Why Low Interest Rates Are Hurting Cemetery Owners

Cemetery trusts have been dependable sources of maintenance income for cemetery owners, but an extended period of low interest rates has put the squeeze on returns.

A decade of historically low interest rates has been a boon to borrowers but disastrous for many owners of the nation's 50,000 active cemeteries. They depend upon investment income from endowment care trusts to pay for care and maintenance, since most states prohibit cemeteries from invading the principal of an endowment care trust.

But interest rates have fallen over the last quarter century, resulting in lower returns for interest-generating investments held in cemetery trusts. Meanwhile, as income has plummeted, maintenance costs have increased, leaving cemetery owners scrambling to stay afloat.

"There may be millions of dollars in an endowment, but the cemetery owners are left with only this thin little income stream trickling out because so much of what's in the fund is either original investment or capital gains," says **Robert M. Fells, Executive Director of the International Cemetery, Cremation and Funeral Association**, based in Sterling, Virginia.

In response, cemeteries are searching for alternatives to the traditional fixed-income investment portfolio strategies that have supported the care and maintenance of their property.

Two primary strategies are gaining momentum: The first, a total-return approach, allows cemetery owners to spend a fixed percentage of their endowments' overall value each year, rather than being restricted to investment income. The second strategy, a reconsideration of capital gains, involves counting the sale of equity investments, including stocks, as income rather than as additional funds to an endowment's principal.

Both philosophies promise to ease the cash crunch for cemetery owners. But there's a catch: Both approaches require favorable state laws. Since 2009, Tennessee, Iowa, Missouri, Oklahoma and Florida have modified their statutes so cemeteries can adopt the total-return approach, and more states are likely to follow. And the capital-gains-as-income approach is also permitted in only a handful of states.

(Since the creation of this article, six additional states have adopted Total Return legislations: Arizona, Colorado, Georgia, Nevada, Texas, and Virginia.)

The relaxation of state statutes is definitely a trend. "But it's still just the beginning of a trend," says **David Falconer, Funeral and Cemetery Trust Manager at Regions**.

The shifting regulatory environment creates opportunities, but it also creates complexities that many cemetery owners may not be equipped to handle.

"It can be very challenging for a cemetery owner to keep up with what's going on right now on a state-by-state basis and see all the trends," he says.

New Challenges for a Traditional Strategy

Traditionally, investments such as bonds and CDs had three things working in their favor: They were secure, paid a predictable income, and provided accessible income to cemeteries. As a result, portfolios heavily weighted toward fixed-income investments became a default strategy for cemeteries. Though falling interest rates put a squeeze on cemetery owners, the system worked well until the Great Recession.

Following the housing crisis of 2008, interest rates plummeted to historic lows and have remained there for nearly a decade. Coupons on 10-year Treasury bonds were higher than 4 percent before the recession; they currently sit at about 2.5 percent and have dipped below 2 percent during the 2010s. As a result, fixed-income investments haven't produced as much income as they once did. As the lean years have compounded, cemeteries have felt the pinch.

A Reconsidered Approach

Although interest rates are rising, it's probably not quickly enough to ease the burden on cemeteries, Falconer says.

"Incremental near-term rate increases won't be enough to really move the needle," Falconer says. "Cemetery owners are still stuck in the same spot, and with maintenance costs going up, they're looking for a way to manage this pool of money in a different fashion."

Falconer suggests consulting a financial advisor to assess the regulatory environment in your state, including statutory changes that may be on the horizon. In states that allow either total return or the capital-gains-as-income consideration, you may be able to make fundamental changes to how you manage your finances.

Depending on the state environment, your income could be exponentially more than today. "It frees up operating funds so that you can focus on marketing, recruiting, hiring, and growing the businesses," he says.

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