

Funeral Service Inflation 2010

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Inflation is a word that we have all grown up knowing about. Those of us that grew-up through Carter presidency know that it is not just a theory. Inflation can change your entire world when it is out of control. Knowing how it plays into your business life is another matter. As a business owner you are caught in the middle with needing to set your prices for consumers to purchase your goods and services while at the same time anticipating a rapid escalation in the costs of your overhead and merchandise.

There are many reasons why funeral home owners need to understand inflation. We have to set prices today but we are also setting those prices for future delivery of goods and services. You have to guess at the best method to invest today's deposits that are not going to be your income for years to come. You are making contracts with merchandise providers for the delivery of merchandise but the cost of those items is not capped. Understand inflation first then defend against it as much as possible.

Preneed is one huge reason to understand inflation. Casket companies have encouraged funeral home owners to set their prices today for the consumer's benefit while you have no control over the compounded future increase in the cost of caskets. This created an artificial method of guaranteeing the price of a casket sold as part of a preneed program of the funeral home. The presumption is that the earnings of

the deposit (into either a trust or insurance policy) would grow at a rate greater than the increase in the cost of the merchandise or services. Therefore the funeral home would not have a preneed shortfall, theoretically. We know how that has played out. There are some insurance company/casket company promotions that would tell you not to raise your prices by more than the death benefit increase. Therefore you wouldn't have a shortfall on your service fees as well. That is like telling you to buy a scale that only goes up to 100 pounds on its register and you will never be overweight!

Several years ago a major casket company sent a letter to all funeral homes that had entered into their preneed/insurance/casket guarantee that they needed to let you know they could no longer live by the rules they set. Their letter went on to state that "supplier's prices, fuel costs, insurance premiums and personnel costs have trended significantly above the CPI" and therefore they have to stop this offer for the future. Well, no doubt! CPI is not an inflation indicator for businesses. It is an inflation measuring device for "Consumers", ergo the letter C in the acronym CPI.

First of all, when we try to measure inflation, it is not the Consumer Price Index. CPI is created by the government and it's a "market basket approach". CPI measures a market basket of 1,500 goods and services that are commonly used by the average family. Look at the mistakes a business makes using CPI as the measuring device. The first mistake is CPI assumes an average family.

You know, Mr. and Mrs. Cleaver, Wally and the Beaver. Well I have been inside of over a thousand funeral homes in my career and I have



never met a business run by and employing only the 'Cleaver' family. When you have costs increase they affect the ability to employ several people and those people need to provide for their household and family.

CPI is a wonderful indicator, but it has absolutely no application to funeral homes, or maybe even to the overhead of any business. I have been writing about that for 20 years now. Funeral homes need to look at **Funeral**

Service Inflation (FSI), rather than CPI.

CPI includes the price of lamb chops, and other food items as one of its weighted components. I have never been told of a funeral director offering mutton when they sat down with a family. A cup of two hour old coffee yes, but mutton never! Funeral directors don't use foodstuffs in the same quantity as a residential group. Another example of the difference is CPI assumes a mid priced car. Funeral directors, of course, are using large specialty vehicles, none of which show upon the radar screen of CPI.

CPI does measure some issues which are common to funeral homes. It measures the increasing price of gasoline. While your funeral home

uses gasoline, it uses it more than the average family would. The Cleavers gas up two cars, but funeral directors usually four or more vehicles. CPI does measure the increase of the premium cost of health insurance. As inflation is measured for CPI, it assumes the increase in health insurance for one family. Often funeral home owners are paying for the health insurance of two or three people, or more, and their families. Therefore, the measurement, as part of the component of CPI, for health insurance is maybe only registering one third of what the funeral homes' inflation should be measuring.

For years I have labored, discussing the concept called **FSI**. **FSI** is an incredible calculation to complete. In fact, our ability to complete it years ago has been stymied by the efficacy of our effort. Allow me to explain.

Years ago I wrote to funeral automobile manufacturers, casket companies, and your professional products companies and said, "Pick a low end, a mid priced unit, and a high end unit or product you sell, and give us the increase in sales price from one year to the next." We selected a 'weighting' for each unit and then averaged this against the overall overhead of a funeral home. A weighting allows us to give different emphasis to different categories of expenses. We looked at the average number of employees in a funeral home and increased cost of compensation and weighted that to be about 30% of the overhead. We looked at the increased cost of automobiles from the manufacturers that sent us material, and then the cost of insurance (and weighted that appropriately as well). We factored all of the expenses of your overhead, and weighted them as a percentage of your overhead. We looked at how all of these increases, component by component, would change one year from the previous year. We assumed a level profit margin, in real dollars, accounting for inflation. Then we divided one year's costs into the other. Voila! We calculated

the industry inflation for one year versus the last. We were smart, except we did too good of a job.

When we went to the same manufacturers the next year they would not cooperate with us. They felt that we made it seem like their product or service was being blamed for the increase. It wasn't, but some manufacturers felt that way. In reality the sum of all products, services, insurance, salaries, and interest expense together caused the inflationary increase. The industry that hated this calculation the most was the automobile manufacturers, because as the use of a car became less and less (especially limousines), it looked like their cost was increasing the most. Maybe it was. But that was due to consumer's choices, not our math.

Furthermore, an auto costs a fixed amount for a year of operation, plus the variable cost of operations. The fixed cost is the cost of the investment or lease payment, plus insurance and taxes. This amount won't change regardless of how much the vehicle is driven. The variable cost is the cost of fuel, repairs and maintenance. The fixed cost is often much higher than the variable cost.



The decreased resale price of funeral autos is nearly the same whether the car stays in the garage or not. People rarely go to a funeral home because they have a Cadillac versus a Lincoln (except in towns that manufacture parts of those two vehicles). They may avoid a funeral

home that has bad cars, but they certainly are not attracted like moths to a flame because somebody has a new car. Nobody wants to be in the back of a hearse, new or old!

Casket companies started telling us that we didn't take their discounts and their manufacturer's rebates and their quantity incentive programs into consideration. Well, we didn't ask them about that. We said, "What is the net cost of a casket?" So some of them cut us off. The only manufacturers that would still talk with us were the fluid companies and fluids were such a small component in the overall operation of your business that it really didn't matter.

But casket companies, service companies, and auto manufacturers all got really slow in giving us the figures. Now some did cooperate, but it did us no good to only have sketchy data.

Therefore, we've had to attempt to calculate inflation in a brand new fashion. Today, we calculate **FSI** using public figures provided by Federal Funeral Directors of America. FFDA does the books for about ten percent of all funeral homes in the United States today that are still privately owned. They publish their report for the good of the industry. We are able to look at their figures and reach certain conclusions.

Is Funeral Service Inflation the combined cost of service and merchandise or just service or just merchandise? We don't want to include Cash Advance in our numbers. We all know that there are costs that can escalate from \$75 to \$100 in one year. That is a 33% increase. We can't be protecting consumers from those increases if we have no profit associated with the cash advance.

We really don't care what the national chains are doing because their cost of operations are different than yours. You probably don't have

any Lear Jets on your books (they don't either since their downfall at the turn of the century). You probably don't have a 15 story home office on your books either, and there are less and less of those as well! You probably don't have an outside Board of Directors that are compensated a hundred thousand dollars a year. So the cost of operations of the conglomerate is immaterial to this calculation.

