Business

By Bill Williams

How to Avoid Common Mistakes With Your Perpetual Care Trust

If you're like many cemeterians, your cemetery is your legacy. You take care to ensure it is a place where families can pay respects and remember their loved ones – today, tomorrow, and into the future. Perpetual care trust funds are the means that help you sustain this legacy: They offer the assurance of a safe, well-kept resting place for existing and potential client families and ensure the cemetery's long-term care. Withdrawals from a perpetual care trust, typically governed by state statutes, are meant to pay for the upkeep of the cemetery in perpetuity. But what happens if an error causes funds to fall short?

Perpetual care trusts are vital to sustaining the value of a cemetery and communicating that value to clients and the community. Unfortunately, there are many common mistakes associated with perpetual care trusts, and it's easier to make one than you think. Lack of planning, underfunding, and an unawareness of investment performance – among other mistakes – can affect your ability to support cemetery maintenance needs. The good news is that these mistakes can all be avoided by implementing a few effective best practices.

Protect your cemetery's budget far into the future by learning more about these common mistakes and how you can avoid them.

mistake:

Failure to Establish Goals, Objectives and Long-Term Strategic Planning for the Trust

The first mistake that cemeterians commonly make with perpetual care trusts is lack of planning. Of course, you look at this year's budget … but if you're like many others, you do so without the perspective of how this budget plays into years to come. With perpetual care, you need to consider a plan for future costs beyond this year and look at what percent of those costs need to come from the trust versus costs that can be covered by sales.

This planning will arm you with the information you need to set financial goals and objectives for your trust – another crucial step that many cemeterians overlook. If you fail to establish goals and objectives for your trust's investment performance, it can lead to a whole host of problems. To start, the professional who manages your investments has minimal direction on how to invest for you, especially what level of risk you're comfortable with. This can easily lead to poor investment performance and therefore inadequate funds for your customers' perpetual care needs. The longer this issue sticks around, the more financial uncertainty you will face, which can significantly threaten the long-term sustainability of your business.

solution:

Start Planning Now

Building a solid foundation to guide your actions is a healthy habit in any aspect of life and business. For your perpetual care trust, it's no different. Fortunately, it's never too late to start planning for your cemetery's perpetual care. If you don't have a long-term plan yet, start now, with small expectations of how to improve incrementally year after year. A trust team, if you don't already have one, can help you with this task and will guide you in establishing goals, objectives and strategies for your trust. You should revisit these benchmarks regularly.

mistake:

Underfunding a Perpetual Care Trust

Another common mistake many cemeterians run into is underfunding. This often happens when the cemetery only deposits the minimum legal requirements into the trust. Of course, it's easy to think that it's enough to put in just what the state mandates. The problem is, legal guidelines are often not enough to support maintenance needs. Think back to your long-term plan and consider how great those needs will be in the future, especially once all plots are sold, income from current operations dries up and inflation is factored in.

Underfunding now will put you and your cemetery in a bind in the long run, forcing you to make more aggressive investments to try and make up the difference and generate profit for the future. Don't put yourself in this situation if you can help it – this is a risky strategy and could leave you with nothing if the market falls.

solution:

Use Your Own Budget Forecasting, and Put More Funds Aside

Your cemetery's needs are likely much greater than the minimum deposits that your state requires. Think of these minimums as guidelines, and then review your long-term planning to develop budget forecasting based on the growth and income needs for your trust. It's not always possible, but if you can, put more funds aside for the future. Also, consider opening a permanent, dedicated maintenance account for these extra funds. Keeping a separate account for any extra funds will give you more flexibility with how and when to administer them.

mistake:

Lack of Awareness of Investment Performance

Inaccurate measurement of trust returns and lack of awareness of investment performance are additional common mistakes when it comes to perpetual care trusts – and that can spell trouble. If you aren't keeping track of your trust's performance, you won't know when potential problems crop up, or how the performance compares to years past. A trust's investment strategy should be measured against a similar investment strategy with similar indices. The historical rate of return and level of risk should be taken into account when comparing trust earnings.

solution:

Communicate with Your Trust Officer and Review Investment Policy Statements

Communication is key for success. You and your trust officer should be communicating often – whether it's weekly, monthly or quarterly – whatever works best for you and your team. Without regular communication, you'll be left in the dark about the performance and overall sustainability of your business.

In addition to communication from your trust officer, your perpetual care trust should follow an investment policy statement, otherwise known as an IPS. An IPS outlines investment objectives and strategies and serves as the guide for your trust's proper and secure operation. The IPS sets the direction and provides the necessary investment guidelines to keep your trust on the road to financial success. If you haven't already, make sure you learn how to read your IPS (your trust officer can explain this to you), and review it regularly to track performance. Staying engaged with the performance of your trust will allow you to spot any warning signs with time to make necessary adjustments.

mistake:

No Defined Duties for Trust Parties

No matter how many professionals have a hand in managing your trust, there should be clearly defined roles and responsibilities for everyone involved. And, these roles and responsibilities should be divided among separate parties. When trusts have failed, it's usually because they were managed by only one group of individuals, with no checks or balances. Ask yourself: who is managing the money flowing in and out of your trust? Who is deciding how to invest your funds? Is anyone tracking the performance of your trust? These are all questions, among others, you and your trust officer should discuss to ensure your trust has a good sense of organization and direction.

solution:

Segregate Duties Among a Full Trust Team

To protect cemeterians from unforeseen investment shortfalls, the duties of creating and operating a perpetual care trust should be separated among several parties. This kind of compartmentalization also helps verify the actual rate of return of the trust's investments. In addition, it helps avoid conflicts of interest while creating a healthy system of checks and balances, which benefits the cemetery, its clients and the community.

Having a team managing your perpetual care trust takes a lot of responsibility off your plate, and it also gives you the peace of mind that your trust is operating as it should. If a trust team is set up correctly, it holds each member of the team accountable and eliminates any possibility of mismanagement.

Your perpetual care trust team should include: you (the cemeterian), a trustee, an investment manager, an attorney and a third-party record keeper. My company, Funeral Services Inc., provides financial services and record keeping, and we offer the death-care profession a turnkey trust solution through a nonexclusive collaboration with other industry-leading partners.

Protect Your Cemetery, Now and in the Future

Perpetual care trusts are essential for any cemetery. For cemeterians, withdrawals from perpetual care trusts ensure the long-term care of the cemetery. Don't jeopardize this by making simple, avoidable mistakes.

By planning for the future, establishing goals and objectives, staying updated on your trust's performance and working with a trust team to manage your accounts, you can ensure that you are providing the proper funding to your trust and safeguarding your cemetery's future. Your cemetery is your legacy. With the right steps, the care you put into it today will last for generations to come. •