

## THE DEATHCARE INDUSTRY

### Background

The term “deathcare industry” refers to the array of providers of funeral and burial goods and services, such as funeral directors, cemeterians, and third-party sellers. This Issue Brief provides an overview of the changing deathcare industry.

The deathcare industry is currently undergoing a major transformation. Historically, it has been fragmented, with limited overlap among various segments of the funeral and burial industries. Funeral homes and funeral directors sold funeral merchandise and services. Cemeterians sold burial merchandise and services. Cemeterians and monument/memorial dealers sold monuments and memorials. A funeral home or cemetery generally arranged cremation services, and independent florists sold flowers.

Today, such distinctions are diminishing. The industry is consolidating. Large chains are buying and managing locally owned funeral homes and cemeteries. Many nonprofit cemeteries are now owned

by, managed by, or otherwise affiliated with for-profit chains.

The growth of preneed sales has been a catalyst for much of the change that has occurred in recent decades. In the past, when nearly all funerals and burials were arranged upon death and survivors went to their local funeral homes and cemeteries at the time of need, little competition existed within the industry. Today, a growing number of consumers who purchase funeral and burial goods and services have shopped around in advance at casket stores or over the Internet, particularly for expensive items such as caskets. According to an AARP survey,<sup>1</sup> 18 percent of persons who had planned or arranged for a funeral had contacted more than one funeral home.

### The Industry Today

Currently, in the United States, there are:

- more than 22,000 funeral homes;<sup>2</sup>

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<sup>1</sup> AARP. (1999). *Funeral and Burial Planners Survey*. D16998.

<sup>2</sup> International Cemetery and Funeral Association. Comments submitted to the FTC (in review of the FTC Funeral Rule Review). August 1999.

- more than 115,000 cemeteries;<sup>3</sup>
- approximately 1,155 crematories;<sup>4</sup> and
- an estimated 300 casket stores (neither funeral homes nor cemeteries).<sup>5</sup>

The nation's funeral homes and cemeteries represent a \$12 billion industry, performing nearly two million funerals and burials per year.<sup>6</sup> The average cost of a funeral, burial and monument is \$7,520.<sup>7</sup>

Increasingly, funeral directors provide goods and services once exclusive to cemeterians. Similarly, cemeterians sell items that were once exclusive to the funeral industry. It is estimated that there are approximately 1,000 combination funeral home/cemetery operations in the deathcare industry.<sup>8</sup> The number of casket sellers is increasing, although the increase is limited to those states that allow individuals

other than funeral directors and cemeterians to sell caskets.

According to the National Center for Health Statistics, 2.3 million deaths occurred in 1998<sup>9</sup> in the United States. The death rate in that year was 8.6 (per 1,000 total population),<sup>10</sup> and is expected to rise at a rate of about 1 percent annually.<sup>11</sup> The projected increase in national death rates, although slowed by better health care and increased life expectancies, has been a factor in an increased interest in the deathcare industry by investors, large chains, and third-party sellers.

### Increase in Cremation Rates

As Figure 1 shows, the number of cremations has increased over the past six years, while the number of traditional funeral and burial arrangements has remained relatively constant. According to an industry report,<sup>12</sup> consumers choose cremation because it: saves money (25%); saves land (17%); is simpler (13%);

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<sup>3</sup> United States Geological Survey. Presented by Chair Grassley at Senate Special Committee on Aging hearing regarding funeral and burial industries. April 2000.

<sup>4</sup> Ibid.

<sup>5</sup> Casket Retailers Association Newsletter. April, 1999.

<sup>6</sup> Senate Special Committee on Aging. Presented by Chair Grassley. Funeral and burial industry hearing. April 2000.

<sup>7</sup> Ibid.

<sup>8</sup> National Funeral Directors Association. Comments submitted to the FTC (in review of the FTC Funeral Rule Review). August 1999.