The entire reason for studying inflation of this industry is threefold:

- 1) Preneed, and
- 2) At need, and
- 3) At need pricing and its effect upon your profit.

By our study sixty-five percent of all funeral homes guarantee their preneeds. While this number is decreasing, it is decreasing slowly. This desire to guarantee their pricing is driven out of either a funeral directors own desire or by the requirements of their state law. When you guarantee, you're saying that you'll take the value of the preneed account, whatever it is in the future, to cover your payment in full in the future.

In order to be able to compare your trust or death benefit increases, you need to be able to analyze it compared to a number. Some people look at a number like 2.5% or something else. Ultimately, you should desire to have your trust or insurance death benefit outperform **FSI**. In the long run, no trust or insurance company can.

Preneed: If there is a problem with your at need pricing today and your profit margin is not where it should be, all you're doing is compounding the problem into the future. The more preneed you sell the greater the problem will be when these preneed contracts are served into the future. So you start with a shortfall, and as the value

of the trust, or the death benefit increases continue to fall short of the **FSI**, your profit falls faster and faster.

At need: At need servicing pricing needs to be increased as your costs increase. Whether you do it on a quarterly basis (which I strongly recommend) or on an annual basis (or whenever you learn that your competitor has increased their prices more than likely) at need pricing needs to be increased routinely. You need to have an effective profit margin remaining stable and level today. Try to have your at need price increases stay within **FSI**.

At need pricing and its effect upon profit: Every business owner is entitled to a profit. Most funeral home owners do not set their prices analytically. They may compound their pricing by some factor year after year, but if the original value was wrong, then the problem just gets worse each year. For example if a Basic Non-Declinable is \$1.00 and you raise it by the CPI of 2%, now your price for this single component is \$1.02. But that assumes the \$1.00 that you started with was correct! If it wasn't correct, what is the chance that this year's \$1.02 is correct? What is the chance that all the preneeds you sell this year are going to be producing the correct result when they come at need years from now?

The effect of this compounded failure of logic affects the only component of pricing that it can affect... Profit! When there is the requirement to service families but the dollars to service those families is fixed and results in a shortfall, the only place that can suffer is the provider's profit. You can't go to the Casket Company and say, "Oh remember when you wanted me to guarantee so I would lock in the sale of one of your caskets?" They are no where to be found when you are holding the bag.

Before I create the irrefutable calculation for **FSI**, let me be my own critic. The source of the data for our calculation comes from the annual report of Federated Funeral directors of America (they can be found on the web at www.ffda.com). Federated's figures are not perfect. First of all, they calculate the "average adult funeral". They calculate that by showing the service fee and merchandise such as casket and clothing. We all know that most funeral homes are selling vaults. In fact Federated does not actively promote their figures as being "The National Average".

The data comes from about 1400 funeral homes located in 42 states. The size of the businesses within the group according to Federated, "range from small rural concerns to large urban operations conducting over 1,000 funerals annually."

In the grand scheme of things there are going to be a few instances whereby we are comparing apples to oranges with the cost of operations. All of Federated's clients do not take out the same salary. Owners of businesses that are closely held try to take out higher salaries because those higher salaries are hopefully deductible (everything's deductible until you're audited). While these deductible expenses for salary are being shown, sometimes they include children not working in the business or family members partially working in the business getting salaries. Sometimes the overhead includes cars for other members of their family and personal vehicles. Many charitable contributions come bearing baseball tickets or some other perquisites.

An additional potential inconsistency is the ownership of real estate. Some of their clients own it inside their business enterprise, and some own it personally and the business pays rent. A few do not own it at all, and the rent is paid to a third party. Some have great debt against the real estate and some own their realty debt free. This could lead to dissimilar calculations for a small part of the calculation.

Some of Federated's clients are incorporated and some are not. Those that are incorporated some are C corporations and some are S corporations, which have different tax consequences. Since S corporations pass through their income to their owners, they typically have less tax planning associated with them. So this is not absolute but to me there is no better source of consistently applied data.

So what? This data is consistently applied. We assume the same numbers of people are overpaid as owners as are underpaid. We assume the same percentage of families have non-working kids, and personal auto's on their books year after year.

I think this data is very usable for this exercise. It covers a large area, a large number of firms and most of all it is consistently applied. I have used that phrase a lot but it is an important distinction. If I went out to survey an equal number of firms, many would have a chart of accounts that are inconsistently applied. And the application would have changed over the past 20 or more years. All of their firms use the same computation for each category of revenue and expense. That is important. I commend Federated for producing this report for the industry to see. Certainly it is not perfect. We are respecting their calculation for the purpose of this analysis.

Their annual report provides a series of data that will measure the components and amounts of revenue spent by consumer, the application of the business owners overhead, and the resulting profit. It isn't perfect, but it is valid and accurate for this analysis.

I would make several assumptions:

1. that the same percentage of Federated clients are taking excessive salaries for themselves or family members today as were 20 years ago,

2. that the number of people that are taking aggressive deductions in 2010 are probably the same percentage of their members as the number of people being aggressive in the past,
3. that approximately the same number of people owns their real estate outside of the business today as in the past.
4. The general body of funeral home owners are operating in a fashion that is consistent with Federated's client base.

We do believe that the conclusions are consistent and are materially reasonable to use for this calculation. I believe that the calculations, due to the large radix (size of the group) of their members, give us some degree of fair and reasonable comparisons, year in and year out.

The process I will go through is as follows:

- The very first premise that I have to establish in creating an inflation rate is to assume that profit margins are remaining level. No one wants to have a decreasing profit margin in their business or industry. If profit margin's increase the effect should reduce inflation.
- The second assumption is the time period through which we are measuring. I've chosen to measure the period from 1981 through the year 2009. The 2010 figures are not available yet.
- Third, we have to measure the overhead from one year to the next. We can certainly measure this in increments but year after year after year is the most effective.
- Then, we calculate *overhead* as being the cost of business in the current year dollars, **plus**, a level profit margin in current year dollars. In simple terms, *overhead plus profit* should be constant.
- Last, we divide the current year into the previous year and get an inflation rate from one year to the next.

We can compare the industry inflation rate with the consumer spending and see if there is a correlation (which I can tell you now there is not). Once we have concluded the industry inflation rate we need to do a comparison against is CPI.

Any charts or the graphic representation of them are shown at the end of the text for ease of showing them.

Chart 1 shows the Federated figures from 1980 through 2009. The first column shows the average adult funeral paid for by the consumer, including the service, casket, and clothing. The second column shows the average wholesale casket cost (what the casket costs you). The third column is the average cost of operations (based upon autos, personnel, benefits, advertising, sundry and miscellaneous expenses that you're incurring in your normal operation). The last column on the far right shows the average profit before taxes.

Normally when I talk about profit, I refer to EBITDA. EBITDA stands for earnings before interest, taxes, depreciation and amortization. In many cases EBITDA becomes EBITDAR. Adding an R to the end means rents. If you're paying rents to yourself that is merely a form of profit that you're taking out in a tax and savings effective fashion.

