

National Funeral Directors Association

GUIDELINES FOR EVALUATING PRENEED TRUSTS

Your responsibility as a prudent and ethical funeral business owner is to research the financial strength and business practices of any preneed trust whose products and services you are considering to make available to customers.

Once the business decision is made to establish or participate in a trust program, beginning with the implementation process you are subject to specific standards of conduct because you are acting on behalf and solely in the interest of trust plan participants and their beneficiaries.

Follow these steps before making a decision about a preneed trust for the families you serve.

- 1. Contact the department in your state that regulates preneed trust programs to:
 - locate information about the specific laws and regulations that govern preneed trust agreements and that protect consumers
- identify preneed trusting requirements in your state including the percent of trust funds that must be deposited.

Most states provide this information online. You need to know that a trust fund program is in compliance with all applicable federal and state laws, reporting standards, statutory provisions, and administrative rules in order to protect your business and the families you serve. You need to know that the trust invests all funds in accordance with state laws and that all federal and state financial reports are filed on time.

2. Ask the trust administrator for detailed information about:

- the trust and its operations
- its management history

• its current performance and business practices.

You have the right and the responsibility as a business owner and potential fiduciary to determine that the trust fund can meet its obligations. You can also check the trust fund program's Internet site for information about its policies, practices, and performance. Examine the features and benefits of the company's services to be sure they meet your long-term business needs and the needs of your families. Get verifiable answers to every question you have about the trust fund's financial strength, history, management and control practices, current financial statement data, and other business practice and performance information.

If your state association has a state preneed master trust, ask the same questions and expect verifiable answers about program operations and financial stability as you would with any other trust program you are researching.

What to look for in a trust for preneed:

- Good net investment growth.
- 100% investment and financials transparency.
- A strong balance sheet.

Get verifiable answers to every question. Key questions follow.

Administration and Management

- What is the reputation and track record of the trustee? What is the trustee's specific experience with preneed trusts?
- What are the qualifications, experience and competencies of the trustee's investment managers? What type of turnover has there been with the managers?
- If the trustee does not administer the trust, what company does administer the trust and what is their experience in administering preneed trusts?
- How big is the trust and has it been increasing, decreasing, or holding steady the past five years?
- Can the trust handle the volume and nature of trust accounts and assets to be serviced?
- How often do the trust's investment managers meet in order to prudently fulfill their responsibilities?

- Who is the board's legal counsel regarding preneed matters? Is the legal counsel available and able to advise you on the preneed laws of your particular state?
- Is the trust subject to an annual audit; who performs it and are audited financials provided each year to funeral homes?
- What are the trust program's business standards and strategies, privacy policies, service philosophies, ethics, and quality control initiatives?
- Are there trustee fees and what do they cover?
- Are there administrative costs separate from the trustee fees and what do they cover?
- Who handles 1099s or QFT tax returns?
- Are there separate tax preparation fees or is it included in the trustee fees?

Rate of Return

- What is the rate of return for the trust each year over the past five years?
- For each of these years, what rate of return is a gross rate of return (before fees) and the net rate (after deduction of fees)?
- Who or what determines the rate of return paid on trust funds and how often can it be changed? Are the changes based on an index or formula, or are they discretionary with trust administrators?
- Where and how are funds invested?

- What is the investment mix?
- Is the principal guaranteed or is there a risk it could be reduced?
- Is there any guaranty on the rate of return?
- Is there any floor that the rate of return cannot go below? Can the rate of return be reduced to 0%?
- Are there detailed monthly reports available showing the balance of each preneed account, earnings and losses, and fee deductions?

Financial Stability

- Do the funds remain with the trustee or does the trustee invest the funds with other institutions?
- For each institution holding preneed funds, are those funds in a segregated trust account that is not considered an asset of the depository institution, and therefore, not subject to the depository institution's creditors?
- If the funds are considered to be assets of the depository institution, are they insured by the FDIC and to what dollar limitation?
- Is there a reserve account?
- Is there a disaster recovery plan?

Features

- How are trust funds deposited?
- Can preneed contract payments be made through installments?
- Are there any cancellation or transfer fees or penalties if the funeral home transfers the trust to a different trustee?
- Are there revocation fees if the consumer cancels and removes funds from a revocable account?
- Are there cancellation fees if a consumer chooses to move a preneed account to a different funeral home that uses a different trust?

- Are preneed contract account balances available to the funeral home over the telephone and/or the internet?
- What is the turnaround on claims payments?
- How are claims payments made? Is there electronic fund transfer available?
- Does the trust offer free services other than as a depository for preneed funds, such as training and customer and marketing support?