

Press Release

Contact: Susan Dragoo
Executive Assistant to Dan Isard
Phone: 602-274-6464 or
susandragoo@f4sight.com
Website: www.f4sight.com

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FUNERAL SERVICE INFLATION RATE ANNOUNCED FOR 2010

Today, Daniel M. Isard, president of The Foresight Companies, LLC, the premier management and financial consulting firm that specializes in providing services to the funeral and cemetery profession, announced the updated figures for the rate of indigenous inflation within the funeral profession for the year 2010. “This past year saw some events that have either never occurred or only occurred one time in the financial indicators of this profession,” Isard said. “We witnessed the second lowest increase in Consumer Spending on a funeral in the past 30 years, the first decrease in spending on the Average Casket Selected in 30 years and the Overhead as a percentage of revenue became the all time highest since we began tracking this in 1980,” he added.

Ironically, even though Overhead increased from 77.84% of revenue in 2009 to 77.96% of revenue in 2010 (the highest it has ever been), Profit Margins actually increased. “Profit Percentage increased up to 5.52% in 2010 up from 5.31% of revenue the year before. This is the 10th increase in Profit Percentage over the previous year in the past 30 years”, Isard said. While the Profit Percentage increased over the previous year in 2010, compared to 13.73% Profit Percentage in 1980 you can see that profits are severely impacted historically for this profession.

Profit Margin increased due to the fact that Average Revenue increased to \$6,457.19 which was \$118.69 more than the 2009 amount. The Average Casket actually decreased by \$1.00 while the Overhead increased \$99.92. Therefore Average Profit increased by \$19.77. While this is nominal, it is an increase of 0.31% of Average Revenue. “Average Profit can only increase when Revenue

increase is greater than increase in overhead”, Isard explains. “Had consumer spending on caskets kept pace with the average increase in the cost of a wholesale casket this year, we would have seen a decrease in Average Profit. Wholesale Casket prices went up an average of 4.00%, whereas consumers actually spent less this year than last”, Isard added.

The fact that casket purchases went down means that consumers, during a time of continued economic uncertainty, chose lesser valued casket merchandise. The choice of casket is a variable in the funeral arrangement process, as opposed to some service fee items on a typical General Price List.

The rate of Funeral Service Inflation (“FSI”) is computed two ways. First Foresight computes it for non-casketed funeral services (“FSI-1”). A second method of computing this rate is for casketed calls (“FSI-2”). Currently about 85% of all funerals in the United States use a casket of some form or fashion regardless of whether the body is cremated or buried, so FSI-2 covers most cases a funeral home serves. FSI-1 was estimated to be 1.57% as computed by Foresight in 2010 compared to the rate of 2.95% the previous year. FSI-2 was estimated to be 5.66% as computed by Foresight in 2010 compared to the rate of 3.93% in 2009.

Foresight has been actively watching Funeral Service Inflation (“FSI”) for more than 20 years and pioneered the very concept of a specific inflation rate for this industry. “We have studied the effect of inflation and the operation of a funeral home going back to 1940. We do this to help the funeral home managers make decisions about preneed, pricing, and staff costs in a proactive fashion. Our goal is that this helps funeral home owners and managers operate as prosperously as possible,” Isard said.

Ironically, the increasing choice of cremation rather than burial may actually be a blessing in disguise for the well run funeral home. Today, cremation is the choice of about four out of every ten families. “While more than 80% of the funeral homes we studied are not yet pricing their cremation services equal to those of burial for identical services rendered, the elimination of the increasing cost of the casket in about 25% of all cremations actually allows funeral homes to better manage their costs to provide for these services on an at need and preneed basis,” Isard hypothesizes. This is why the FSI-1 is at a much lower rate than FSI-2, as FSI-1 does not take the increasing cost of a casket into consideration.

The computation of Foresight begins with an analysis of the national average figures compiled from Federated Funeral Directors Of America, Inc., the Springfield, IL accounting firm which serves more than 10% of all funeral homes in the United States. Federated and Foresight are not related in any way. They provide their summary data to Foresight and others as a courtesy. “I must thank John and Ken Rodenburg, the Executive Officers of FFDA for some of their guidance and support through the years,” Isard was quick to point out. “Without the data of Federated the computation would be much more cumbersome to

produce and possibly less accurate, as the Federated data is consistently applied.” Dan said.

“Inflation in this profession is as important to compute as it is in any industry, since business owners need to assess the effect of their pricing increases and management of their overhead to produce a profit which is fair and reasonable,” Isard stated. “This industry also has the burden of having made commitments to serve families in the future via prearranged and pre-funded funerals, the bulk of which are guaranteed for the future. Therefore, the growth of this money versus the amount of inflation could represent a problem for the industry as a whole and each individual funeral home,” Isard advised.

