The Great Debate: Trust vs. Insurance

Can You Have It All?

by Bill Williams, Jr. and Wendy Russell Wiener, Esq.

IN THE SPIRIT OF THE FAMOUS 1970s COMMERCIAL for Miller Lite beer in which comedian Rodney Dangerfield portrayed a baseball pitcher while the two teams yelled, "Less Filling!" and "Tastes Great!" at one another, this debate may end with you believing that your business can have it all.

You have a pre-need sales program or are starting a new one. What funding method should you offer your clients: trust or insurance? Which one is easier to administer? Which one is easier on your clients? Which one will make you more money now? Which will make you more money overall? How do you select which one is better for your firm?

Fear not! What follows is a point-by-point comparison of what is important when choosing a funding method. Throughout the article, we will keep score on which method is better.

Licensure

Nearly every state requires that the facility and the pre-need salespeople hold licenses to sell pre-need contracts. That statement is true no matter which method you choose to fund the pre-need contracts sold. But if you intend to fund pre-need sales with insurance policies, you must additionally license your facility as an insurance agency as well as those who will sell insurance policies as insurance agents.

While it is relatively simple to obtain an insurance agency license, securing an insurance agent license is less so and can take several months due to the extensive course work and exam each prospective agent must pass.

Score—Trust: 1, Insurance: 0

The Sale

Qualification of the Insured

A shortcoming of insurance funding is that the insured must prepare and provide an application for insurance that contains questions relating to the age and health of the insured. Though the answers to those questions will not prevent an insured from securing the insurance to fund the pre-need contract, the responses will drive the premiums paid by the insured. In some cases, the insured may not qualify for certain types of coverage.

On the other hand, pre-need sellers who offer trust-funded contracts will argue it is much easier and cost-effective for the consumer to purchase this type of contract because there are no qualifications to be met. They are not wrong, as consumers purchasing trust-funded pre-need contracts need not provide personal health information; and the price does not vary from consumer-to-consumer.

Consumer Spend/Cash Flow to Pre-need Seller

As mentioned above, the amount the consumer must pay for the pre-need contract can differ between individuals purchasing insurance-funded pre-need; but how does that impact the pre-need seller?

A consumer who buys a single-pay contract will pay the pre-need contract amount and no more. If funded by trust, the payment is to the pre-need seller, with the required percentage to be deposited into trust. If funded by insurance, the payment is to the insurance company.

A consumer who buys a multi-pay contract will pay some amount greater than the pre-need contract amount. If funded by insurance, all funds are paid to the insurer. If funded by trust, the amount greater than the pre-need contract amount is retained by the pre-need seller. That amount can comprise a guarantee fee, a processing fee, a membership fee, or service/finance charges. Therefore, the pre-need seller can retain more funds by using trust to fund its pre-need program.

Score—Trust: 2, Insurance: 0

Commissions

Proponents of the insurance funding method are feeling a little better now that we've arrived at a favorite bragging point of theirs: insurance-funded sales generate commission dollars for the pre-need seller. Those commissions pay the pre-need seller's sales force without requiring the seller to dig into its account to do so. And for sellers in states that require 100 percent trusting, a seller using the trust funding method must use funds not generated by pre-need sales to pay commissions.

Score—Trust: 2, Insurance: 1

Application of Consumer Payments

Sellers of trust-funded pre-need contracts can, in most states, establish in the contract how to allocate consumer payments, providing greater flexibility in cash flow for the pre-need seller. In other words, if the sale includes merchandise—where merchandise must be trusted at a lower percentage than services—the trust-funded contract can allocate funds first to merchandise, permitting the seller to retain more money early in the contract's payment cycle.

Insurance-funded contracts require insurance premium payments to the insurer, thus having no positive financial impact on the seller.

Score—Trust: 3, Insurance: 1

Product Performance

Neither funding method guarantees rates of return to the pre-need seller. Insurance policies, however, have returned a lower rate when compared to trust over the last 10 years. Between the start of 2010 and 2020, trust funding has returned roughly 6 percent per year on investments, while insurance policies have grown by 2 percent or less per year. That said, the funds received by a seller upon fulfillment of an insurance-funded pre-need contract include, in some cases, significant commission dollars, closing the gap between trust and insurance-funded pre-need contract performance to some degree. Spoiler alert: Later in the article we compare the methods on a dollar-for-dollar basis.

Score—Trust: 4, Insurance: 1

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Fulfillments, Cancellations & Defaults

Fulfillments

Assuming the consumer has paid the contract in full, either to the seller in the trust-funded context or to the insurer in the insurance-funded context, then the full "benefit" is available to the seller at fulfillment. The seller receiving funds from trust, in most states, can retain all funds received. Sellers receiving an insurance death benefit must often return any amount in excess of the seller's *current* prices to the estate or family of the insured.

However, in a scenario in which the purchaser failed to make all payments before the death of the beneficiary, those selling insurance often come out ahead, as some policies pay the full death benefit even when all premium payments have not been made. On this subtopic, the point goes to INSURANCE. But read on.

Cancellations

Though both types of pre-need contracts are portable—meaning, in most states, they can be transferred from one firm to another—trust gets the upper hand in a contract cancellation situation. A seller of trust-funded pre-need can often receive a financial benefit, in the form of trust earnings, upon a contract cancellation. Many states permit a seller to retain either trust earnings or a cancellation fee when a trust-funded pre-need contract is cancelled by the consumer. Neither of these is available to the seller with insurance-funded pre-need contracts. Subtopic point goes to TRUST.

