

Enron of the Funeral Industry?

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There has been much discussion in our community regarding Forest Hill Funeral Homes recent decision not to honor pre-arranged funeral contracts. Many people throughout our community have purchased similar contracts from other funeral homes in the Memphis area. Those people are now having a sense of uneasiness regarding their own pre-arranged funeral plan and whether or not they are protected.

Funeral industry alarmist will point to this unfortunate event and claim this is proof you should never pre-arrange your funeral service since there appears to be no guarantee the money will be there at the time of death. However, if you follow that reasoning to its logical conclusion then you should never invest in the stock market because people lost money on Enron stock. The stock market after Enron remains an important part of the American economy. Just as proper and prudent investments in the stock market allow average people to protect their wealth from inflation, so can properly funded funeral pre-arrangement contracts.

Pre-arranged funeral plans are an important part of the funeral industry today. Pre-arranged funerals had their origin many years ago right here in the South. Early pre-arrangements began as burial associations that assessed their members each time a death occurred. People enrolled their families in these associations to protect them from the high cost of funerals. As the popularity of these burial associations grew, the funding vehicles became more sophisticated.

Today, after much evolution, funeral homes use either of two funding vehicles to fund pre-arrangements.

Pre-need funeral trusts are a funding vehicle whereby the family contacts the funeral home to make all their final selections in advance of a death. In order to fund those selections they use a funeral trust account. To fund the trust account they simply pay the funeral home. The funeral home is required by Tennessee law to place 100% of the customer's money into a trust account. The percentage required to be placed in trust varies from state to state. The trust account earns interest which is designed to thwart inflation and allow the funeral home to provide the funeral at a future date. However, with this type of funding vehicle, it is important to deal only with a reputable funeral home or with a funeral director whom you know personally.

Insurance funded pre-need contracts are a much safer funding vehicle to fund funeral arrangements. Here, a family once again makes their final selections in advance of a death. To pre-fund those arrangements a family makes payments to an insurance company not a funeral home. The insurance company invests the money as they do all insurance premiums. At the time of death, the insurance company pays a funeral home the principal amount plus the interest earned. Traditionally, insurance companies have paid significantly greater interest than trust accounts.

Under this funding vehicle, the funeral home never has access to the money. The money is only released to a funeral home after the next-of-kin signs a document stating the funeral was performed to their satisfaction and the funeral home provides a certified copy of the death certificate.

Insurance funded pre-arrangements enjoy the same protections of any life insurance policy regardless of where it was purchased. Additionally, should the family decide to use a different funeral home, or should the contracting funeral home no longer be in business at the time of death, the insurance company is responsible for the payment of the funeral, not the funeral home. Simply put, the insurance company will pay any funeral home the family chooses, not necessarily the funeral home who wrote the contract.

What is at issue in the Forest Hill Funeral Home debacle are its pre-need trust accounts, not insurance funded contracts. All the facts are not known regarding Forest Hill Funeral Home's decision not to honor their pre-arrangements. However, what is known is that pre-arranging your funeral through an insurance funded product is still a safe and prudent way to protect your family from the rising cost of funerals.

Enron did not spell the end of the stock market as a vehicle to protect and grow your wealth. Nor will this pre-need funeral trust debacle be the demise of people protecting their families from the high cost of funerals with insurance funded pre-arranged contracts. This explanation offers little hope to those who lost their investment. Let us hope they have not lost faith in an industry dedicated to serving people during the most difficult time of their life. ■