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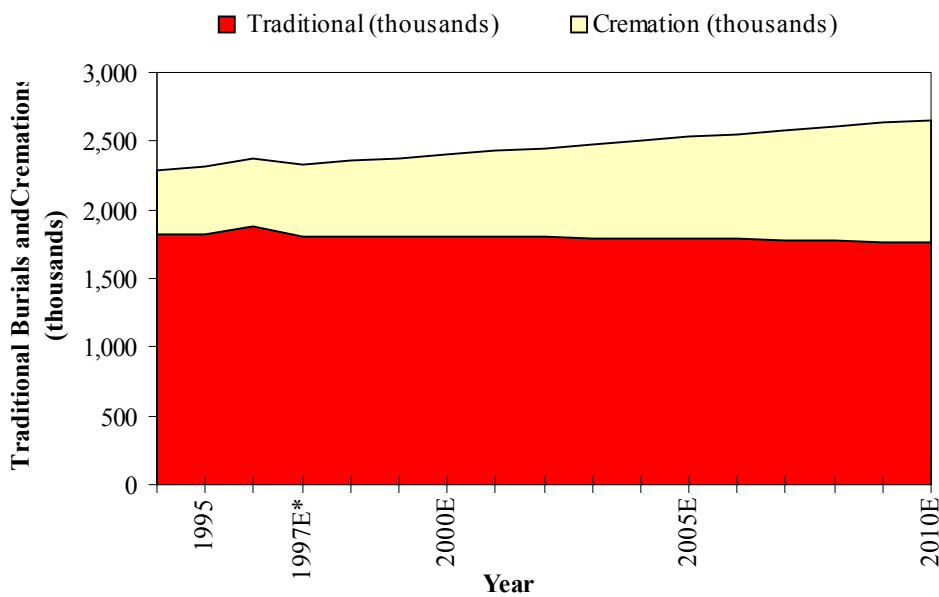
<sup>9</sup> U. S. Department of Health and Human Services. National Center for Health Statistics. (1999). *National Vital Statistics Report: Births, Marriages, Divorces, and Deaths*. Vol. 47, No. 21.

<sup>10</sup> Ibid.

<sup>11</sup> Conning Insurance Research Publications. Strategic Study Services. (1998). *Preneed Insurance: A Business to Die For?*

<sup>12</sup> The Wirthlin Group. *1995 Study of American Attitudes Toward Ritualization and Memorialization*.

**Figure 1: Increase in the Number of Cremations  
(1994-2010)\***



\*E = Estimated for 1997 and beyond, an annual increase of 1.0% in the number of deaths is assumed, as projected by the Bureau of Census.