Defaults

As with cancellations, many states permit a seller to retain trust earnings or some portion of funds paid for a trust-funded pre-need contract as liquidated damages in the event of a default by the contract purchaser. No such benefit is received by a seller of insurance-funded contracts; and in some cases, the seller could suffer a commission chargeback. Subtopic point, again, goes to TRUST.

Final Score—Trust: 5, Insurance: 1

Considerations

At this point, you might think we believe all sellers should fund with trust alone. However, there are important considerations to keep in mind when choosing a funding method.

Sales Force

Sellers who do not want to employ their own in-house sales force may prefer insurance funding. An insurance-funded pre-need sales program often comes to the seller readymade and includes state-approved contracts, policies, and a knowledgeable sales force prepared to sell effectively on day one. A trust-funded sales program, however, requires the seller to retain a trustee, investment manager, and record keeper.

In addition, the seller must prepare and obtain approval for a trust agreement and pre-need contracts, all of which may all be provided under a single umbrella when these providers partner together. Typically, trust sales teams are employed by the seller, which comes with costs to the seller/employer.

Cash Flow

Cash flow, the all-important driver of so many decisions a firm makes every day, also drives the decision for your preferred funding method. Because of the capacity to receive commissions from a third party, the insurance company, those sellers who need cash today will lean toward insurance funding. Conversely, those who can wait will enjoy more cash on a per-sale basis tomorrow if they utilize trust funding.

$ for $ Comparison

On a single-pay contract, purchased in January 2010 and fulfilled in January 2020, here's how the products compare. Assuming a sales price of $7,550, a guarantee fee, processing fee, and membership fee charged and retained by the trust seller, growth of the product, commissions paid by the trust seller of 6 percent and paid to the insurance seller of 12 percent, the trust seller receives at fulfillment just short of $1,700 more than the insurance seller. *See Figure 1.*

On a multi-pay contract over the same term, same fees, same growth rates, commissions paid by the trust seller of 4 percent and received by the insurance seller of 25 percent, the trust seller receives, at fulfillment, approximately $1,500 more than the insurance seller. *See Figure 2.*

On the dollars, the takeaways are these:

- If cash at the time of sale and throughout the life of the contract is important, then insurance funding is the way to go.
- But, as you can see, if you can sell today and receive the benefit later (the average life of a pre-need contract is just greater than seven years), then trust funding will yield a better return.

What matters is to determine which funding is right for you, and the answer may be both types.

Now that you are armed with the tools to make a meaningful comparison, get selling! ◼

Figure 1: Single-Pay Contract

Single Pay / 10 Year Contract	Contract	Trust: Cash Flow at Sale	Trust: Cash Flow Between Sale and Fulfillment	Trust: Cash Flow at Fulfillment	Insurance: Cash Flow at Sale	Insurance: Cash Flow Between Sale and Fulfillment	Insurance: Cash Flow at Fulfillment
MSC (Trust Requirement 100%)	7,550.00	-	-	7,550.00	-	-	7,550.00
Guarantee Fee	100.00	100.00	-	-	-	-	100.00
Processing Fee	250.00	250.00	-	-	-	-	250.00
Membership Fee	100.00	100.00	-	-	-	-	100.00
Service Charges	-	-	-	-	-	-	-
Trust Earnings (6.026% Avg per Year)	-		-	6,004.10	-	-	-
Insurance Growth	-		-	-	-	-	1,603.24
Trust Management Fees (1.5%)				(1,284.33)			
Commission (6.00%)		(480.00)					
Commission (12.00%)	-	-	-	-	972.48	-	-
Totals	8,000.00	(30.00)	-	12,269.77	972.48	-	9,603.24
			Total Dollars Generated by Sale	12,239.77	10,575.72		
				1,664.05	More from Trust		

Figure 2: Multi-Pay Contract

36 Month Pay / 10 Year Contract / 0 Down	Contract	Trust: Cash Flow at Sale	Trust: Cash Flow Between Sale and Fulfillment	Trust: Cash Flow at Fulfillment	Insurance: Cash Flow at Sale	Insurance: Cash Flow Between Sale and Fulfillment	Insurance: Cash Flow at Fulfillment
MSC (Trust Requirement 100%)	7,550.00	-	-	7,550.00	-	-	7,550.00
Guarantee Fee	100.00	100.00	-	-	-	-	100.00
Processing Fee	250.00	250.00	-	-	-	-	250.00
Membership Fee	100.00	100.00	-	-	-	-	100.00
Service Charges (8.00%)	-	-	1,024.87	-	-	-	-
Trust Earnings (6.026% Avg per Year)	-	-	-	5,529.42	-	-	
Insurance Growth	-	-	-	-	-	-	1,603.24
Trust Management Fees (1.5%)				(1,087.12)			
Commission (4.00%)		(320.00)					
Commission (25.00%)	-	-	-	-	2,026.00	-	-
Totals	8,000.00	130.00	1,024.87	11,992.30	2,026.00	-	9,603.24
			Total Dollars Generated by Sale	13,147.17	11,629.24		
				1,517.93	More from Trust		

How Can You Have It All?

Recall that we promised you might be able to have it all? Well, you can. Many firms create a pre-need sales program that offers both trust and insurance-funded pre-need sales depending on the contract beneficiary or insured. It's important to note an unhealthy individual is not a good candidate for an insurance-funded contract as the premiums will be higher, the benefits will be lower, and the commissions will not be as great.

However, that same person can purchase a trust-funded contract without all the questions and strings attached. And, a sale to a healthy individual buying a multi-pay insurance-funded contract can result in a significant commission paid to the firm over time.

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