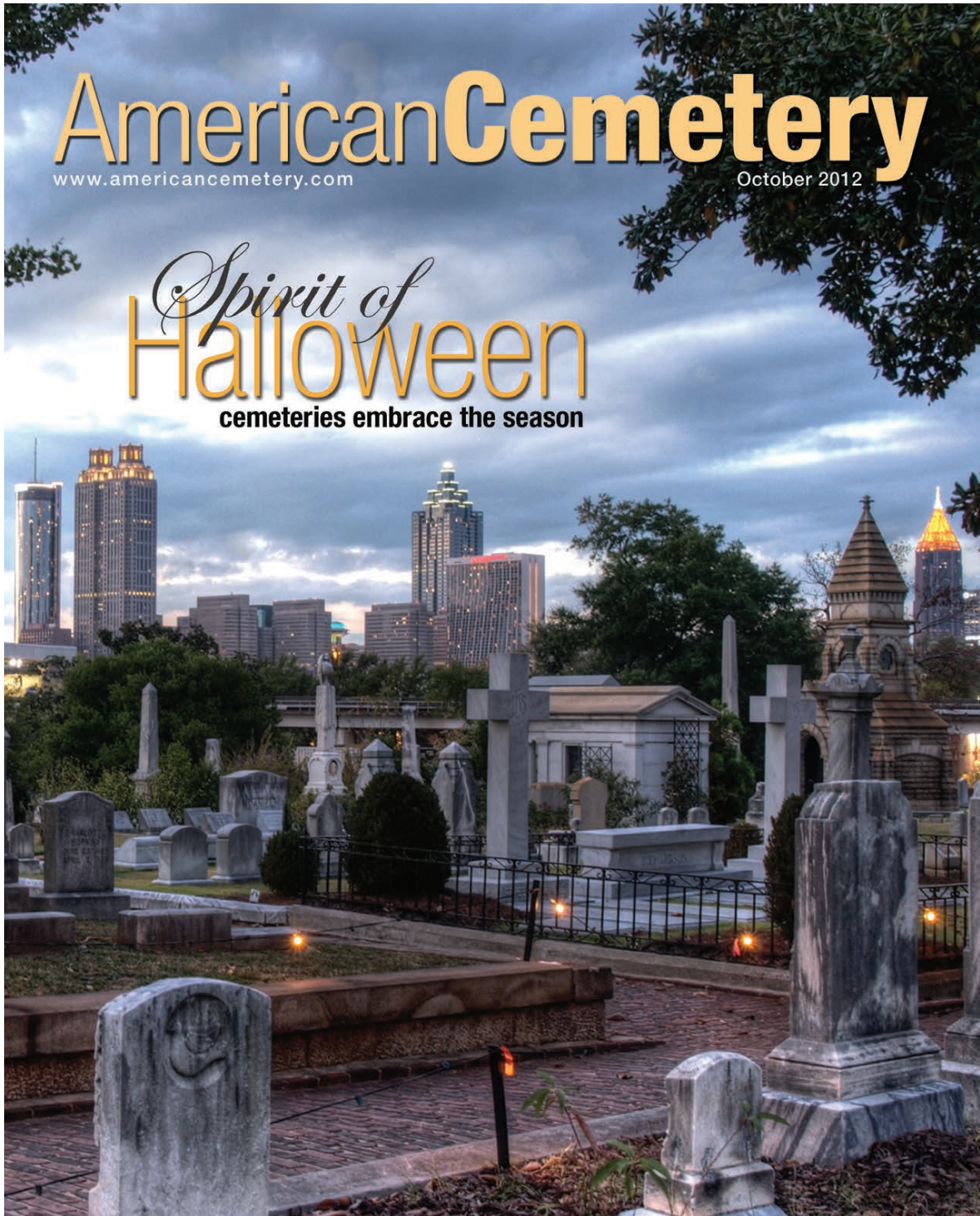


Cooperative Funeral Fund Inc.

Endowment Care: Making a Lasting Impression

as seen in:



The following article was first published in the October 2012 issue of American Cemetery magazine, and is reprinted with permission. You can learn more about the magazine at <http://www.nfda.org>

Business

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Endowment Care

Making a Lasting Impression

Cemeteries are complex businesses that require commitment for eternity. They are an important part of the community as a place for the living to visit the final resting place of their loved ones. They are landmarks memorializing important events or people in history. They are places of natural refuge surrounded by big cities and urban sprawl, and they are distinctive centerpieces in many small towns, giving them character and uniqueness.

Cemeteries should be well-cared for in order to ensure that they are comfortable places to visit and honor the past. Many families perceive the amount of honor and respect given to their loved ones by how well cemeteries are maintained. Moreover, those looking to find a final resting place and become customers will make the decision, in part, based on their feelings as they visit the property. The importance of well-maintained cemeteries is crucial at this point in our history, maybe more than ever before. Our industry is in a state of change, and the economy has tightened cemetery budgets, forcing cemetery professionals to make some tough decisions.

Impact of Current Economy

In the current economy, it has become increasingly difficult for some cemetery owners to honor their maintenance commitments as evidenced by the numerous news articles about cemeteries that are a “disgrace to their community” or are

“unkempt and shabby,” etc. (For example, just by entering “unkempt cemetery 2012” in Google, there were 910,000 references in the United States alone.)