The most disturbing calculation in the above chart is the decrease in profit. Almost every year, profit has declined since 1980. In only 9 of the past 30 years did the profit margin increase over the previous year to any amount. During that time period there was never a year where consumers paid less than the previous year for the average funeral. Over the last 30 years profit as a percent of the gross revenue fell from 13.73% to the current 5.31%. The average profit over this period was 8.97%, but that dwarf's the current profit margin by almost 60%! So we are in a downward profit environment by a lot.

Profit margins are declining, but yet, consumers are spending more each year. This is evident by the next chart.

Now look at **Chart 1a**. This is a computation of Gross Profit. Gross Profit is a simple calculation of Revenue less Cost of Goods Sold. While it matters what people spend with a funeral home, it also matters what the merchandise is that people are buying. In this case, **Chart 1a**, deals with two general themes.

One theme is the recognition that consumers are spending more each year for an Adult Funeral. Only one year out of the last 30 (the year was 1994) did the amount of the consumer's spending increase fall below a 1% increase. In some years the increase was as much as 8%. The average increase over the last 30 years was about 4.18%!

The second theme from **Chart 1a** is an analysis of the allocation of the business Gross Profit. Gross Profit is a simple formula (Average Adult Funeral minus Average Wholesale Casket). We can see the amount of gross profit is rising, but the percentage going to gross profit is decreasing slightly. Now why would this be decreasing? It is decreasing because the services people are buying are increasing and merchandise people are buying is decreasing. In a cremation case, the merchandise is less than in a burial case.

Information I have seen from the Casket Manufacturers Association clearly shows that the number of high end expensive caskets is declining. More and more 18 gage and 20 gage caskets are being bought each and every year. Now, between the 18 and 20 gage caskets we can see the 20 gage caskets are increasing in popularity.

Based upon the data you have just explored, you must ask yourself, "If consumers are spending more each year, why is my profit going down?" The conclusion should win me a Nobel Prize, but the answer is because your overhead is increasing at a rate greater than the rate

consumers are increasing their spending. This is due to **FSI** being higher than you are assuming it to be as you set your prices!

You get to set your prices. Your competitor doesn't. You choose each year what you want your service fees to be. You determine what the mark-up on your merchandise is to be. You are in control of your business domain.

Federated's clients are spread throughout the US, but the bulk of their clients are heartland funeral homes. Therefore they do not have the same percentage of cremations and the same number of cremations without caskets as the national average (about 29% of all dead human bodies in the United States were cremated in 2004 versus more than 34% in 2010).

The cremation rate is increasing. It is increasing in almost all states. Funeral home pricing for services and their merchandise offerings are going to have to reflect this change in consumer choices, or suffer decreased market share and decreased profit. Funeral homes are going to have to examine their overhead and make changes to reflect their mix of business. Many funeral homes are getting smarter in re-appropriating their pricing. Today more than ever funeral homes are recognizing the need to emphasize service fees and not have a dependence upon merchandise sales for the generation of revenue.

Federated does a very good job of tracking the average cost of operations per year. They are accountants and that is what they do! As a part of this, they also track the average amount spent on a casket. The problem, of course, is the fact that the average amount spent on a casket each year is buying a different casket. It is not the same casket bought in 2005 that was bought in 1980.

Chart 2 Percentage of Spending

Please look for a moment to **Chart 2**. While it appears that the amount of dollars spent on caskets increased from 1980 to 2009 in dollar amounts, another way of looking at this is as a percentage of total revenue. In this regard, spending on caskets is declining. In 1980 17.94% of all the money spent on the average funeral case went to the casket but in 2009 this was down to 16.85%. Since the casket is usually marked up more than 100% of its cost, this could be another factor that caused profits to decrease. Funeral homes had a high reliance upon the sale of a casket to generate a profit.

Many casket companies increased their pricing about 3.5% to 5.0% in that time period. If funeral directors reflected that price increase to consumers, but didn't raise their service pricing by a similar amount, then of course the percentage of dollars spent on caskets would go up. The opposite effect is that profit would go down, if consumers started to spend less on caskets and the funeral home did not increase service fees, which is exactly what it did.

Since there is no one collective mind of funeral home owners, it is impossible to verify this happened as stated above without studying the pricing changes for merchandise and services of many funeral homes. However it is reasonable to reach this conclusion as to the cause and effect of the group as a whole.

You are seeing that the average dollar amount per call of the average wholesale casket is decreasing. But the average profit amount maybe should be looked at as a percent of where the dollars are going, rather than dollars. This is shown in **Chart 2**.

Chart 2 shows the way a consumer's dollar was broken down by percentage. For example in 1980, almost 18 cents of every dollar went to pay for the purchase of the casket, and in 2005 that was

about 17 cents on the dollars spent. In 1980 about 69 cents of each dollar went to pay for your overhead, and almost 13 cents went to the business owner's profit. Well, look what has happened in 2009! Almost 78 cents of each dollar spent went to your overhead, and about 5.3 cents for your profit. So the casket companies are getting paid, the business overhead is getting paid, but the business owner is getting less return for taking the risk as the service provider!

Consumer spending changes are well discussed. This should not be surprising. But the effect on you, the businessperson, must be shown. Your profit margin was 13.73% in 1980 and now is 5.31% in 2009. That is a decrease of about eight and a half cents on each dollar spent with you! This is not a loss on the dollar spent; this is a decrease to your profit. That means that your profit for the same amount of service rendered is now only 44.6% of what it was.

Imagine you are a commission salesman. You sell funerals. You get paid every time one is delivered. You have a good year, and your boss comes to you and says, "Anyone can do what you do, so we are slashing your commission rate by 44.6% next year." You will make less for each funeral you service. What would you do? I know what some of you might do!

Look now at **Chart 3** which shows the change in consumer spending from one year over the next. For example, in 1982, we see in Chart 1, the average funeral increased to \$2,242.65 from 1981 where they spent an average of \$2,085.66. That \$156.99 increase is an important dollar amount if you're writing a check. However, as a pencil sucking geek trying to educate business owners, the most important consideration is we're dealing with a 7.53% increase. That means the average family spent more 7.53% more for a funeral in 1982 than in 1981.

The average wholesale price for a casket went up almost 5.42%, so families were spending more for the casket as well. Your payment for Operations went up almost 8.48%.

In fact with the average family spending more with you, did your profit go up? No! Because operations and merchandise went up more than the consumers were spending. Your profit fell in 1982 by more than 8%. But that was almost 30 years ago. Let's let by-gone's be by-gone's! You have gotten much smarter since that time, right?

What does **Chart 3** exhibit in this most recent years spending? In 2009, we see in **Chart 1**, the average funeral increased to \$6,338.50 from the previous year, \$6,199.01. That was a \$139 increase. In percentages the average person paid only 2.5% increase. The average wholesale price for a casket went up from \$1,041.86 in 2008 to \$1,068.07 in 2009 which is almost 2.51% over the previous year. So you were spending more for the casket you sold. Your payment for Operations went up from 77.02% of revenue to 77.84% of revenue (almost 1.1%). In fact even with the average family spending 5.05% more with you, did your profit go up? No! In fact it went down again to 5.31%. That was because operations and merchandise went up more than the consumers were spending. And the result was that profit percentage went down 12.06% from the previous year!