Source: U.S. Department of Commerce, et. al., estimates

Prepared by AARP Public Policy Institute

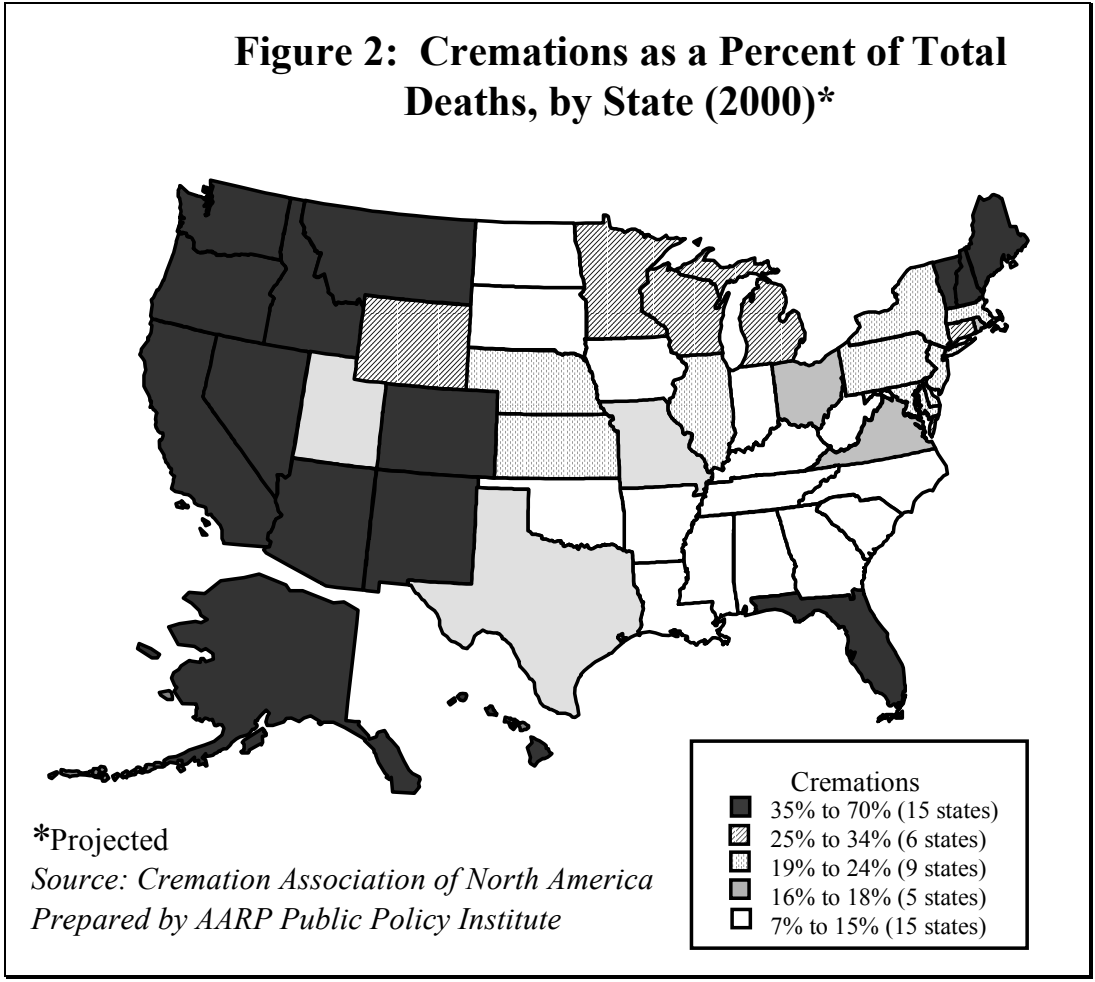
and prevents the body from being in the earth (11%).

Nationally, cremations represent 26 percent of total deaths.<sup>13</sup> Cremation rates vary significantly by state (Figure 2), ranging from 61% (Hawaii) to 7% (Mississippi and West

Virginia). Regionally, western states have the highest cremation rates and southeastern states (the exception being Florida) the lowest.

<sup>13</sup> Cremation Association of North America. *Cremation Statistics — United States*. <<http://www.cremation.org/stats.shtml>>

**Figure 2: Cremations as a Percent of Total Deaths, by State (2000)\***



Traditionally, direct cremation offered few options. As the number of cremations has grown, the available options have increased and resulted in greater competition among the various industry segments. Also, the number of crematories has grown. Many crematories have begun to market their services independently. The cemetery industry has responded to the increase in the number of cremations with the creation of “scattering gardens.”

Increase in Preneed Arrangements

The preneed concept was originated by burial organizations that sold burial certificate plans in the 1930s.<sup>14</sup> During the 1950s, funeral directors began selling prearrangements. Selling cemetery lots ahead of time is a long-standing tradition, but the preneed funeral market has increased

<sup>14</sup> Conning Insurance Research Publications. Strategic Study Services. (1998). *Preneed Insurance: A Business to Die For?*

significantly in the last 15 years, particularly among chains.<sup>15</sup> In a recent AARP survey,<sup>16</sup> two in five persons age 50 and older reported that they had been contacted about the advance purchase of funerals (43%) or of burial goods and services (39%).

