

Cooperative Funeral Fund Inc.

Preneed Roundtable

as seen in:



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Roundtable

By Steve Cronin

Preneed Roundtable



W.H. "Bill" Williams



Todd D. Mannix



Todd Carlson



Steve Lang

Many in funeral service see preneed sales as a way to grow business, give customers what they want and guarantee success into the future. But, just like all other aspects of the profession, the sale and management of preneed accounts is subject to changing economic conditions and customer expectations and desires. In this first part of a two-part roundtable, we checked in with W.H. "Bill" Williams, president and CEO of Funeral Services Inc.; Todd D. Mannix, vice president of sales and marketing for Cooperative Funeral Fund Inc.; Todd Carlson, executive vice president and chief sales officer, Funeral Directors Life Insurance Co.; and Steve Lang, chairman, president and CEO of Homesteaders Life Co., to learn the current trends in preneed sales and what the future might hold.

What do you find has been the most effective way to promote preneed sales and convince the public of the wisdom of preplanning their funeral or services for a loved one?

Williams: In the past our profession has looked to traditional methods to reach our target audience: direct mail, cold calling and newspaper advertising were considered good marketing tactics. These methods become less effective with each passing day as consumers become more reliant on technology and social media as a tool and resource for information. As a consumer myself, I receive and pay most of my bills electronically, and use my cellphone

in lieu of a home phone – eliminating the use of direct mail and cold calling as a successful way for businesses to market their products and services to me.

The future of marketing for every industry and profession can be found in our hands and on our desks. Whether it be a cellphone, tablet or laptop, consumers have access to information at their fingertips. Design plays an important role in the dissemination of information. A well-designed website is one of the most effective ways to share your message and educate consumers about the importance of preneed planning and the services your

business offers. Digital ad placement and the use of social media platforms can drive traffic to your website.

Outside of technology, community engagement is essential to building trust and educating others about planning. Identify and create opportunities to speak with and share information about preneed planning with community groups and organizations. These presentations benefit potential clients as well as others, including health care providers, estate planning professionals and more.

When the question of finances comes, and it will, remember this: Preneed is not a financial investment – it's an investment in the emotional

well-being of the surviving family members.

Mannix: First, let me preface my responses by saying that Cooperative Funeral Fund Inc. is a preneed service provider and does not sell directly to consumers. However, we do help our client funeral homes by sharing ideas and industry input to address many of the same questions that are raised in this roundtable. We talk to funeral homes across the country every day that struggle with these issues, and this experience provides us a unique perspective. To a large extent, the fundamentals of selling preneed have not changed. If you look at it from the family's perspective, the goals related to preneed are very similar to what they have always been. The approach to the service and funeral may be changing, but the reasons for the importance of these events have not.

Some of the benefits of preneed are:

- Creating peace of mind for their loved ones left behind.
- Prepaying to ease the financial burden on their family.
- Selecting their own arrangements.
- Creating a funeral that represents the beneficiary's life the way they want it represented.
- In addition, it reduces the burden of loved ones questioning what the deceased would have wanted and wondering if the deceased would have felt bad knowing family members chose pine instead of mahogany.
- Paying down assets to go on social assistance because a funeral is not considered in the look back.

We offer our clients consumer guides on preplanning and prefunding their funerals. We suggest that they promote the benefits of preneed in their marketing efforts, whether it be community events, preneed, at need or aftercare.

While there have been many changes in the industry centered around conducting funerals in a nontraditional way, there is still a need for the family to say goodbye in the grief process. So the 'hows' might be changing, but the 'whys' have not. The human condition grieves the loss of a

loved one. There are many studies that call for acceptance and closure. Many times, a funeral offers the opportunity to have an event that creates a demarcation point in time that allows the natural grieving process to move on to the next stage. If there is no funeral, no gathering of family, no service of remembrance, it can be difficult for some people to recognize the loss from a closure perspective and begin to move on. As our consumer preplanning guide states on the cover (and has since 1989): 'A funeral is a service of worth, a rite of passing, a ceremony for those one leaves behind to afford them a chance to say goodbye.'

Carlson: At Funeral Directors Life, we believe strongly in a concept that we call 'community-centered marketing.' We teach our funeral directors and sales professionals how to be in the community and how to invite the community into the funeral home. By marketing preneed in this manner, we see tremendous sales results and strong corollary benefits to the at-need side of the business. Thus, our clients' most effective approaches to selling preneed include community awareness seminars and lunch-and-learn programs. Both follow a highly educational format. But we can't forget about direct mail. In a market environment that is quickly evolving from old to new media, direct mail continues to be a cost-effective lead generation option for the right sales professional.

Lang: The advice we give to funeral professionals is to first establish a culture in the funeral home that disregards the 'at-' and 'pre-' that precedes 'need.' The most successful owners and managers work with all staff members to ensure they understand that, at its very core, the firm's mission is to help families plan funerals and memorial events regardless of when services will be delivered. When this type of culture exists, firms can be better positioned as the resource of choice for funeral planning.