Chart 3 forces you to wake up and see the facts. The fact is over the course of time, families continued to spend more. This was in the range of 3% to 7.5% for most of the past thirty years. The money spent on the casket has increased each year. The money allocated by you to operations has increased, but not at the same rate as previous years. Profit, in some years, actually became a negative increase! That meant that you were actually working for less profit in one year than you were the year before. And that is before any adjustment for inflation. Yikes!

- In the Seventies people that studied numbers wanted to consider themselves 'analysts'.
- The Eighties had us pronounce ourselves 'economists'.
- In the Nineties we were striving to be known as 'management consultants'.
- And for the 'Aughts' (the period from 2000 to 2009) we want to be seen as 'Economic Futurists'.

The great book *Freakonomic's* by Steven Leavitt and Stephen Dubner attempts to blend all disciplines with the reality of the world. This cause and effect analysis is much like what I am trying to do here. We can look at the numbers in a detached way and see what message the numbers are giving us. We aren't perfect, but the ability to look at past trends and give advice for the future is a talent.

The good news is that **Chart 3** shows that the money spent on the funeral is increasing. Consumers are willing to spend money for your services. People have opened up casket stores, but no one opened up an embalming store! Consumers may be less willing to spend money on caskets, but they seem to be willing to spend money on your service fee. Anyone can sell a casket, but not anyone can provide the services needed for a funeral or cremation ceremony. We know anecdotally that there are more price shoppers each year, but there is no well accepted alternative for the funeral director.

The problem made so obvious in **Chart 3** is the percentage of money going to profit. Your profit margin (after all the ways you've prepared your tax returns) in 1981 was 13.14%. Now with the same creative deductions, your profit margin is down to 5.31%. There is greater emphasis today upon your need to be profitable than there was in the past. And with a lessening dependence on the casket and auto's there are less GPL lines to get there.

Now, let me stop talking about your profit and get you to look at **Chart 4** which shows the Consumer Price Index in dollars and the annual percentage changes from the years 1980 through 2009 inclusive. CPI measures the cost of the weighted average of the market basket each month and in this chart I have computed this on an annualized basis. This chart shows the CPI calculation in numerical form for the beginning of the year and the end of the year. By dividing one into the other, you get the inflation rate as a percentage for the entire 12 month period.

It is important to understand that CPI does exist, but it's also important to recognize how absurd it is to compare this with Funeral Service Inflation. Casket companies found out the same way you have been finding out. I urge you to be cautious if anyone sells you their preneed insurance or trust investment services and tries to compare it to CPI. To me, they are not comparable analyses.

Visitations thirty years ago might be at least one night in most every case and in many cases, two nights. The studies I've done in my consulting practice of numerous funeral homes nationwide, suggest less than 40% of all funerals nationwide have no formal segregated visitation event today. These events could be a direct cremation, direct burial or a graveside only funeral event. That means that the rest have either an advertised visitation or a visitation preceding a service. While each region of our country might have their own reality, the universal reality from our practice is the use of the facilities by a family is decreasing dramatically each year. Funeral homes tend to be rather large buildings, so to look at a reduction of utilization of the funeral home as part of the funeral process, demonstrates that consumers are using your building less. The problem is you built or bought a large facility and have to maintain it no matter what.

Other decreases in the utilization of funerals are the use of automobiles. Again, going back to 1980, just about every funeral had a procession, which included the limousine, hearse and lead vehicle. Today, in conformation to FTC, consumers are opting out of limousine utilization in many cases. Today less than 30% of all funeral homes have a limo. According to one industry source, there were less than 350 new limo's sold in 2010 to funeral homes compared to more than 4,000 in 1980.

And of course, the type of casket being chosen is less focused on upper end units and more focused on medium and lower end units. So consumers are buying down for discretionary spending issues. Dispositions that are going to the crematory do not typically have a procession to the retort! The usual and customary container holding the body that is going to the retort is much more modest in price also. So, cremation consumers and burial consumers are uniting in one simple thought; spend less money on a casket.

Therefore, the calculation to assess a true industry rate must first start with a basic premise. That basic premise is:

Profit margins should remain consistent.

This is a radical concept. I know the caregiver inside of every funeral director thinks this is unnatural. But, as a business owner, you should be entitled to some profit. That profit should be a minimum of the profit of the past. That profit needs to increase over time. The amount of the increase should be at least what people are increasing on their spending. It should increase with time. This is called inflation!

Another way to look at profit could be as a minimum percentage of the value of the business. In my seminars I sometimes calculate that our clients (the funeral home owners) should be entitled to a guaranteed

profit of some safe rate of return (let's assume 6%) times the value of their investment in their business. Since most of you do not know the value of your business, let's just assume 100 calls, one location funeral home. If this is a casketed funeral community, whereby 80% of the cases have a casket and 20% are some form of cremation or ship-out case, this business is probably generating about \$600,000 of revenue. The business and real estate might be worth a total value of \$1,200,000. Therefore, if your business and real estate are worth \$1,200,000, shouldn't you be entitled to a profit of 6% the value of the business? If you sold the business, you would expect that much in interest from your bank. So, for operating this business and serving 100 families a year let's assume you are entitled to a profit of \$72,000 (that is 6% of \$1,200,000)? I think so! And therefore, your profit per each of the 100 calls, on average, would be approximately \$720 per family served.

Since I began my calculation in 1980, I'm going to use the 1980 profit margin as a consistent profit margin. A profit of \$266.47 was earned off of that \$1,940.60 average funeral in 1980. Therefore the profit was 13.73% of consumer spending.

1. I will begin my determination of profit as defined in my model as, the 1981 profit margin multiplied by the average funeral for that year. For example, the 1980 profit margin of 13.73% multiplied by the average 1981 funeral of \$2,085.66 in **Chart 1** equals a raw profit margin of \$274.77. So my profit should have increased by an amount of the increased spending by the consumer.
2. Therefore in my computation I'm going to increase this raw profit margin by the increase the consumer was spending on the funeral in the next year and each successive year thereafter and decrease it if consumers ever decrease spending. The increase in consumer spending between 1980 and 1981 was 7.48% (see

Chart 3). When I increase the raw profit of \$266.47 by 7.48% (multiply \$266.47 by 1.0748), the profit margin becomes \$286.39. That compensates for inflation, year after year.

I did this to create an increasing profit (no matter how slight) as an inflationary increase. This gives us a real dollar amount, increasing for inflation and spending.

I have calculated this number in **Chart 5**. **Chart 5** shows the profit dollar amount that a funeral home should be entitled to, as a level amount, keeping pace with inflation *and* consumer spending. If you look at **Chart 5**, you'll see that the 2009 average profit would be approximately \$853.84 per case based upon this inflation adjusted level profit margin.

Therefore, if we have a level profit (as determined in **Chart 5**), we need to add to that the true cost of the casket and overhead actually incurred. Well that comes from **Chart 1**. But for the sake of simplicity, let me combine these for your easier viewing. Adding the casket actually chosen, the overhead Federated determined, to the profit we determined, yields a dollar amount I will refer to as The Cost to Serve ("TCTS"). TCTS is the funeral homes guarantee. They are saying that in the future this is going to be my cost to provide for the items I need to give to this family. This covers my merchandise, staffing, auto, facility, professional needs, insurance and G&A. TCTS does not include Profit.

