
INDEPENDENCE TRUST COMPANY

*Managing Trusts More Efficiently
as seen in ...*

INTERNATIONAL **Cemetery & Funeral** **MANAGEMENT**
November 2002
Official publication of the International Cemetery & Funeral Association

Memorialization
Forest Hills: Preserving the Old, Welcoming The New

A New Tradition
Bringing Contemporary Sculpture Into An Historical Cemetery

Designed for Families
A Better Babyland For Your Cemetery

Getting Personal
Designing Monuments To Reflect a Life

Look for Savings
Efficient Management of Funeral and Cemetery Trusts

Higher and Higher
Small Cemetery & Funeral Management

Reprinted from the November 2002 edition of International Cemetery & Funeral Management magazine with permission of the ICFA in Reston, Virginia. Copyright © 2002.

Managing Trusts More Efficiently

by Marcia Williams

In these challenging economic times, few businesses can afford to overlook operating efficiencies. Owners of multiple cemetery or funeral home locations can take advantage of a number of opportunities for streamlined trust management that can enhance the efficiency, operation and value of their businesses.



Marcia Williams

As an experienced trustee for numerous cemetery and funeral trusts, my company has found a number of fairly simple operating efficiencies to benefit client firms.

Statements

Ask your trustee to prepare and mail your accounting statements in a format that works best for you. For example, early on, we had a client with multiple accounts who was pleased because we stapled the pages of each multi-page statement together and mailed all the statements in the same envelope. He pointed out that when he received unstapled statements in separate envelopes, his employees had to open the envelopes and then staple together each statement. The more statements coming in, the bigger difference something so seemingly minor can make.

In another case, the property owner has internal codes to identify each facility. Including that code at the end of the trust account names which appear on every trustee document makes it easy to cross-reference documents in their tracking system.

In addition, your trustee has options for information delivery in terms of:

Frequency. Would you prefer to receive your statements monthly, quarterly or annually?

Duplicate statements. Do they need to be sent directly to the location as well as to a central office? Do they need to be sent to an outside accountant in addition to the property owner?

Form: Do you need printed statements or would online access to information be better?

Direct electronic feeds: Do you have enough properties that you need to explore having a direct electronic bridge between your trustee and your internal management information system?

Think about what will mesh the best with your information needs and explore how your trustee can customize the delivery of statement information to meet those needs.

Documents

Consider standardizing your trust documents, if you haven't already done so. Tennessee's regulatory agency has standard language it wants used for each of the various types of trusts. Your state may not require standardization but certainly does not preclude it. For both owners and trustees, operating from a consistent document helps ensure that issues involving similar trusts are treated consistently.

Communication

Whom do you call with questions or problems? Even if you have a single location, you likely have more than one trust account. Have all your trust accounts been assigned to the same contact person, or do you have to call different people for differ-

Independence Trust Company

opened in 1997 to offer an alternative to existing trust providers. As a stand alone, we are unaffiliated with any brokerage firm, bank, insurance company, or other financial services. This structure was key to our formation, differentiates us from our competition, and is worn proudly in our name. It enables us to make every decision based solely on what is best for our clients.

Here, trust is a verb and independence is a way of life.

MANAGEMENT

ent accounts, even if your question is the same?

It may be that your trustee has a team of people assigned to handle the cemetery and funeral trust business so that though you may talk to different people, all of them understand your accounts and can help you. Simply making sure that all of your trusts are assigned to the same person or team can simplify your interactions with the trustee.

By the same token, making sure the trustees know the right people to contact at your organization when they have a question will improve communication and service.

Deposits and withdrawals

With a single location, if you have a trust contribution to make, the typical method is to send a check. With multiple locations, you begin to have further options:

- Issue one check for each account.
- Issue one check for all accounts and provide a detailed breakdown on how it gets deposited.
- Wire funds and send deposit details

If you have two or more of these trusts, it is efficient to make decisions regarding the investment structure only once. If you and your trustee can develop a structure that works for both a brand new trust and an established million dollar trust, you will have a clearly defined, efficient method for investing any preneed trusts for your properties.

separately by fax or secure e-mail.

You have similar choices on the withdrawal side.

You may choose to mail in separate checks for deposits but have disbursements wired out. In this way you receive the benefit of the float on both deposits and withdrawals.

How often do you want to receive disbursements? Quarterly? Monthly? At which point of the quarter or month? At our firm, the end and middle of the month tend to be busy, so we try to spread work away from these peak times. When does the workload peak at your office? Would you like monthly disbursements but at a non-peak time for your office, perhaps on the 10th of the month?

Tax and regulatory reports

One of the challenges for cemetery and funeral trusts is the degree of coordination required between the facility owner and the trustee. For a personal trust account, the trustee does not require information from the client in order to complete the trust tax returns (federal and state). This may not be the case for cemetery and funeral trusts.

