



STATE OF IOWA

TERRY E. BRANSTAD
GOVERNOR

NICK GERHART
COMMISSIONER OF INSURANCE

KIM REYNOLDS
LT. GOVERNOR

March 19, 2013

Representative Kevin Koester, Chair
Government Oversight Committee
3514 S.W. Edgewood Lane
Ankeny, Iowa 50023-9565

Senator Janet Petersen, Chair
Government Oversight Committee
4300 Beaver Hills Drive
Des Moines, Iowa 50310

Re: Amended Annual Report regarding regulation of preneed funeral
and cemetery sellers and perpetual care cemeteries

Dear Representative Koester and Senator Petersen:

The death care industry has been impacted financially by a number of trends in funeral and burial practices that are worthy of note. The rate of deaths in our population has been negatively impacted by longer life spans. At the same time that the industry has been faced with fewer funerals and burials than anticipated, the revenue received by a funeral home or cemetery at the time of a death has declined. In some cases, a cemetery is not even utilized.

The average cost of a funeral, nationally, is around \$4,877.00. In contrast, the average cost of a direct cremation, nationally, is around \$1,816.00. This is significant, because forty-two percent (42%) of the deaths in the United States in 2011 involved cremation. The number continues to rise. Alternative methods of disposition have created less-expensive options for consumers. While this is good for consumers, it has placed financial stress on funeral homes and cemeteries.

Funeral homes have seen a narrowing of profit margins and less-predictable cash flow in an industry that has always suffered from unpredictable cash flow. The industry will attempt to retain higher profit margins by offering various services, but it is likely that the average profit per death for funeral homes and cemeteries will continue to decline.

Therefore, additional consolidation and mergers are likely in the industry. This, and other methods of reducing and spreading overhead costs, is to be expected in the industry. However, the benefits of consolidation and mergers in the cemetery industry are less dramatic and harder to achieve. So, the regulatory need to conduct examinations and financial oversight, to guard against financial malfeasance, is likely to hold steady or increase.

Since July 1, 2005, all new cemeteries commencing business in Iowa must be formed as perpetual care cemeteries. Perpetual care cemeteries must establish a \$25,000 initial trust fund and deposit 20% of their revenue from the sale of interment spaces. Although the principal may not be withdrawn, the trust fund creates an ongoing source of revenue that will continue even after revenue from operations ceases.

The Division is currently working on new administrative rules that will encourage perpetual care cemeteries to adopt better long-term investment practices and, as a result, increase current cash flow from these perpetual care trust funds. Although the new practices will be optional, we believe many perpetual care cemeteries will take advantage of the opportunity.

Cemeteries will continue to struggle to pay for their ongoing costs of mowing, trimming, roadway maintenance and other customary and basic cemetery expenses. Most cemeteries in Iowa are non-perpetual care cemeteries and have no ongoing source of revenue to pay such expenses if revenue from operations is inadequate or the cemetery is no longer operating and does not have any revenue from operations. This has led to neglected and, sometimes, abandoned cemeteries.

Although the problem of neglected and abandoned cemeteries is clear; a consensus on how to address the issues does not exist at this time. We may be approaching the point where creation of a statutory funding system should be considered for non-perpetual care cemeteries.

Preneed sellers and perpetual care cemeteries are subject to a five-year examination cycle. We recommend retention of this requirement and further development of the resources necessary to conduct meaningful examinations that are likely to discover any financial irregularities.

Please let me know if you have any questions.

Sincerely,



Nick Gerhart
Commissioner of Insurance

Copies to: Deb Kozel (Deb.Kozel@legis.iowa.gov)

Jim Mumford, First Deputy Insurance Commissioner

Dennis Britson, Director, Regulated Industries Unit