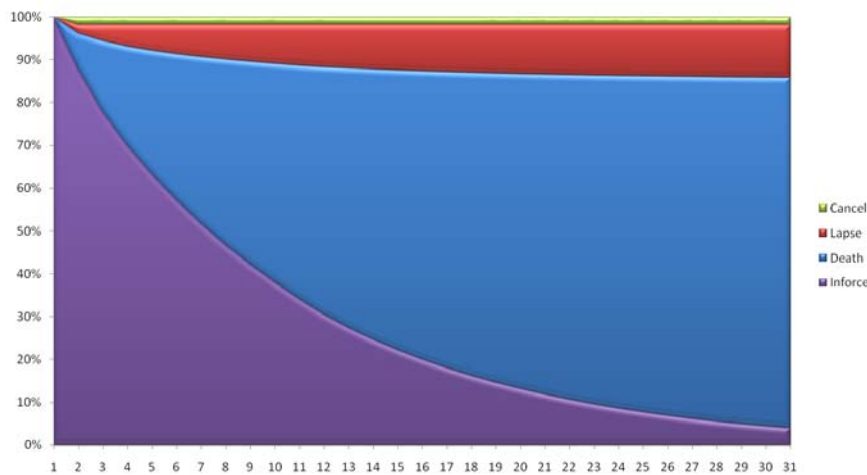
Profit is what is left over from the cash the family brings to the table. If Profit falls from the previous year then we have a problem. If it increases we have happy days. When we have a problem we have a decreasing profit, which compounds inflation. When we have excess profit, to the degree the profit excess is more than the consumer's spending increases, we have a decrease in the inflation rate.

Total Overhead therefore is now three components:

- is the assumed level profit margin, plus
- the casket, and
- overhead.

In simple terms I will show this number in **Chart 6**. **Chart 6** shows the increase of Total Overhead.

The calculation of inflation is merely the “Delta” (or change between two points). Since funeral homes don’t change their pricing on a daily basis, I think it is fair to look at it from year to year. This is how Federated’s numbers play out as well. This annual comparison would give us a Delta. **Chart 7** is therefore the Holy Grail of Delta. It is the culmination of the calculations. It is in its purest conclusion **FSI**.



The chart to the left was provided by Homesteaders LIC.

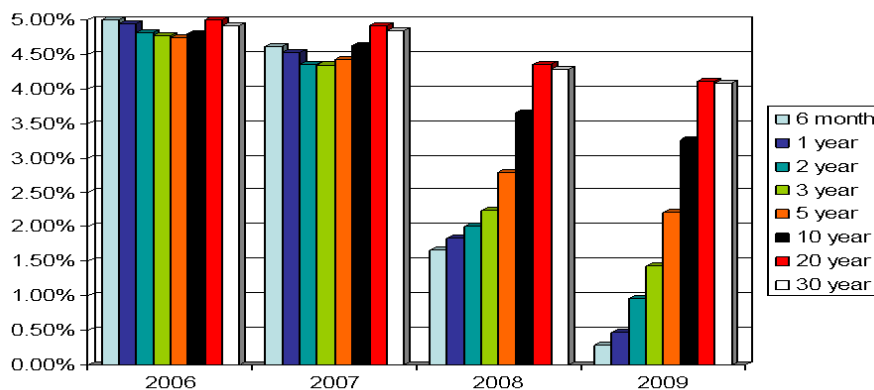
Remember, one of the reasons for understanding inflation is

preneed. As the average life span of pre-funded account today is approximately 7½ years (which means half the people die in the first 7½ years and from an actuarial perspective half the people die between 7½ and 15 years), we can look and see that **FSI** over a 7½ year period is calculable and now this gives you an objective for managing your trust or insurance death benefit increases. The reality is that many policies stay on the books far longer than the 15th year.

You will know which ones they are if you have too low of a crediting rate and too high of an FSI, just as a hiker knows the exact location of a grain of sand that fell into the bottom of their hiking boots the longer they walk.

Over the past 30 years the average inflation rate was 4.32%. Over the past 10 years that rate was 3.29%. This shows that FSI is declining. The problem from a preneed perspective is that crediting rates of life insurance companies and crediting rates of trust accounts are declining as well.

Treasury Bill Rates 2006-2009



As you can see from this chart, the interest rates during the last four years have dropped considerably. Short term T-Bills have dropped

from a yield of 5% to under a half of a percentage point. Even the venerable 30 year rate has dropped from about 5% to 4%, and very few insurers invest in 30 year bonds, at least very few invest that money to maturity.

So with interest rates dropping precariously low can we expect in the near future that preneed funding will out perform the minimum analysis of the average funeral bill? I do not know of any company or trust that has done that in the past, can do that in the present or will do that in the future. We have seen senior managers of the largest

preneed insurers all make assertive statements that the guarantee is a problem. That is not a damnation of the insurer or the trust. It is a problem of the "guarantee" that funeral directors tend to offer.

If a lawyer is paid \$200 per hour that lawyer doesn't get that money, their firm get's receipt of that income. If an insurance company earns 4.00%, the insurance company doesn't credit the accounts with that yield, they have expenses of operation. In my study of insurers I have found that most look to have about 200 basis points for their overhead (a basis point is 1/100 of a percent, so 200 basis points is the equivalent of 2.00%). With interest rates dropping as low as they are, deduct 2.00% from the yield and you will arrive at the expected crediting rate. You can see as gross yields are at 4% and 5%, this doesn't give much for crediting rates, even a 4% FSI is not going to be covered in the foreseeable future.

Now, **Chart 7** is the simple FSI. This is the blended rate of the assumed "all services", burial and cremation. However, we believe the there are more preneeds written for burial oriented cases than are cremation cases. Therefore we need to change our analysis slightly and weight the result to those that will have a higher deposit due to the added need of a casket. That brings us to **Chart 7a**.

Chart 7a is the chart that deals with the casket inflation to a higher degree than the basic FSI of **Chart 7**. As casket prices have increased over the years that inflation rate will increase more than the average. There are a few years where the cost of caskets has declined slightly and that should retard inflation in this industry.

Chart 7a has a much higher result than Chart 7 most years. In fact, if you started with \$1 and compounded the growth of that dollar each year for 30 years by the respective FSI (simple or burial), that \$1

would grow to \$3.53 via simple FSI growth however by burial FSI that \$1 grew to \$4.51! That is about a 28% difference.

Yes, it matters whether a body is going to be buried or cremated but most of all it matters whether that preneed is for a burial or a cremation.

Furthermore, the study of these figures should give rise to your ability to change your pricing at an amount equal to at least the Funeral Service Inflation rate rather than some of the other ineffective ways. My dear friend Curt Rostad made a career of collecting the various methods by which funeral directors chose to increase their prices annually. His acronyms are:

- AALTLY¹
- BOHDUMC²
- BFBOMC³
- LMADI⁴
- TAWAG⁵

Regardless of which of these you choose, we recommend you do it the correct way with a real chance of generating prices that will cover your cash flow needs and generate a profit.

