# Total Return Method

## For Perpetual Care Trusts

**Why is the Total Return Method a better option?**

The total return method allows for creation of broader diversification (which can reduce volatility and spread market risk) by owning various asset classes, market capitalizations (large, mid, small) and investment styles (value, growth). Perpetual care is a marathon, not a sprint. It is "perpetual care" not "next year's" care. It is crucial to be prudent to protect the cemetery and the consumers utilizing it.

**How does the Total Return Method differ from the current Net Income Method?**

The total return method allows distribution to cemeteries in the form of a percentage of total market value. It allows for no less than 3 percent and no more than 5 percent. The net income method only distributes interest and dividends, and so forces asset allocation into certain types of investments, which may be less desirable.

**What are safeguards to protect consumers and the public in a downturn?**

- A rolling average for distributions keeps trustees from distributing excessively high amounts in good years or low amounts in bad years. It evens the playing field.
- Built in protections require the cemetery to temporarily revert back to net income method if facts warrant such a move.
- The Office of Cemetery Oversight reviews each cemetery's annual report to ensure funds are protected and growing for the life of the cemetery.

**Are other states utilizing the Total Return Method?**

Yes: Arizona, Colorado, Delaware, Florida, Georgia, Indiana, Iowa, Missouri, Nevada, North Carolina, Oklahoma, Tennessee, Texas, Virginia and Washington have passed into law the total return statutes applicable to Cemetery Perpetual Care Trusts or have unitrust provisions. California has passed legislation that will become effective in 2021. Several other states are reviewing it.

**What are benefits of Total Return Method?**

- Total return method has historically produced 2 to 4 percent greater than net income method.
- Allows for higher and more sustainable distributions to the cemetery to be utilized for the care and maintenance of the cemetery pursuant to Maryland Statute 5-603(e). ALL distributed funds must be used for the perpetual care of the cemetery.
- Principal can grow at a greater rate than net income method.
- Reflects exactly how much funds will be available, in advance, which is key for budgeting and planning purposes for the cemetery.

**Why should the change be made now?**

The total return method provides a <u>sustainable</u> and <u>stable</u> cash flow allowing cemeteries to make future financial decisions efficiently to serve the consumer. This should be an option. It is not mandatory. The individual cemeteries can choose what option best fits their specific needs

Perpetual Care Trusts are created to ensure cemeteries remain properly maintained, attractive and safe for consumers into perpetuity. A percentage of each burial plot sale funds them.

Historically, once funded corporate trustees invest under Prudent Person Rule to seek income while preserving capital to support net income distributions. The current low interest environment does not support perpetual care trusts with net income method.

The net income method yields lower total rate of return which results in lack of funds to maintain cemetery (i.e. mowing grass, planting flowers, trimming trees, paving roads, etc.)

Perpetual care trust accounts are not generating enough funds to maintain the cemetery and build a nest egg for unpredictable maintenance costs.

This causes consumer concern and complaints. It also results in cemeteries being turned over to municipalities and states because of insufficient funds to continue maintaining them. Taxpayer money is then thwarted.

A MORE VIABLE OPTION IS THE TOTAL RETURN METHOD.