

# Convention Speakers 'Hit the Mark' With Informative Talks



## The Importance of a Perpetual Care Adequacy Study for a Catholic Cemetery — by Hayden Burrus

### INTRODUCTION

The most important business question you ask about your perpetual care fund is “Do we have enough?” When you ask that question, you want to know more than most executives. You want to know if your cemetery has enough to take care of itself forever.

The best way to answer that question is to forecast perpetual care fund balances for many years in the future. A detailed perpetual care fund balance sheet forecast can tell you if you have enough, how likely you are to run out, and when (if ever) you are likely to run out of funds. A significant benefit of a very long-term perpetual care analysis is that you’ll know where you are heading now, so you can make some changes if you don’t like what you see 100 years down the road.

Over the past fifteen years or so I have interacted with numerous cemetery managers and had the chance to learn of the plans and goals they have for their organizations. The vast majority of cemetery managers have the expectation that their perpetual care funds will cover their expenses for the foreseeable future. Some wrongly believe that if expenses are covered for the foreseeable future, then their perpetual care funds are adequate.

The problem with this view is that solvency for the foreseeable future does not guarantee long-term (100+

years) solvency. In addition, the actions required now to guarantee long-term solvency are usually quite minor, while if we ignore long-term solvency, the required changes to a perpetual care fund will become increasingly painful. And, of course we’ve all seen what happens if the long-term solvency of a perpetual care fund goes unaddressed for too long. Eventually the cemetery either falls into disrepair or becomes a ward of state or local governments, a religious order or historic society. In any event, cemetery perpetual care becomes dependent on the financial means and goodwill of others, rather than from the contributions made by land owners and decedents in the cemetery.

### SPECIAL ISSUES FOR CATHOLIC CEMETERIES

Currently, I am working through my fourth perpetual care adequacy study for a Catholic Cemetery organization this year alone. Preparing a perpetual care adequacy study (“PC” study) for a Catholic Cemetery is a unique assignment, different from studying for-profit cemeteries, publicly owned cemeteries, or even other types of not-for-profit cemeteries.

The most immediately obvious difference is the sheer size of the average Catholic Cemetery organization. Typically, a Catholic Cemetery Archdiocese will be responsible for

many cemeteries. Some of the cemeteries can be over 100 years old and may have reached capacity. While other cemeteries in the same Catholic



*Hayden Burrus, speaking to a room full of Catholic cemetery managers describes the importance of planning ahead for adequate perpetual care funding.*

Cemetery organization may have over 100 years left of capacity remaining.

This divergence requires us to pay special attention to forecasting sales and perpetual care contribution rates. The large size of the organization also means large funding requirements for its PC funds. It is important in any PC study to pay special attention to communicating the significant liabilities each PC fund is responsible for.

To an uninformed party a perpetual care fund may appear like a “slush fund” that can be tapped into as needed, rather than a fund that is

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### *Perpetual Care Funding, continued*

entirely earmarked for an important part of the Archdiocese mission. Just this past August, the *Economist* reported that the creditors in the Milwaukee Archdiocese bankruptcy case "...think the movement of such large amounts (into the PC fund) had more to do with shielding cash... than with the maintenance of graves, calling the manoeuvre fraudulent." A detailed perpetual care adequacy study could have demonstrated that this was not the case.

Another important issue is future building of inventory. Many times a client will explain that they intend to continuously build mausoleum space in order to ensure that there is capacity for the future. This can enhance the financial position and revenues of the PC fund. It also increases the expense liability of this fund. It is important to study in detail all of the ways future building plans will affect the cash flows of the PC fund. In particular, the PC analysis must consider where the funding for initial construction comes from; second, the analysis must consider how the construction will affect annual maintenance costs. Finally, the analysis must forecast the periodic costs of maintaining the new buildings. Eventually, the new buildings will need roof replacement, repainting, etc.

These costs will create an additional burden on the PC fund.

In each different Archdiocese and Diocese, Catholic Cemetery organizations have different relationships with the main archdiocese. Some are at arm's length, some may receive regular or periodic support from the Archdiocese, and some may contribute to the Archdiocese either by formula (e.g. percentage of revenue), or on an "as needed" basis. These flows between the PC fund and the Archdiocese will affect the adequacy of the PC fund and are important to consider in the PC analysis.