It is important that a preneed funeral program be consistent with the

culture and mission of the funeral home's brand. All promotion and marketing efforts should communicate the unique talents, knowledge and creativity you have to create an experience people are willing to recommend to others. In other words, we see a time in the future when funeral home advertising and PR is more about what a firm does to help create unique and individual celebrations. This is not unlike how wedding or other types of event planners differentiate from one another.

The most effective programs incorporate a varied and assertive outreach program, often including mail, seminars, referrals, social media and other proactive lead generation methods. These programs also include active, professional sales counselors and management structures. In conjunction with these programs, it is extremely important to select the right funding partner whose interests are aligned with your interests and those of the families you serve.

Additionally, the most successful owners fully understand that an active and progressive preneed program is the best promotional and marketing strategy a funeral home can have. On a net basis, the cost of the program is very low and the impact very high. You effectively get an additional group of employee advocates who meet one on one with families, sharing the value of the important work done by the funeral home. Additionally, as a result of the outreach from the program, you get better brand awareness, even with families who don't choose to preplan and prefund funerals.

What is your biggest challenge when it comes to administering preneed plans?

Williams: Regulations. Cemetery regulation; the Federal Trade Commission, funeral home regulations, investment manager regulation, preneed regulation, Truth in Lending Act, trustee regulation and trust taxation – just to name a few. Any one of which can land a death-care professional in serious hot water if not

properly managed.

A clear understanding of both trust and death-care regulations is essential. Regulations for most every state are different: some are easy while others are more challenging. As a preneed trust administrator, our number one job is to carry the regulatory burdens for our clients, allowing the death-care professionals to use their expertise to stay client-centric and manage their business.

Mannix: There are several challenges to administering preneed plans. Which is the biggest challenge depends upon the funeral home and the state in which it operates.

Companies like CFF and some state associations ease the administrative burden by providing contracts, creating subaccounting that creates an account for each preneed, handling payments for payment plans, providing monthly statements and providing online access so the funeral director knows the balances at any given time.

A majority of the administrative burdens are assumed by preneed service providers such as ourselves. The remaining burdens are managing their own file system (paper or digital) and the ever-increasing state legal reporting requirements. In many cases, the preneed service provider also creates these reports, but if a funeral director has preneed funds in many places, they may have to aggregate all of the reports into one filing. Insurance chargebacks or paying back commissions can also be a challenge with preneed if the beneficiary passes in a short period of time after the preneed was booked. If funeral homes are being overly burdened by creating passbook accounts for their preneed service at the bank, they may want to investigate the services offered by a preneed service provider because many of those still going to the banks are smaller funeral homes that simply do not have the staff to administer all of these accounts on their own.

Carlson: Expense. Because of the persistently low interest rate environment and flat average policy sizes, margins for preneed insurance

companies are compressed. It's necessary to keep the expenses related to policy acquisition and maintenance as low as possible. Funeral Directors Life's goal is to reduce expense in order to keep as much death benefit and commission in the product as possible. Funeral Directors Life is investing heavily in automation technologies, both in the field and in the home office, to gain efficiency while improving the level of service to our clients.

Lang: As mentioned above, one big challenge is finding the right partners to support your program. It is important to have a partner that understands your profession, is committed to win-win structures for you and your families and provides products and services that meet the needs of your funeral home. The decisions can be complex, and it is important to look at the provider's value proposition in its totality.

However, the most difficult challenge in running a preneed program is finding and managing a team to meet the objectives set for the program. It takes a lot of time, hard work and commitment. This can be difficult in an operation where serving and meeting the needs of families who have experienced a death is of highest priority.

How has the improving economic outlook impacted preneed sales? Are they growing to your satisfaction?

Williams: With a few exceptions of major downswings in the market – such as 2002 and 2008 through 2009 – the economy itself does not seem to negatively impact the volume of preneed contracts. However, economic climate does have some impact on contract averages.

The real driver in contract averages is cremation. Recently, the FSI team compared contract averages of clients in Florida and Alabama. At the time, Alabama had a cremation rate less than half that of Florida's rate. Alabama contract averages were double that of Florida's averages. However, as we continue to monitor

these clients, we see the tide is starting to shift as cremation rates in Alabama are rising. As cremation sales rise, we are just beginning to see contract averages rise as well. Progressive death-care professionals are now offering additional services with cremation, which is increasing what would typically be a lower contract price and overall supporting higher contract averages.

Mannix: The improvement in the economy has been anemic. We are growing, but at a very slow pace and many people, especially those in the middle class, are still waiting for the promises that have been made to them by a fractured government.

I say this not to be political, but to point out that while Federal Reserve Chair Janet Yellen and the folks on CNBC and Bloomberg are talking about economic indicators trending in the right direction, we have not seen anything to indicate the public is feeling this 'growth' or even that they feel good about where we are going. Consumers will need to see and feel the growth for it to make a real impact on many businesses. Until the growth transforms from economists telling tales to Main Street impact, consumer confidence and spending habits won't be moved much.