We now know what FSI is, either a simple FSI or a burial oriented FSI. We can contrast that to CPI, just to highlight the difference. This is the product of **Chart 8**. Chart 8 shows us a summary and an analysis. It reproduces the result of **Chart 7** (Simple FSI) and **Chart 7a** (FSI for burial) and then compares these two results compared to CPI. As you can see, FSI Simple is less than FSI Burial only seven times during

¹ Add A Little To Last Year

² Be One Hundred Dollars Under My Competitor

³ Be Fifty Bucks Over My Competitor

⁴ Let My Accountant Do It

⁵ Take A Wild A-- Guess

the period studied. FSI Burial is not only more consistently but in recent years (2006 to 2009 inclusive) when we have seen disproportionately large Casket Price increases you can see that CPI Burial is 920% greater than CPI Simple.

FSI has, each and every year that we've studied it, been more than CPI, regardless of whether we are comparing CPI to FSI Simple or FSI Burial. Some years it was almost exactly the same increase (such as 2000) but in most years, **FSI** Simple was anywhere from 100 to 400 basis points higher than CPI. The average from 1982 shows **FSI** Simple to be 4.32% and FSI Burial to be 5.23% while CPI for that same period averaged 2.85%.

One of the benefactors of **FSI** is preneed. The conclusion you should reach reading this chart, is that in order for your preneeds to keep pace with inflation, they need to have increases in account values (either by death benefit or by trust net earnings) of 4.66% per year. This is the average **FSI** over the past twenty years. Did your trust or insurance policy do that for the past 30 years? No. Therefore you cannot give a guarantee. If your state law mandates the guarantee, then change your state law.

The comparison of **FSI** vs. CPI should be looked at on an aggregate basis also, not just year by year. If you had invested \$1,000 in 1982 and invested the amount grew by the CPI rate each year, you would have about \$2,141 now. But the same \$1,000 invested at the **FSI** simple rates would amount to more than \$3,812! The difference is almost 180% of the CPI growth! That is a large difference, and ironically profits within the funeral profession are about 40% of what they were since 1982. Can you understand why?

Inflation is here to stay. It is not going away. Ignoring it will continue the down trend of decreased funeral servicing profit. Respecting it will

increase the amount of profit the funeral directors are truly entitled to, both as business people and professionals. I find it remarkable that even in the smallest town, there might be 20 different people that can probate a will but in those same towns, there might only be two or three people that can help a family plan a funeral and embalm a body. In different communities the mark-up on automobiles is higher. The same should be for funerals service fees. Funeral directors need to recognize that they are entitled to have profit.

The computations and conclusions shown in this article are as of December 2010. This computation is kept up to date by the author on an informational web site and the reader is invited to register for free and go on the web site as they wish to stay abreast of this important and time sensitive subject. The site is

www.thefuneralcoach.com

We at Kates-Boylston will keep this information up to date via our magazines and newsletters.

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Chart 1 Inflation

Year	Avg. Adult Funeral	Avg. Wholesale Casket	Avg. Cost of Operations	Avg. Profit	Profit %
1980	\$1,940.60	\$348.14	\$1,325.99	\$266.47	13.73%
1981	\$2,085.66	\$372.71	\$1,438.18	\$274.77	13.17%
1982	\$2,242.65	\$392.91	\$1,560.11	\$289.63	12.91%
1983	\$2,367.17	\$408.12	\$1,692.77	\$266.28	11.25%
1984	\$2,516.63	\$429.59	\$1,806.00	\$281.04	11.17%
1985	\$2,656.22	\$454.66	\$1,910.57	\$290.99	10.96%
1986	\$2,766.26	\$469.99	\$2,015.75	\$280.52	10.14%
1987	\$2,904.64	\$498.89	\$2,112.62	\$293.13	10.09%
1988	\$2,992.19	\$517.05	\$2,179.77	\$295.37	9.87%
1989	\$3,115.17	\$538.92	\$2,296.98	\$279.27	8.96%
1990	\$3,247.46	\$562.95	\$2,402.24	\$282.27	8.69%
1991	\$3,507.19	\$606.04	\$2,597.69	\$303.46	8.65%
1992	\$3,663.49	\$627.70	\$2,717.20	\$318.59	8.70%
1993	\$3,919.17	\$652.18	\$2,823.03	\$343.96	8.78%
1994	\$3,954.09	\$678.69	\$2,909.65	\$365.75	9.25%
1995	\$4,149.86	\$711.78	\$3,048.31	\$389.77	9.39%
1996	\$4,287.14	\$729.69	\$3,160.33	\$397.13	9.26%
1997	\$4,453.59	\$752.96	\$3,278.77	\$421.86	9.47%
1998	\$4,604.66	\$769.90	\$3,423.98	\$410.78	8.92%
1999	\$4,755.34	\$793.07	\$3,522.59	\$439.68	9.25%
2000	\$4,889.43	\$808.71	\$3,658.44	\$422.28	8.64%
2001	\$5,046.65	\$829.67	\$3,809.21	\$407.77	8.08%
2002	\$5,211.21	\$856.20	\$3,957.61	\$397.40	7.63%
2003	\$5,374.67	\$891.12	\$4,105.72	\$377.83	7.03%
2004	\$5,513.16	\$916.21	\$4,244.80	\$352.15	6.39%
2005	\$5,675.49	\$969.72	\$4,391.54	\$314.23	5.54%
2006	\$5,847.80	\$1,010.15	\$4,508.27	\$329.38	5.63%
2007	\$6,033.86	\$1,024.29	\$4,640.35	\$369.22	6.12%
2008	\$6,199.01	\$1,041.86	\$4,774.49	\$382.66	6.17%
2009	\$6,338.50	\$1,068.07	\$4,933.92	\$336.51	5.31%

Gross Profit Calculation Chart 1a

Year	Avg. Adult funeral	Avg. Wholesale casket	Gross Profit \$	Average Wholesale and Cost of Ops	Change in Avg Wholesale and Cost of Ops	Gross Profit %
1980	\$1,940.60	\$348.14	\$1,592.46	\$1,674.13		82.06%
1981	\$2,085.66	\$372.71	\$1,712.95	\$1,810.89	108%	82.13%
1982	\$2,242.65	\$392.91	\$1,849.74	\$1,953.02	108%	82.48%
1983	\$2,367.17	\$408.12	\$1,959.05	\$2,100.89	108%	82.76%
1984	\$2,516.63	\$429.59	\$2,087.04	\$2,235.59	106%	82.93%
1985	\$2,656.22	\$454.66	\$2,201.56	\$2,365.23	106%	82.88%
1986	\$2,766.26	\$469.99	\$2,296.27	\$2,485.74	105%	83.01%
1987	\$2,904.64	\$498.89	\$2,405.75	\$2,611.51	105%	82.82%
1988	\$2,992.19	\$517.05	\$2,475.14	\$2,696.82	103%	82.72%
1989	\$3,115.17	\$538.92	\$2,576.25	\$2,835.90	105%	82.70%
1990	\$3,247.46	\$562.95	\$2,684.51	\$2,965.19	105%	82.66%
1991	\$3,507.19	\$606.04	\$2,901.15	\$3,203.73	108%	82.72%
1992	\$3,663.49	\$627.70	\$3,035.79	\$3,344.90	104%	82.87%
1993	\$3,919.17	\$652.18	\$3,266.99	\$3,475.21	104%	83.36%
1994	\$3,954.09	\$678.69	\$3,275.40	\$3,588.34	103%	82.84%
1995	\$4,149.86	\$711.78	\$3,438.08	\$3,760.09	105%	82.85%
1996	\$4,287.14	\$729.69	\$3,557.45	\$3,890.02	103%	82.98%
1997	\$4,453.59	\$752.96	\$3,700.63	\$4,031.73	104%	83.09%
1998	\$4,604.66	\$769.90	\$3,834.76	\$4,193.88	104%	83.28%
1999	\$4,755.34	\$793.07	\$3,962.27	\$4,315.66	103%	83.32%
2000	\$4,889.43	\$808.71	\$4,080.72	\$4,467.15	104%	83.46%
2001	\$5,046.65	\$829.67	\$4,216.98	\$4,638.88	104%	83.56%
2002	\$5,211.21	\$856.20	\$4,355.01	\$4,813.81	104%	83.57%
2003	\$5,374.67	\$891.12	\$4,483.55	\$4,996.84	104%	83.42%
2004	\$5,513.16	\$916.21	\$4,596.95	\$5,161.01	103%	83.38%
2005	\$5,675.49	\$969.72	\$4,705.77	\$5,361.26	104%	82.91%
2006	\$5,847.80	\$1,010.15	\$4,837.65	\$5,518.42	103%	82.73%
2007	\$6,033.86	\$1,024.29	\$5,009.57	\$5,664.64	103%	83.02%
2008	\$6,199.01	\$1,041.86	\$5,157.15	\$5,816.35	103%	83.19%
2009	\$6,338.50	\$1,068.07	\$5,270.43	\$6,001.99	103%	83.15%

