A SOLID PLAN

Charting the right course for preneed trust assets starts with a formidable IPS.

BY CORIE GABRIEL

I'm a planner. On a personal level, I'm a big fan of making plans for family time together, meals for the week, trips, you name it. On a professional level, my entire career is devoted to planning. For more than 15 years, I have worked with families, individuals and funeral and cemetery professionals to build long-term investment and financial plans. It's what I do every day, and I love it.

When I was asked to write about investment policy statements (IPS), I jumped at the opportunity as they're are all about planning! In the realm of preneed trusts, an IPS is like a road map and instruction manual rolled into one. Taking time to develop a thoughtful, detailed and all-around solid investment policy statement means having a solid plan for your preneed trust, and I can get behind that.

I'll provide readers with an overview of what investment policy statements are, how they are used, why they're critical and the steps you can take to build a solid plan for your preneed trust.

Investment Policy Statements for Preneed Trusts: An Overview

Most funeral and cemetery professionals understand the ins and outs of preneed trusts, so I won't go into too much detail about them here. There are two baseline assumptions for nearly all preneed trusts: the need for adequate liquidity to cover death claims as they occur and the need to grow the trust's assets to outpace funeral service inflation in a conservative, risk-controlled manner. Striking the right balance between the need for growth, liquidity and capital preservation requires careful planning, and that's where investment policy statements come in.

An IPS should clearly and concisely answer this question: How should the preneed trust be managed to ensure secure coverage of death claims, long-term growth of principal and risk management along the way?

To answer, the IPS must accomplish four things:

Clearly establish goals, objectives, risk tolerance, cash flow needs and any other requirements related to the trust.

Define the investment philosophy, strategy and approach for the management of trust assets.

Establish responsibilities for all parties involved to ensure that everyone is acting in the funeral home or cemetery's best interests.

Serve as the "guidebook" to determine how the funds in the trust will be invested and/or distributed.

All these guidelines and parameters define the high-level goals of the IPS.

Forming a Solid Plan: Steps for Building an IPS

Like any good plan, building an investment policy statement involves asking a series of questions and then taking your time in answering them. I've listed the questions here, with guidelines and prompts for how to answer them.

What are the goals and objectives of the preneed trust? Determine exactly what you're hoping to accomplish, whether it's growing the assets, maintaining a certain balance relative to potential expenses, etc.

What is your risk tolerance? Generally speaking, the desire for growth may require accepting higher levels of volatility, so it is important to determine how much you're comfortable with.

Is there a targeted rate of return? If you have a desired rate of return for the preneed trust, the investment manager can choose an asset allocation designed to meet your goal.

What is the time frame for meeting your goals? Preneed trusts tend to have shorter time frames for pursuing goals than normal investment accounts. It is important to establish how long your average preneed contract is based on specific data for your funeral home.

What regulatory restrictions are applicable in your state? Rules and statutes regulating preneed trusts and investments vary from state to state. Complying with these rules and restrictions is paramount.

What types of investments are permitted? Similar to the point above, many states require more conservative and liquid investments for preneed trusts, such as government bonds, certificates of deposit, money market accounts, etc. Knowing the menu of available investment options can allow the investment manager to develop an asset allocation designed to furnish modest growth while keeping risk at a reasonable level.

How much of the sale are you required to put into the trust? This information will help with projections and analysis.

Can your business keep any excess earnings if an individual contract is utilized and the funds are greater than the cost of services? This information will also help with projections and analysis. In some cases, excess earnings go to a contingent beneficiary (family member or possibly the state if the individual was on Social Security income).

Are master trusts allowed in your state or must you invest each customer's contributions separately? This point is crucial for developing strategy; can it be applied across the entire trust or must it be formulated on a case-by-case basis?

What specific liquidity requirements exist? Do state regulations or language in the trust require a certain level of cash or cash equivalents to be on hand?

What are the policy decisions retained by the fund trustees? It is important to make sure all parties involved in the preneed trust understand their respective roles and responsibilities. Putting these roles and responsibilities in writing can prevent management conflicts.

What decision-making authority is given to the investment manager? Similar to the point above, the investment manager should have some degree of autonomy in making decisions once the "rules of engagement" are set.

RISK CAN BE MITIGATED AND MANAGED THROUGH AN IPS, ADMINISTRATION AND PROPER RECORDKEEPING.

Managing Risk in Your Preneed Trust

Risk management, governance and fiduciary standards/responsibilities have become an increasingly important part of the investment process, which I view very favorably. Even though it requires more work on the part of investment managers like me, it's worth the effort to ensure transparency and prudent investment decision-making.

In the realm of preneed trusts, risk can be mitigat-

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ed and managed through an investment policy statement, administration and proper recordkeeping.

In establishing the rules of the road, the IPS often requires the investment manager to implement a balanced, risk-controlled investment strategy. In many cases, preneed trusts assets are well diversified, with an asset allocation designed to preserve capital. That may mean dividing the assets across fixed-income categories, liquid investments and perhaps a modest percentage in a growth category such as stocks.

Another method for managing risk can come in the form of joining a master trust. Depending on state regulations and statutes, a funeral home may have the ability to join a master trust designed for numerous organizations versus operating a single trust. The potential benefits of joining a master trust are many: It can reduce each funeral home's share of operating costs of the trust, create a larger total asset base for investment and diversification purposes (which can ultimately reduce the total risk in the trust) and allow for more flexibility in pursuing different types of investment opportunities. The IPS determines all these possibilities.

The Importance of Regularly Reviewing Your IPS

Creating an investment policy statement for your preneed trust and/or perpetual care trust is an essential first step. I did not discuss perpetual care trusts in this article, as doing so would have required a few more pages, but the overarching takeaway is the same. Charting the right course for your trust assets must start with a formidable and detailed plan – the investment policy statement.

The IPS must be reviewed regularly, however, to ensure that the trust is on a path to financial success and complying with state statutes and regulations. From year to year, the goals of the trust can change, the investment landscape can change and the rules of the road can change. A solid IPS can and should be able to adapt to changes along the way.

I generally recommend reviewing the IPS at least once a year. Doing so can ensure that the trust remains on the right track and never veers off course, which is exactly what a good plan should do. ≣

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