contract may cancel the policy and receive a full refund of all monies paid. For most companies, this is a 30-day period. However, it is important for the salesperson to know the policy of the insurance company for which they are selling (Fritch & Altieri, 2017).

Recommended Questions

Finally, the FTC recommends that members of the public ask specific questions before signing up for a pre-need funeral arrangement. The questions are from the Federal Trade Commission's booklet entitled *Shopping for Funeral Services* (Fritch & Altieri, 2017):

- What happens to the money I've pre-paid? States have different requirements for handling funds paid for pre-arranged funeral services.
- What happens to the interest income on money that is pre-paid and put into a trust account?
- Am I protected if the firm you dealt with goes out of business?
- Can I cancel the contract and get a full refund if I change my mind?
- What happens if I move to a different area or die while away from home? Some pre-paid funeral plans can be transferred but often it is at an additional cost.

<u>Countering Concerns among Consumers and Funeral Service Professionals</u>

We've covered a lot of information about the many aspects of pre-need programs. But one topic we haven't touch on is how they're perceived, both by consumers and by industry professionals.

Consumer/Consumer Group Views

Many well-meaning people have taken care of a small part of their overall funeral plans, such as simply buying a cemetery space, and proceed to tell family members that their pre-arrangements are "all taken care of" – when in reality, the arrangements have barely been made. Others may have only a written plan in place (an un-funded pre-arrangement), but have not taken the extra steps necessary to pay for their plan in advance. These kinds of miscommunications can lead to some serious difficulties when a death occurs. Pitfalls worth noting include (Fritch & Altieri, 2017):

- The money necessary to fund the arrangement may not be there when needed, due to theft, embezzlement, poor investment performance if it is not guaranteed, or the fact that the arrangements are not fully funded.
- Consumers may fail to shop around, buying from the first or only known funeral home representative. This may result in higher costs or the purchase of unnecessary services or products.
- The costs of insurance may far exceed initial funeral cost.
- The cash value of an insurance-funded arrangement may be much less than the initial monies paid for the policy.
- A full refund may not be given if plans are changed or cancelled.
- Some monies may be kept by the funeral home for overhead or administrative costs, reducing any potential interest gains.
- Some pre-paid funeral pre-arrangements may not be guaranteed, leading to confusion and added cost for survivors at the time of need.
- The funeral home may go out of business, and the price guarantee may not be valid at another funeral home.

From a family or consumer point of view, pre-arranging can be very confusing. It is critically important, as a funeral service professional, to clearly communicate everything that might be needed when helping someone plan ahead. Not doing so many lead to people thinking that their arrangements are complete when, in fact, they are not.

With communication firmly in place, there is actually very little downside or disadvantage to planning ahead. Experience has demonstrated that in most cases where some kind of pre-arrangements are in place, the surviving family members have a much more positive experience compared to families who are left to face a death with no plan. There are numerous emotional and financial benefits to pre-planning, for both the person planning and for their survivors. Emotionally speaking, people who plan ahead can take the time needed to make intelligent and informed decisions, instead of forcing their family members to make hurried decisions under intensely stressful and emotional circumstances. They can make their wishes known to their family and typically have some peace of mind knowing that their wishes will be carried out, and that they have helped to minimize potential family disputes and hard feelings. And, a well-designed pre-arrangement can serve as an intentional plan to help the family begin healing (Fritch & Altieri, 2017).

If a pre-arrangement is also pre-funded, the financial benefits are many. These include relieving the family of most or much of the financial burden associated with final arrangements, protecting funds so that they are only used for funeral purposes, reducing assets for Medicaid or Supplemental Security Income (SSI) purposes, providing funds that are portable and can be used at another funeral home if necessary, and in the case of guaranteed contracts locking in the process of selected funeral goods and services (Fritch & Altieri, 2017).