Chart 2 Percentage of Spending

Year	Casket	Ops	Profit
1980	17.94%	68.33%	13.73%
1981	17.87%	68.96%	13.17%
1982	17.52%	69.57%	12.91%
1983	17.24%	71.51%	11.25%
1984	17.07%	71.76%	11.17%
1985	17.12%	71.93%	10.96%
1986	16.99%	72.87%	10.14%
1987	17.18%	72.73%	10.09%
1988	17.28%	72.85%	9.87%
1989	17.30%	73.74%	8.96%
1990	17.34%	73.97%	8.69%
1991	17.28%	74.07%	8.65%
1992	17.13%	74.17%	8.70%
1993	16.64%	72.03%	8.78%
1994	17.16%	73.59%	9.25%
1995	17.15%	73.46%	9.39%
1996	17.02%	73.72%	9.26%
1997	16.91%	73.62%	9.47%
1998	16.72%	74.36%	8.92%
1999	16.68%	74.08%	9.25%
2000	16.54%	74.82%	8.64%
2001	16.44%	75.48%	8.08%
2002	16.43%	75.94%	7.63%
2003	16.58%	76.39%	7.03%
2004	16.62%	76.99%	6.39%
2005	17.09%	77.38%	5.54%
2006	17.27%	77.09%	5.63%
2007	16.98%	76.91%	6.12%
2008	16.81%	77.02%	6.17%
2009	16.85%	77.84%	5.31%

Chart 3 Change in Percentage of Spending

Year	Adult Sale	Casket Increase	Ops Increase	Profit
1981	7.48%	7.06%	8.46%	3.11%
1982	7.53%	5.42%	8.48%	5.41%
1983	5.55%	3.87%	8.50%	-8.06%
1984	6.31%	5.26%	6.69%	5.54%
1985	5.55%	5.84%	5.79%	3.54%
1986	4.14%	3.37%	5.51%	-3.60%
1987	5.00%	6.15%	4.81%	4.50%
1988	3.01%	3.64%	3.18%	0.76%
1989	4.11%	4.23%	5.38%	-5.45%
1990	4.25%	4.46%	4.58%	1.07%
1991	8.00%	7.65%	8.14%	7.51%
1992	4.46%	3.57%	4.60%	4.99%
1993	6.98%	3.90%	3.89%	7.96%
1994	0.89%	4.06%	3.07%	6.34%
1995	4.95%	4.88%	4.77%	6.57%
1996	3.31%	2.52%	3.67%	1.89%
1997	3.88%	3.19%	3.75%	6.23%
1998	3.39%	2.25%	4.43%	-2.63%
1999	3.27%	3.01%	2.88%	7.04%
2000	2.82%	1.97%	3.86%	-3.96%
2001	3.22%	2.59%	4.12%	-3.44%
2002	3.26%	3.20%	3.90%	-2.54%
2003	3.14%	4.08%	3.74%	-4.92%
2004	2.58%	2.82%	3.39%	-6.80%
2005	2.94%	5.84%	3.46%	-10.77%
2006	3.04%	4.17%	2.66%	4.82%
2007	3.18%	1.40%	2.93%	12.10%
2008	2.74%	1.72%	2.89%	3.64%
2009	2.25%	2.52%	3.34%	-12.06%

Chart 4 Annual CPI Calculation

	Beginning of year	End of Year	Inflation Rate
1980	77.80	86.30	10.93%
1981	87.00	94.00	8.05%
1982	94.30	97.60	3.50%
1983	97.80	101.30	3.58%
1984	101.90	105.30	3.34%
1985	105.50	109.30	3.60%
1986	109.60	110.50	0.82%
1987	111.20	115.40	3.78%
1988	115.70	120.50	4.15%
1989	121.10	126.10	4.13%
1990	127.40	133.80	5.02%
1991	134.60	137.90	2.45%
1992	138.10	141.90	2.75%
1993	142.60	145.80	2.24%
1994	146.20	149.70	2.39%
1995	150.30	153.50	2.13%
1996	154.40	158.60	2.72%
1997	159.10	161.30	1.38%
1998	161.60	163.90	1.42%
1999	164.30	168.30	2.43%
2000	168.80	174.00	3.08%
2001	175.10	176.70	0.91%
2002	177.10	180.90	2.15%
2003	181.70	184.30	1.43%
2004	185.20	190.30	2.75%
2005	190.70	196.80	3.20%
2006	198.30	210.04	5.92%
2007	202.42	210.23	3.86%
2008	211.08	215.95	2.31%
2009	211.14	215.95	2.28%

Chart 5 Annual CPI Calculation

Year	Average Funeral	Assumed Profit	Profit as a % of Funeral
1981	\$2,085.66	\$ 266.47	12.78%
1981	\$2,085.66	\$ 295.31	14.16%
1982	\$2,242.65	\$ 317.69	14.17%
1983	\$2,367.17	\$ 329.17	13.91%
1984	\$2,516.63	\$ 352.48	14.01%
1985	\$2,656.22	\$ 369.35	13.90%
1986	\$2,766.26	\$ 379.53	13.72%
1987	\$2,904.64	\$ 401.81	13.83%
1988	\$2,992.19	\$ 406.08	13.57%
1989	\$3,115.17	\$ 427.27	13.72%
1990	\$3,247.46	\$ 446.00	13.73%
1991	\$3,507.19	\$ 499.00	14.23%
1992	\$3,663.49	\$ 504.15	13.76%
1993	\$3,919.17	\$ 552.36	14.09%
1994	\$3,954.09	\$ 525.56	13.29%
1995	\$4,149.86	\$ 573.78	13.83%
1996	\$4,287.14	\$ 583.48	13.61%
1997	\$4,453.59	\$ 609.51	13.69%
1998	\$4,604.66	\$ 627.21	13.62%
1999	\$4,755.34	\$ 646.98	13.61%
2000	\$4,889.43	\$ 662.31	13.55%
2001	\$5,046.65	\$ 686.24	13.60%
2002	\$5,211.21	\$ 708.92	13.60%
2003	\$5,374.67	\$ 730.28	13.59%
2004	\$5,513.16	\$ 745.03	13.51%
2005	\$5,675.49	\$ 769.72	13.56%
2006	\$5,847.80	\$ 793.79	13.57%
2007	\$ 6,033.86	\$ 820.21	13.59%
2008	\$ 6,199.01	\$ 839.03	13.53%
2009	\$ 6,338.50	\$ 853.84	13.47%