The concept of the computation assumes a level profit margin and a level merchandise commitment, coupled by consumer spending and the overhead of the industry as a whole. While the death rate might increase or decrease on a national or regional basis; funeral homes mainly have a fixed cost of operation.

Profit on the average funeral in 2010 was \$356.28 which was less than the profit in 2001, just 10 years earlier, when the average profit was \$407.77. Profit margins continue to decline whether viewed over a 30 year period (down 248.87%), a 20 year period (down 156.82%) or as short as a five year period (11% decline) even though consumers are spending more.

The fact that FSI (as measured in FSI-1) is less on non-casketed cases than it is on casketed cases demonstrates to us that funeral directors are not pricing their partial services and cremation services on par with the identical services rendered for burial cases. This inadvertent error is causing profit margins to decline across the board since so many families are choosing cremation disposition and in fact in more than 20 states today, cremation is the majority of dispositions.

Too often we see funeral homes providing discounts for non-casketed services thinking that cremation selection is price driven. “The Wirthlin Report has constantly shown that cremation in the eyes of the consumer is not chosen purely because of price. The fact that funeral directors elect to offer it at a discounted rate just makes matters worse,” Isard explained. “Each and every funeral director should go back and read the definition of what the Basic Non-Declinable Service is intended to be. It is a fee for all services and overhead of the funeral director regardless of the disposition chosen by the consumer or the merchandise selected”, he reminds us.

FSI-1 when studied in the 21st century demonstrates, in relationship to CPI:

Year	FSI-1	CPI	FSI-1 Compared to CPI
2000	3.36%	3.08%	109%
2001	3.81%	1.14%	334%
2002	3.71%	1.58%	235%
2003	3.70%	1.43%	259%
2004	3.12%	2.75%	113%
2005	3.81%	3.20%	119%
2006	2.96%	2.54%	116%
2007	2.73%	4.08%	67%
2008	3.04%	4.18%	73%
2009	2.95%	2.72%	108%
2010	1.57%	1.04%	150%

The ten year average of FSI-1 was 3.14% versus the average CPI rate for the same period of 2.47%. Therefore, it appears that FSI-1 has been 127% higher than CPI for the past 10 years; which is significant. While studies have shown that the rate of prearrangement of casketed calls is greater than the typical non-casketed call this is still important when it comes to the analysis of the preneed guarantee. The good news is that funeral homes have much more control of their overhead in the service of a typical non-casketed call. These calls tend to have less use for licensed staffing so the families can be served by a lower paid non-licensed staffer for more of the man hours of service. Without the requirement of a casket or vault, the risk of inflation of these products vanishes, so the only fear are third party services to be delivered if the funeral home does not have their own crematory.

The same time period has seen the following FSI-2 (affecting casketed calls) versus CPI:

Year	FSI-2	CPI	FSI-2 Compared to CPI
2000	5.89%	3.08%	191%
2001	5.72%	1.14%	501%
2002	5.01%	1.58%	317%
2003	4.12%	1.43%	288%
2004	5.31%	2.75%	193%
2005	2.97%	3.20%	93%
2006	4.79%	2.54%	188%
2007	7.84%	4.08%	192%
2008	9.33%	4.18%	223%
2009	3.93%	2.72%	145%
2010	5.66%	1.04%	543%

The ten year average of FSI-2 was 5.47% versus the average CPI rate for the same period of 2.47%. Therefore, it appears that FSI-2 has been 222% higher than CPI for the past 10 years; which is significant when it comes to the analysis of the preneed guarantee offered by many funeral homes. To this end, some preneed insurance companies which have agreements with casket companies to *freeze* the price of the casket, have an advantage over those that do not, so long as that is a permanent guarantee until the preneed account is serviced.

Many insurance companies and trust companies compare their account crediting rates to CPI. “The comparison of preneed death benefit increases or trust account yields to CPI is wholly fictitious and distorts the safety of providing a guarantee on preneed accounts,” Isard affirmed. He added, “The components of CPI are market basket components that are not components of the operation of a funeral home so why would anyone want to compare their own operational needs to that of a consumer’s household operations?” Isard queried.

Funeral home and cemetery owners and managers can learn more about FSI via the web sites of The Foresight Companies, LLC (www.f4sight.com) and the free informational and educational site Foresight sponsors (www.thefuneralcoach.com) as well as by subscribing to Preneed Perspective the long running newsletter with information on preneed related topics.

For comments from The Foresight Companies, LLC, or to interview Dan Isard, please contact Susan Dragoo at 800-426-0165 or susandragoo@f4sight.com. For questions about the data supplied by Federated, please contact Ken Rodenburg at his office in Springfield, IL at 217-525-1712. While Federated provided Foresight with a copy of their statistical supplement for 2010, the conclusions reached are those of Foresight and Dan Isard.

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