For perpetual care returns that elect the IRS code section 642I option, the trustee will need the gravesite report. (Where this election is made, income from the perpetual care trusts is taxed at the trust level but the trust receives a \$5 per gravesite income distribution deduction. The alternative election passes the income to the cemetery owner, who reports it as income on corpo-

WHERE YOU CAN SAVE

Checklist of issues to discuss with your trustee as you search for savings:

- Optimize statement delivery
 - How often?
 - Duplicate statements?
 - Paper or electronic?
- Cross reference trustee's account names and numbers to your internal codes.
- Standardize documents.
- Establish key contact people at trustee and at property owner.
- Establish efficient deposit and withdrawal process including:
 - Cycle or frequency
 - Form (one check, multiple checks or a wire)

- Timing within the cycle
- Find out from the trustee what information you will need to supply so he or she can complete the tax returns and regulatory reports. Let the trustee know what information you will need from him or her. Establish a timeline for communicating this information.
- With the trustee, set investment guidelines for each type of trust.
- Recognize the interplay of investments, taxes and administration and communicate often.
- Use the amount of business you bring the trustee to bargain for flexibility in the fee structure.

rate returns while deducting as business expenses the cost of maintaining the property. Any excess of income over expenses is taxed at the highest marginal rate of the property. On the other hand, under the 642I election, the excess income over the \$5 per gravesite deduction is taxed at incremental

trust tax rates, often markedly lower than the marginal corporate rate. Owners should consult their tax advisors before deciding which method to elect.)

Funeral or cemetery owners may need to provide preneed trusts trustees the qualified funeral trust (QFT) reports. (For these

trusts, the owner has a choice of making a QFT election. If the election is made, the owner cannot revert back to the other method. Without a QFT election, the income on these trusts must be reported to the individual contract holders and the taxes on it become their responsibility. Making the QFT election means that the trust pays the taxes on the income, but the facility owner is relieved of the responsibility of notifying each contract holder of the annual earnings. The trade-off is one of administrative simplicity vs. payment of some taxes by the trust. This is again a decision the facility owner should make in conjunction with his or her tax advisors.)

January through April is a hectic time for trustees in pulling together tax information and returns for all of their clients, including cemetery and funeral trusts. If your business has a block of trusts, you should be talking to your trustees early, before the end of the year, to find out what information they will need, by what date, in order to get the

returns prepared and filed on time.

Depending on the state, similar coordination may be needed to prepare regulatory reports. In Tennessee, the trustee can prepare the reports with the information they have on hand. In Kentucky, the owner prepares them. Whoever handles the job, the owner or the trustee may have information that would be easy to pass on and would greatly simplify the work. Again, early coordination is the key to making this process run smoothly.

Investments

We work with three primary types of trusts: preneed (including services and merchandise for both funerals and cemeteries), perpetual care and preconstruction.

A preneed trust is funded with a portion of the sale of services or merchandise sold on a preneed basis. Contributions are made to the trust as these sales are made; distributions are made as the services or merchandise is provided. If you have one of these trusts, you and the trustee are going to work out the investment parameters,

including the type and mix of investments such as certificates of deposit, insurance products, stocks and bonds bought directly or through mutual funds or other collective investments. The funds will then be invested, monitored and reported on.

If you have two or more of these trusts, it is efficient to make decisions regarding the investment structure only once. If you and your trustee can develop a structure that works for both a brand new trust and an established million dollar trust, you will have a clearly defined, efficient method for investing any preneed trusts for your properties.

For owners with more than one property, we generally have investment guidelines for each type of trust. The guidelines differ according to the type, rather than size, of the trust. For instance, perpetual care trusts often have more in bonds or other fixed income investments than preneed trusts do. Preconstruction trusts are often all fixed income because owners expect to use the money in the foreseeable future to build the project. Investment guidelines often vary

from one owner to another according to how their trusts fit into their business operations, their tax choices and other individual factors.

Integration

While also true for a single trust, it is even more important to remember in the multiple trust situation that an administrative decision can affect investment returns. Conversely, an investment decision can affect administration. For instance, if you maintain a small cash reserve and have substantial withdrawals in a given month, you may be forced to sell investments at an inopportune time to raise the cash to cover the withdrawals.

Depending on the number and standardization of your trusts, your trustee may be willing to reduce fees, sharing with you the savings produced through increased efficiency. For instance, a minimum fee per account, designed to cover administrative costs incurred no matter how small the trust, might be waived for a client with multiple trusts, all of a reasonable size.

• • • • •

Perpetual care, preneed and preconstruction trusts are part of a complex business system. Operating them optimally requires close coordination and active communication between the facility owner, trustee and other advisors and staff.

I have raised a number of issues you can discuss with your trust administrator as you explore ways to improve efficiency. If your trustee has a lot of experience with cemetery and funeral trusts, he or she may well have other suggestions for you. If your trustee is not experienced in this area or is unwilling to help you establish these types of efficiencies, you may want to interview other providers.

Marcia Williams, a chartered financial analyst, is founder and president of Independence Trust Co., Franklin, Tennessee. She served as director of the global Financial Analysts Federation and as president of the Nashville Society of Financial Analysts. Her work has been published in the Tennessee Society of CPAs Journal, Nashville Business Journal, Chartered Financial Analyst Digest and International Society of Financial Analysts Digest. She can be reached at (615) 591-0044.

INDEPENDENCE TRUST COMPANY

P.O. Box 682188
 Franklin, Tennessee 37068
 615.591.0044
info@independencetrust.com
www.independencetrust.com