In addition, the parent Archdiocese should be made aware of the adequacy status and the effect the cash flows from / to the PC fund have on the adequacy and long-term funding for the expenses of the cemeteries.

### RESULTS OF A PERPETUAL CARE ADEQUACY ANALYSIS

Once a perpetual care model accurately models the cash flows of a perpetual care fund, it can provide answers to important questions about the long-term solvency of the fund and the long-term viability of current practices related to the finances of the fund. Typically a PC analysis will contain conclusions related to the likely balance of the funds up to 100 years

in the future. Keeping in mind that there is no such thing as a "sure thing," especially when forecasting fund balances 100 years in the future, our results are expressed in probabilities rather than expected values. Then cemetery management can decide if they are satisfied that the probability of certain adverse outcomes is acceptably low. As an example, one of the conclusions I offered in a perpetual care adequacy study is quoted below:

"Our study indicates a 63% likelihood of all perpetual care funds running out at some time before 2109 and a 10% likelihood of funds running out by 2063 (essentially the same time as when inventory is depleted). We believe this risk of insolvency is unacceptably high even if the date of insolvency is not expected to occur for many years in the future.

"Because the date of insolvency is not expected for many years in the future, relatively modest changes, if they are made now, can significantly reduce the likelihood of funds running out."

After reviewing this conclusion, the cemetery management decided that the probability of maintenance funds running out in less than 100 years was unacceptably high. As a result they decided to explore some policy

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## William Paul Young - *The Shack*



Mr. Young spoke to a standing-room-only crowd, as he described his own grief experiences and the internal healing he achieved through faith in God - detailed in his national best-selling book, *The Shack*. Hinting at his next book project - *Crossroads*, which describes choices made and resulting life changes, Mr. Young joined us at our Wednesday reception/dinner. At right, Sr. Ophelia has Mr. Young sign her copy of *The Shack*.

## Georganne Bender & Rich Kizer



The dynamic duo of Kizer & Bender shared insights into the different generations, their buying patterns and how Catholic cemeteries can attract these individuals and meet their varied preferences. Look for articles by them in upcoming issues of *Catholic Cemetery*.



changes that would affect the finances of the fund. Together we brainstormed what changes would be both workable and significantly helpful to long-term financial solvency of the fund.

We re-ran those changes through the actuarial model previously built, and arrived at significantly more favorable conclusions, including this one below:

"In this scenario, the perpetual care fund probably does have the funding to pay all of its obligations, including perpetual care, for the 100 – year time horizon in our study (55% chance). It is expected that the endowment care income fund balance will be \$91 million at year end 2109 (the conclusion of this study)."

The conclusions above show that this client chose to undertake this study at an opportune time. There are no current cash-flow issues to the client and won't be for several decades. However, if they make no changes to the policies governing cash flows of the fund, dire financial challenges will appear down the road. The client took the effort to identify modest, relatively painless changes to make now. Once these changes are implemented, we can be comfortable that even if nothing else is done, the PC fund will probably have enough money to pay all of its obligations for at least the next 100 years.

Hayden Burus is Principle Actuary of HB Actuarial Services, Inc. and is widely sourced as the leading expert on cemetery care adequacy in nearly every state in the country. He is performing such studies with Craig Neal in Hartford and Andy Schafer in Newark. He was our General Session Convention speaker on Thursday, September 27, 2012.

### 2012 Program Committee Put on a Great Show!



Thanks to the 2012 Program Committee for an amazing and informative Convention. Members include (left to right) Bill Burbatt, CCCE, Irene Lazaroski, Joe Verzi, Lauri Brown, Craig Neal, CCCE, Lloyd Swint, CCCE.

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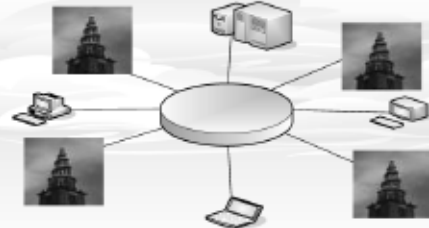
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