<u>Consumer Pre-Need Bill of Rights</u>
In order to help protect the consumer, the National Funeral Directors Association put out the Consumer Pre-Need Bill of Rights. This was designed to assist the consumer in pre-arranging funerals, providing a list of things the family should understand during a pre-need funeral transaction. Funeral homes can use this document to ensure that their clients have a full understanding of all of the details of their pre-need funeral transaction. By referencing the document, these funeral homes are in effect guaranteeing their clients certain rights and protections, including that they will (National Funeral Directors Association):

- "Provide you with detailed price lists of services and merchandise before you select services and merchandise.
- Provide to you, at the conclusion of the funeral arrangement conference, a written statement listing all of the services and merchandise you have purchased and the price.
- Give you a written pre-need funeral contract explaining, in plain language, your rights and obligations.
- Guarantee in the written pre-need contract that if any of the merchandise or services you have selected are not available at the time of need, merchandise or services of equal or greater value will be substituted by us at no extra cost to you.
- Explain in the written pre-need contract the geographical boundaries of our service area and under what circumstances you can transfer the pre-need contract to another funeral home if you were to relocate or if the death were to occur outside of our service area.
- State in the written pre-need contract where and how much of the funds you pay to us will be deposited until the funeral is provided.
- Explain in the written pre-need contract who will be responsible for paying taxes on any income or interest generated by the pre-need funds that are invested.
- Inform you in the written contract whether and to what extent we are guaranteeing prices of the merchandise and services you are purchasing. If the prices are not guaranteed, we will explain to you in the written pre-need contract who will be responsible for paying any additional amounts that may be due at the time of the funeral.
- Explain in the written pre-need contract who will receive any excess funds that may result if the income or interest generated by the invested pre-need funds exceed future prices increases in the funeral merchandise and services you have selected.
- Explain in the written pre-need contract whether and under what circumstances you may cancel your pre-need contract and how much of the funds you paid to us will be refunded to you."

When done properly, a pre-need file includes complete statistical and biographical information, as well as detailed plans for the actual funeral service rituals and eventual disposition of the remains. The pre-funded type of arrangement also removes financial uncertainty by providing the funds needed to carry out the final wishes of the deceased. The positive impact of pre-arranging is why so many families choose to pre-plan, and why so many funeral homes actively promote this service to their clients and in their communities (Fritch & Altieri, 2017).

Funeral Home Owner/Operator Views

When someone dies without pre-arranging, his or her loved one will have more than 70 decisions to make quickly and in a time of grieving; with pre-need arrangements in place, all the loved one has to do is get dressed and be present at the funeral ceremony. For years, pre-funded funeral pre-arrangements have been beneficial and valued by both funeral directors and clients (Klicker, 2008).

Despite this, funeral home owners and operators also have concerns, both regarding the concept of pre-need funeral arrangements as well as with pre-need providers. These concerns may include (Fritch & Altieri, 2017):

- The insurance product growth will not keep up with “funeral inflation,” and there will be significant write-off at the time of need.
- The insurance company may go out of business or into receivership.
- Customers and families may not understand what they have actually purchased, especially if it is an insured plan.
- Customers and families do not understand what is guaranteed and not guaranteed at the time of death.
- Pre-need sales and marketing efforts may damage the funeral home’s reputation.
- Difficulty in hiring, training, and keeping competent sales staff.
- Incompetent sales staff, as well as problems and misunderstandings caused by pre-need sales people.
- Previous bad experiences with pre-need providers or third-party marketers.

As daunting as this list sounds, there are also several pros for funeral home owners and operators. Possibly the most compelling reason for a funeral professional to consider pre-need funeral arrangements is that it is a proven way to secure growth and family loyalty in the funeral establishment. The primary business goal of a successful pre-need program from the perspective of the funeral professional would be to either increase market share or slow/stop any decrease in market share.

When thinking of market share, it might be helpful to use an analogy of a fruit tree to explain how pre-need can be of benefit to a funeral business. Think of the fruit on the tree as all the potential business (market share) for all the funeral homes in any particular area. When the fruit falls (an at-need death), then it is picked up, or served by the funeral home (Fritch & Altieri, 2017).