Chart 6 Annual Adjusted Overhead Calculation

Year	Assumed Profit	Casket and Overhead	Total Overhead
1980	\$266.47	\$1,674.13	\$1,940.60
1981	\$295.31	\$1,810.89	\$2,106.20
1982	\$317.69	\$1,953.02	\$2,270.71
1983	\$329.17	\$2,100.89	\$2,430.06
1984	\$352.48	\$2,235.59	\$2,588.07
1985	\$369.35	\$2,365.23	\$2,734.58
1986	\$379.53	\$2,485.74	\$2,865.27
1987	\$401.81	\$2,611.51	\$3,013.32
1988	\$406.08	\$2,696.82	\$3,102.90
1989	\$427.27	\$2,835.90	\$3,263.17
1990	\$446.00	\$2,965.19	\$3,411.19
1991	\$499.00	\$3,203.73	\$3,702.73
1992	\$504.15	\$3,344.90	\$3,849.05
1993	\$552.36	\$3,475.21	\$4,027.57
1994	\$525.56	\$3,588.34	\$4,113.90
1995	\$573.78	\$3,760.09	\$4,333.87
1996	\$583.48	\$3,890.02	\$4,473.50
1997	\$609.51	\$4,031.73	\$4,641.24
1998	\$627.21	\$4,193.88	\$4,821.09
1999	\$646.98	\$4,315.66	\$4,962.64
2000	\$662.31	\$4,467.15	\$5,129.46
2001	\$686.24	\$4,638.88	\$5,325.12
2002	\$708.92	\$4,813.81	\$5,522.73
2003	\$730.28	\$4,996.84	\$5,727.12
2004	\$745.03	\$5,161.01	\$5,906.04
2005	\$769.72	\$5,361.26	\$6,130.98
2006	\$793.79	\$5,518.42	\$6,312.21
2007	\$820.21	\$5,664.64	\$6,484.85
2008	\$839.03	\$5,816.35	\$6,655.38
2009	\$853.84	\$6,001.99	\$6,855.83

Chart 7 Funeral Service Inflation

	Total Overhead	FSI Rate
1980	\$1,940.60	
1981	\$2,106.20	8.53%
1982	\$2,270.71	7.81%
1983	\$2,430.06	7.02%
1984	\$2,588.07	6.50%
1985	\$2,734.58	5.66%
1986	\$2,865.27	4.78%
1987	\$3,013.32	5.17%
1988	\$3,102.90	2.97%
1989	\$3,263.17	5.17%
1990	\$3,411.19	4.54%
1991	\$3,702.73	8.55%
1992	\$3,849.05	3.95%
1993	\$4,027.57	4.64%
1994	\$4,113.90	2.14%
1995	\$4,333.87	5.35%
1996	\$4,473.50	3.22%
1997	\$4,641.24	3.75%
1998	\$4,821.09	3.88%
1999	\$4,962.64	2.94%
2000	\$5,129.46	3.36%
2001	\$5,325.12	3.81%
2002	\$5,522.73	3.71%
2003	\$5,727.12	3.70%
2004	\$5,906.04	3.12%
2005	\$6,130.98	3.81%
2006	\$6,312.21	2.96%
2007	\$6,484.85	2.73%
2008	\$6,655.38	2.63%
2009	\$6,855.83	3.01%

**Chart 7a Funeral Service Inflation For Burial Cases
Exclusively**

	FSI Rate	Casket Increase	Burial FSI
1981	8.53%		
1982	7.81%	-0.92%	6.89%
1983	7.02%	0.63%	7.65%
1984	6.50%	-0.76%	5.74%
1985	5.66%	-1.34%	4.33%
1986	4.78%	1.13%	5.91%
1987	5.17%	-1.65%	3.52%
1988	2.97%	0.86%	3.83%
1989	5.17%	0.27%	5.44%
1990	4.54%	0.04%	4.58%
1991	8.55%	-3.15%	5.39%
1992	3.95%	0.93%	4.88%
1993	4.64%	0.60%	5.24%
1994	2.14%	0.44%	2.58%
1995	5.35%	-0.38%	4.97%
1996	3.22%	1.98%	5.21%
1997	3.75%	1.31%	5.06%
1998	3.88%	2.25%	6.13%
1999	2.94%	1.49%	4.43%
2000	3.36%	2.53%	5.89%
2001	3.81%	1.91%	5.72%
2002	3.71%	1.30%	5.01%
2003	3.70%	0.42%	4.12%
2004	3.12%	2.18%	5.31%
2005	3.81%	-0.84%	2.97%
2006	2.96%	1.83%	4.79%
2007	2.73%	5.10%	7.84%
2008	2.63%	6.28%	8.91%
2009	3.01%	0.98%	4.00%

Chart 8 FSI to CPI Comparison

	FSI Simple	FSI Burial	CPI	FSI Simple Rate to CPI Rate	FSI Burial Rate to CPI Rate
1982	7.81%	6.89%	3.50%	223%	197%
1983	7.02%	7.65%	3.58%	196%	214%
1984	6.50%	5.74%	3.34%	195%	172%
1985	5.66%	4.33%	3.60%	157%	120%
1986	4.78%	5.91%	0.82%	582%	719%
1987	5.17%	3.52%	3.78%	137%	93%
1988	2.97%	3.83%	4.15%	72%	92%
1989	5.17%	5.44%	4.13%	125%	132%
1990	4.54%	4.58%	5.02%	90%	91%
1991	8.55%	5.39%	2.45%	349%	220%
1992	3.95%	4.88%	2.75%	144%	177%
1993	4.64%	5.24%	2.24%	207%	233%
1994	2.14%	2.58%	2.39%	90%	108%
1995	5.35%	4.97%	2.13%	251%	233%
1996	3.22%	5.21%	2.72%	118%	191%
1997	3.75%	5.06%	1.38%	271%	366%
1998	3.88%	6.13%	1.42%	272%	430%
1999	2.94%	4.43%	2.43%	121%	182%
2000	3.36%	5.89%	3.08%	109%	191%
2001	3.81%	5.72%	0.91%	417%	626%
2002	3.71%	5.01%	2.15%	173%	234%
2003	3.70%	4.12%	1.43%	259%	288%
2004	3.12%	5.31%	2.75%	113%	193%
2005	3.81%	2.97%	3.20%	119%	93%
2006	2.96%	4.79%	5.92%	50%	81%
2007	2.73%	7.84%	3.86%	71%	203%
2008	2.63%	8.91%	2.31%	114%	386%
2009	3.01%	4.00%	2.28%	132%	175%

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