In addition to the active promotion of preneed arrangements by chains, overcapacity of funeral homes relative to the number of deaths and concern for Medicaid eligibility (sheltering appropriate assets for funeral expenses) have influenced the increase in the purchase of preneed goods and services.<sup>17</sup>

Currently, the amount of trust funds held pursuant to preneed agreements exceeds \$25 billion.<sup>18</sup> The amount of other funding mechanisms, such as warehousing, surety bonds, and insurance policies, is unknown.

## Consolidation of the Deathcare Industry

Like many other industries, the deathcare industry has experienced attempts to increase the profitability of corporate ownership of properties through the use of economies of scale (such as sharing personnel and equipment among properties, and reducing the cost of goods sold through negotiated discounts for large purchasers). Figure 3 shows that the five largest funeral home chains accounted for 2.8% of the market share in 1991; by 1996 this share had grown to 17.6%.

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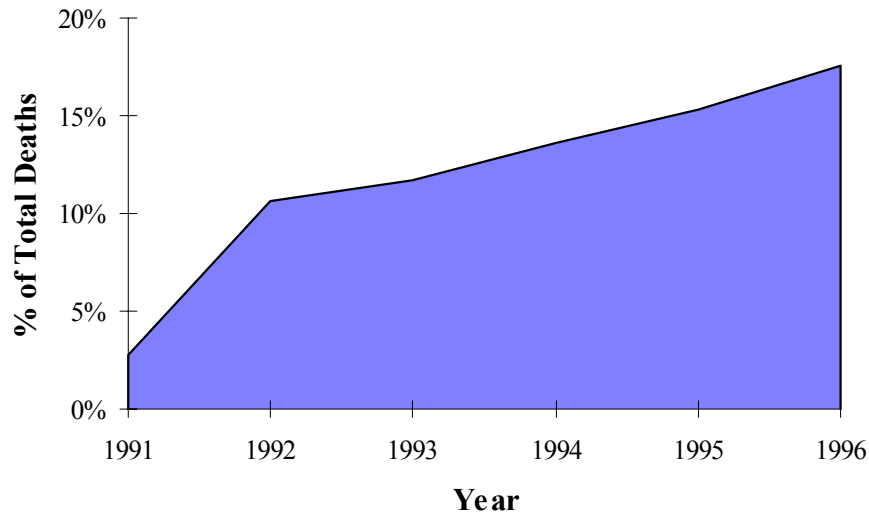
<sup>15</sup> Carlson, L. (1998). *Caring for the Dead: Your Final Act of Love*.

<sup>16</sup> AARP. (1999). *Older Americans and Preneed Funeral and Burial Arrangements: Findings from a 1998 National Telephone Survey*. Results reported in this publication are from a telephone survey of 620 respondents age 50 and older conducted in September 1998.

<sup>17</sup> Federal law requires individuals to deplete their financial assets before they qualify for medical assistance (i.e., Medicaid). With increased longevity and dramatic growth in nursing home costs, individuals have begun to use preneed agreements to meet one of the exemptions for Medicaid eligibility. A very large percentage of these prearranged funeral agreements are structured as irrevocable contracts.

<sup>18</sup> "Committee on Aging Sics GAO on Preneed," *Preneed Perspective*, Vol 5, Issue 11, Nov 1998.

**Figure 3: Five Largest Chains: Increase in Market Share (1991 to 1996)**



*Source: Conning Insurance Research Publications, 1998  
Prepared by AARP Public Policy Institute*

### Increase in Large Chains

Currently:

- the five largest funeral home chains account for approximately 18 percent of all funerals in the United States, and at least 20 percent of the annual revenues generated by the industry;<sup>19</sup> and
- the U.S. holdings of the four largest chains are approximately 3,100 funeral homes and 1,080 cemeteries.<sup>20</sup>

<sup>19</sup> International Cemetery and Funeral Association. Comments submitted to the FTC (in review of the FTC Funeral Rule Review). August 1999.

<sup>20</sup> Ibid.