Cemetery owners are faced with managing increasing costs, lower revenues and reduced gross profit, due to the continuing downward trend in burials, upward trend in cremations and lower returns on investment from endowment care funds. Management of these fiscal issues results in tighter budgets, making it difficult for cemetery owners to meet all of their obligations. In spite of all these challenges, it’s important for cemetery owners to remember that their property’s “curb appeal” is a critical component of success.

Curb appeal is the exterior look of a property from the street curb. It’s the first impression a property makes on families and other visitors as they drive up. It exemplifies the feeling a cemetery wishes to convey. It transforms the land into a statement of serenity, honor and community. Many

cemetery professionals take great pride in the curb appeal of the cemetery they manage because it is an expression of their dedication and commitment. Manicured lawns, shapely trees, strategically placed flowerbeds, statues, fountains, roads and walkways all contribute to the overall feeling and atmosphere that the cemetery professional is trying to create. Great curb appeal sets the tone for the entire cemetery operation and can make a lasting impression.

The Endowment Care or Perpetual Care Fund

The difficulty with creating the cemetery professional’s vision is the cost. It’s not as simple as budgeting for flowers and lawn care that may be a steady and routine expense. Maintenance of access roads, tree trimming, root removal, gates, buildings, ponds and bridges can all be large expenditures that may not require a budget year to year but will deplete a particular year’s budget if not planned for accordingly.

Maintenance is a strategic piece of cemetery operations and needs to be planned for many years out in conjunction with the management of a perpetual or endowment care fund to help pay for these costs.

A perpetual or endowment care fund is created when a portion of the price paid for an interment is deposited right into an account that is intended to be used for the care of the cemetery in perpetuity. State statutes require most cemeteries to deposit minimum amounts into the endowment care fund (benevolent societies, fraternal associations and religious cemeteries may be exempt from state requirements for endowment or perpetual care funds). The funds are protected by law and are allowed to be invested very conservatively. Only income (i.e. interest, dividends – some states allow the withdrawal of capital gains) from the funds may be withdrawn to help defray the ongoing costs of cemetery upkeep and maintenance.

Since the laws only regulate the minimum requirements, it would be difficult to expect the income generated from the fund to keep pace with rising costs regardless of how the economy is performing. This is especially true when each cemetery has very different levels of need when it comes to maintenance.

Cemetery operators need a strategy in place to maximize the income generated from endowment care funds. If they don't, a larger portion of their cash flows from their operations will end up going toward maintaining their curb appeal or worse, they may have to let things slide until times get better. If cemetery operators are banking on higher returns to bail them out, they may have to wait a while given the economic forecast. These are the tough decisions to make – what to spend the money on and what to let slide.

Impact of Low Interest Rates

A similarly difficult decision that feeds into how the money will be spent is how to invest the funds a

cemetery does have. If a perpetual care fund is invested mostly in current income investments, it may be helping a cemetery cover costs today and keep them out of the local papers for being unsightly. Unfortunately, it will also limit their ability to grow the fund's principal, which will be a critical factor in generating future income to meet maintenance costs that will no doubt increase over time.

In today's world, we are constantly bombarded with news and information about the state of the economy. In recent news, Ben Bernanke, chairman of the Federal Reserve, has repeated his pledge to keep rates low for an extended period. It's important for cemetery professionals to understand that the continued low rates will ultimately impact the ability of their investments to generate sufficient income for them to rely on to defray the ongoing costs of maintaining their properties.

Endowment or perpetual care funds have two important objectives:

1. Fixed income type vehicles to generate investment income, and;
2. Equity type vehicles to create capital growth.

It is important to continually work on growing the asset base of the portfolio as part of the long-term investment objective. However, the primary objective of the portfolio should be to address investment income enhancement. The income a cemetery is permitted to withdraw from the endowment care account is important for the maintenance of the property.

There are still many cemetery owners who have their endowment care funds invested in certificates of deposits, so hearing news of continued low rates will really test their mettle. However, by working with an investment adviser who is knowledgeable in our industry, cemetery professionals can discuss an

investment strategy that can help them meet their short-term and long-term investment objectives. The investment adviser can also discuss how the current state of the economy is directly impacting the cemetery's investments. If the Federal Reserve policy is to keep the rates at record lows, possibly through 2014, cemetery professionals may want to consider alternatives beyond certificates of deposits and government bonds. For example, many state statutes allow for the investment in corporate bonds and preferred shares that will generate income that cemeteries may then use to help maintain their property.

Sending the Right Message

The struggle is to understand how to manage the decisions relating both to the financial objectives of the endowment fund to help prepare the cemetery for the future and the strategic maintenance plan that lays out the expenditures for bigger projects for years to come.

Many cemeteries have created a unique place in their community – holding special events such as parades, movie nights, meeting facilities, fireworks shows and even sporting events. They do this to ingrain themselves in the community's culture and

send a message to those outside the death-care industry that a cemetery is so much more than a plot of land to bury the dead.

Unkempt cemeteries paint an image of history gone and almost forgotten.

They become a distraction in a community as opposed to a valued and important asset. Cemeteries are significant cultural and historical resources that need to be maintained with the utmost respect. If a cemetery is a comfortable place for the living to honor their past today, there will be a better chance that they will see the cemetery as an important place for their loved ones in the future. •



Unkempt cemeteries paint an image of history gone and forgotten.