Many times a funeral home owner or manager thinks that, because they have served a family in the past, they will do so in the future as well. Although that may be the case as often it is not, the funeral home is left to wonder what happened or what they might have done wrong when they see a previously-served family using a competitor. The reasons a funeral home is chosen to serve a family at-need can vary dramatically. Maybe the funeral home served the family before. Or maybe it is the closest to the hospital. Or maybe it is seen as the best or as the cheapest. Or maybe someone recommended the funeral home, like a nurse or another family member. Or it could be that it was just a random choice from a list presented by a hospice worker or from a few minutes of research on the internet. There are many reasons that a funeral home is chosen, and often, that choice is left to chance (Fritch & Altieri, 2017).

There are no surefire ways to guarantee that a family will use a firm. But, the likelihood that they will use a particular funeral home increases dramatically if the deceased had some sort of pre-arrangement, pre-funded or not, with the funeral home. Getting in front of families today and linking them to your funeral home with some kind of pre-arrangement is kind of like taking the fruit off the tree before it falls, thereby limiting the opportunities for competitors to serve those families. This is how pre-need can slow or reverse market share decline and provide a more secure future for the funeral home's owners and staff (Fritch & Altieri, 2017).

Implementing a Pre-Need Program

For many small funeral establishments, like those taking less than 100 first calls per year, the owner probably does the pre-need arrangements, often waiting for people to come to him or her to request a pre-arrangement meeting. This is generally not a good way to build a successful pre-need business. In fact, they may lose future business to funeral establishments that have a dedicated pre-need employee (Klicker, 2008).

One option for funeral establishments looking to build their pre-need business is to hire one or more salespeople to coordinate a pre-need program. If necessary to justify having a dedicated employee to do pre-need funeral arrangements, this employee could be paid on commission. Research shows that funeral establishments performing less than 200 annual funerals and using a dedicated pre-need sales person average 77% more funded pre-need sales than similarly sized firms using at-need funeral directors who also do pre-need arrangements (Klicker, 2008).

Another choice a funeral establishment has for developing a pre-need program is to hire an outside company that specializes in pre-need sales. This is commonly known as outsourcing. The simple benefit of outsourcing is the magnitude of the results achieved. Using an outside pre-need company will usually generate the greatest number of pre-need sales in the quickest amount of time (Klicker, 2008). This also eliminates the need for the funeral home to hire and pay a dedicated employee to do pre-arrangements, or for a current employee to take the time to learn the ins and outs of pre-need, or to obtain their life insurance license.

Implementing the need for pre-arrangements into an aftercare program might be another good option for funeral establishments. A family that has just gone through an at-need arrangement and paid for an at-need funeral, with all of the attendant emotional and financial pressures, may be more interested in pre-arranging and possibly pre-funding going forward. This is an easy way to introduce the idea of pre-arrangements to families without pressuring them to buy anything; however, the dedicated salesperson could meet with them if it is something they are interested in pursuing further.

Conclusion

Whether you're considering implementing a pre-need program at your establishment, or want to hone the one that's already in place, today's funeral service professionals must acknowledge their importance: these programs are increasingly necessary in order to compete in the contemporary funeral profession. As such, funeral service professionals must develop a full understanding of the intricacies that surround pre-arranging funeral services.

This course has provided a foundation of knowledge upon which to build as you continue to learn about pre-need arrangements. This includes an awareness of the difference between funded and unfunded arrangements, guaranteed and non-guaranteed contracts, revocable and irrevocable contracts, and the difference between trusts and insurance. Also, it is important to identify who can sell pre-need, and remember the connections between pre-need and the Federal Trade Commission Funeral Rule.

Hopefully the detailed information contained in this course will help to further your grasp of the many elements of pre-need as you continue your career in the funeral service profession.

Funeral Pre-Planning: An Overview

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Learner Name: ______________________________

Course Name: ______________________________

	Low				High	
Orientation was thorough and clear	1	2	3	4	5	
Course objectives were clearly stated	1	2	3	4	5	
Content was organized	1	2	3	4	5	
Content was what I expected	1	2	3	4	5	
Program met my needs	1	2	3	4	5	
Satisfied with my learning experience	1	2	3	4	5	
Satisfied with customer service, if applicable	1	2	3	4	5	n/a

What suggestions do you have to improve this program, if any?

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What educational needs do you currently have?

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What other courses or topics are of interest to you?

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