While I do believe the worst is over in climbing out of the financial crisis we endured, we are still a long way from a strong economy where we start to see consumers changing their spending habits. We have seen a steady stream of new preneed business and have not seen much of an impact as we crawl along.

Carlson: A true correlation between sales growth and the economic conditions is hard to identify. Anecdotal evidence suggests families hold on to their wallets a little bit tighter in times of uncertainty. Right now we have both economic and political uncertainty that have impacted sales to some degree. However, a stronger, more sustaining factor might be the impact that the persistently low interest environment has on senior citizens. Let me explain: If a senior citizen is

living on Social Security and has a modest retirement account of \$300,000, in the past that senior citizen was able to supplement their Social Security by investing those funds conservatively in a certificate of deposit at 5 percent generating \$15,000 per year in interest income. In today's economic environment, that same account might earn \$1,500 in interest instead of \$15,000. That is a huge decrease. Despite these challenges, Funeral Directors Life has seen annual sales growth over the past 10 years in excess of 11 percent per year. So, yes, our board of directors is satisfied with our rate of growth.

Lang: Back in 2008 we did see about a 1 to 2 percent decline in the average policy amount. We believe this was due, in part, to the economic downturn as well as the increased demand for cremation with fewer or no services. This trend has flattened out, both because the economy is getting a little better and funeral professionals are getting better about having a conversation about funeral service options to consumers who choose cremation as the preferred means of disposition. We are experiencing a 10 percent increase in the number of policies issued year to date, which can be attributed to a variety of factors, including the improving economy. According to our most recent policy owner study, 'Finally had the money to do it' is the third most often stated reason why a person prearranged when they did.

Do you think funeral homes should allow families to lock in the service charge, merchandise charge or both when it comes to prearranged funerals? How does your firm approach "the guarantee"?

Williams: This is a hot topic in the industry. 'Guarantee' options depend on the firm's business model and state law. Whatever approach a business chooses, proper implementation is key to making it work. A firm in Missouri uses a 'guarantee' approach that I have come to appreciate and support.

This Missouri firm guarantees, except for cash advances, all goods and services selected for one year only at the current prices. If a contract becomes at-need within the year, the products and services are guaranteed at the cost used to establish the contract. An additional 'premium' – a percentage of the total goods and services sold – is paid for a five-year guarantee; a larger premium is paid for a 10-year guarantee and so on.

Assuming the purchaser does not pay the premium and settles for the one-year guarantee, the firm will then have the opportunity for an additional touchpoint with the client as it approaches the contract's one-year anniversary. The firm can offer the purchaser the opportunity to pay the premium for an additional time guarantee.

It is important to note that all charges, including any preneed 'premium charge(s),' are listed on your General Price List.

Mannix: Many will argue that the one significant change in the low interest rate market is that funeral directors should not offer price guarantees. As a general rule, there will be greater risk of covering inflation the lower the interest rates go. However, if the guy down the street is offering it, a funeral director may have to offer it just to match the competition.

Some may measure whether they should offer the guarantee as a black and white issue. If they feel the interest rates will not preserve their margin against inflation, they don't think it's a good idea. Others might look at guarantees as a way of being competitive and securing future business. These funeral directors understand that their margins must be eroded with low interest rates before they actually lose money on the funeral. To these folks, they would still rather have the business and get some profit (even if it's less than their full margins) than to let it potentially go to a competitor. Furthermore, we are once again in a rising interest rate market.

All indicators are that rates will

slowly and gradually rise in response to the economy slowly getting gradually stronger. With interest rates rising, those who were not willing to sacrifice margin to obtain the business with a guarantee may be rethinking that strategy.

Carlson: I think the decision on how, or if, to guarantee is the funeral home owner's. We view our role as that of a consultant. Our field sales management team has been trained to walk the funeral home owner through the decision-making process. Together, we need to factor in local market conditions, the preneed insurance product's growth rate, and the funeral home owner's business goals. The right decision might be to guarantee services and merchandise, to guarantee services only, or to guarantee nothing. We are also helping our clients with strategies for providing the guarantee for a fee. It's critical to understand that each option has consequences that need to be carefully considered. Regulations need to be understood. Business processes need to be modified. And thorough retraining of both the preneed and at-need staff is a must.

Lang: We believe that this is a decision each funeral home owner needs to make giving consideration to their local competitive environment, their long-term financial objectives and overall value proposition. There is no question that funeral home customers do see real value in the ability to lock in prices. We have noticed many owners considering different ways of answering this question, including eliminating price guarantees, offering guarantees for an additional fee (with which they purchase additional insurance), guaranteeing services only, etc. I do believe we'll see more creative approaches to this aspect of prearranging and prefunding in the very near term. It is important for owners to consider what is allowable in their state before choosing a different approach to guarantees. •

The second part of the Preneed Roundtable will appear in a future issue of American Funeral Director.