The extent and benefit of the economies of scale of large chains, when balanced against increased administrative expenses, are the subject of some debate, especially with the recent Chapter 11 filing by one of the largest funeral home chains.<sup>21</sup>

### Diminishing Distinction between For-Profit and Nonprofit

Funeral homes are nearly all for-profit businesses, as are third-party

<sup>21</sup> *In re Loewen Group International, Incorporated*, 99-1244 (Bankr. Del. Filed June 1, 1999).

sellers. Of the more than 100,000 cemeteries, the vast majority are nonprofit.<sup>22</sup> Nonprofit cemeteries include military, religious, municipal and fraternal cemeteries. Many nonprofits are small and/or inactive.

However, the distinction between for-profit and nonprofit is increasingly blurred. Many for-profit businesses have arrangements and/or affiliations with nonprofit cemeteries. Some chains have established a nonprofit corporation as the titular owner of the cemetery to meet statutory requirements.<sup>23</sup> For example, in Oklahoma, all cemeteries are required to be nonprofit, and yet at least 25 are owned by a for-profit chain.<sup>24</sup>

### Federal and State Oversight

*Federal Oversight.* The Federal Trade Commission's (FTC) Funeral Rule requires disclosure of price information by businesses that provide both funeral goods *and* services. If a business sells only services (cremations, for example) or only goods (such as caskets or grave

markers), it is not covered by the Rule.

There are no federal minimum standards for preneed funeral and burial contracts, nor is there a federal requirement for full disclosure of preneed contract terms and conditions.

The FTC is currently reviewing the Funeral Rule. In light of the diminishing distinctions between funeral and burial industries, as well as the increase in third-party sellers, the FTC is considering the application of the Funeral Rule to cemeteries and third-party sellers.

*State Oversight.* Because of the traditional industry segmentation, state regulation of the death care industry is a patchwork of various laws with responsibility for enforcement spread across multiple state agencies, commissions, and boards. As the distinctions among industry segments have eroded and concerns about regulatory gaps have increased, some states have attempted to coordinate or merge the regulations of various departments that regulate funeral homes, cemeteries and third-party sellers, and preneed goods.

Eighteen states (Arizona, Florida, Georgia, Maine, Minnesota, Nevada, New Jersey, North Dakota, Oregon,

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<sup>22</sup> International Cemetery and Funeral Association. Comments submitted to the FTC (in review of the FTC Funeral Rule Review). August 1999.

<sup>23</sup> Carlson, L. (1998). *Caring for the Dead: Your Final Act of Love*.

<sup>24</sup> Funeral and Memorial Society of America. Comments submitted to the FTC (in review of the FTC Funeral Rule Review). August 1999.

Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, and Wisconsin) have adopted the Funeral Rule in whole or in part, either by reference or verbatim.<sup>25</sup>

In addition to adopting the Funeral Rule, states have addressed issues including the: 1) disclosure of the ownership of the business on advertisements for funeral and burial services; 2) assurance of income for perpetual care of cemeteries; 3) provision of adequate authority and funds for state enforcement agencies to do periodic audits and investigation of complaints; and 4) prohibition of unfair fees by cemeteries associated with the purchasing of goods from third-party sellers.

Moreover, the mobility of society and the increase in preneed agreements have caused states to examine the issue of “portability,” that is, whether merchandise and services can be delivered to or provided in a different location from the point of the initial purchase. Although most individuals will still have a funeral service and burial in only one place, individuals may choose to transport the body or cremains to another state. Some state

laws do not protect consumers who purchase a preneed contract and want to transfer the contract to a funeral home in another state.

States with preneed regulations have generally addressed: 1) licensure requirements for sellers of preneed goods and services; 2) requirements for placing funds in trust; 3) contract provisions and cancellation requirements; and 4) consumer protection recovery funds. These regulations vary in scope, approach, and requirements.<sup>26</sup>

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<sup>25</sup> Funeral and Memorial Society of America. Comments submitted to the FTC (in review of the FTC Funeral Rule Review). August 1999.

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<sup>26</sup> AARP. (1999). *Preneed Funeral and Burial Agreements*. Public Policy Institute Fact Sheet Number 76.