

Insurance companies and funeral homes often tout the benefits of the pre-paid plans they sell. They urge customers to pay for their own funeral in advance—in order to spare their survivors the trouble and expense, lock in current prices, or shelter their assets from Medicaid. The truth is that it is usually not wise to pay ahead. No matter how attractive the business makes it sound, there are serious drawbacks to pre-paying that the seller will not tell you about. The children and survivors of those who have prepaid often misunderstand the contracts, are unaware of them, or find themselves surprised that there are additional fees to be paid. In addition, many states have inadequate laws protecting funds in pre-need plans, and money invested there could be at risk. Unless Medicaid requires you to “spend down” your own money to qualify for benefits, you’re better off planning ahead without paying ahead.

### Typical pre-need plans

#### □ Insurance plans

**Pre-need insurance** is a whole-life policy offered by funeral providers, with installments paid to an intermediary insurance company. In some states, you must name the funeral home director as the beneficiary; other states forbid it. The insurance company pays the death benefit immediately, unlike with regular life insurance. In contrast, **burial insurance** is usually a term-life insurance policy paid to a named beneficiary, who can use the death benefits in any manner he or she chooses.

Insurance policies are generally more portable than other pre-paid funds if you move to another area, but they rarely disburse more than was paid in premiums. In most cases, you will spend as much **or more** in premiums than the policy will actually pay out at the time of your death. Why make your money worth less by converting it into insurance?

#### □ Regulated trust plans

With a funeral trust plan, you sign a contract and pay the funeral home the cost of a funeral either in installments or in a lump-sum. The director places the money into an interest-bearing trust account, and serves as the trustee. After death, the trust funds are paid directly to the funeral provider named in the trust.

An irrevocable trust can’t be changed or dissolved without the permission of the trustee. Once you transfer money into this type of trust, you no longer own the assets. However, you can reassign that irrevocable trust to a different funeral home later if you change your mind, even though you won’t be able to cash it out. A revocable trust can be cashed out or cancelled at any time. You own the money and can receive interest from it; the funds are transferred to the beneficiary only after your death.

### The Medicaid factor

The only reason to consider prepaying your funeral, burial, or cremation is to shelter your assets from Medicaid. Money you set aside in an **irrevocable trust** will be excluded from your net assets when your eligibility to receive Supplementary Security Income (SSI) or Medicaid

benefits is determined. On the other hand, money placed in a

### **revocable trust**

can be taken by Medicaid if your other assets have been depleted.

You should make sure that the plan you buy is a legitimate Medicaid-exempt trust. Also, be aware that any money left over after funeral expenses are paid is subject to recovery by Medicaid. Don't buy an irrevocable funeral trust "just in case" you might need Medicaid—wait until you know for sure.

### **Risks of prepaying**

#### **– For you**

- ☐ If you cancel, move or change your plan, you may not receive a full refund.
- ☐ In many states, part or all of the interest earned on your account may be withdrawn each year by the seller.
- ☐ The cash-out value on an insurance policy is almost always much less than you originally paid.
- ☐ The money you pay for funeral arrangements now won't be available for emergencies later.

#### **– For your survivors**

- ☐ Many insurance companies will not pay the full benefit—or anything at all—during the first few years the premiums are being paid.
- ☐ Money spent today may not cover future funeral costs, which could result in the use of cheaper merchandise or requests for additional money.
- ☐ Survivors may not be aware that funeral costs have been paid, and may pay at a different funeral home.
- ☐ If you die out of town and your family employs another funeral home there, it may be difficult to get a refund.
- ☐ By the time of your death, the funeral home may have a poor reputation, or be out of business entirely.

### **Protecting yourself**

Laws in many states don't offer much protection for your prepaid funeral money. Only New York and New Jersey get close to truly consumer-friendly pre-need laws. New York requires 100%

of your money to be deposited in trust. The consumer has the right to a full refund, with interest, on a revocable plan, and irrevocable plans are transferable.

We don't recommend prepaying unless you must do so to qualify for Medicaid. But if you are committed to prepaying, be sure:

- ☐ Your money is secure, such as in a federally-insured bank. Funeral insurance plans are not as tightly regulated, so take extra caution.
- ☐ Your plan allows for a full refund with little or no penalty if you decide to cancel.
- ☐ Your money (trust or insurance) is transferable to another funeral establishment if you move, change your mind, or the firm closes. Remember that if you transfer your funds, the new funeral home is not obligated to honor the prices of the original funeral home.
- ☐ You know who holds the pre-need money, and how to contact them.

### Safer alternatives

#### ▣ **Prearrange without prepaying**

By comparison shopping, you can make reasonably-priced funeral arrangements, without setting aside large sums of money or prepaying anything. Get detailed price lists from several funeral homes—over the phone or at the door—and compare prices. You'll see big price differences for essentially the same goods and services. Visit several of the most affordable funeral homes, and choose the one you like best. You might even fill out a pre-arrangement form and leave it on file there.

Most importantly, be sure to tell your family about your choice. Walk them through every detail. Give them copies of any contracts or written wishes right away. Do not put them in a lockbox. Do not simply tell your children, "Everything is taken care of." Your survivors will have to make choices after you die; you cannot prepay the future away. You and your family will enjoy peace of mind, knowing that the important decisions have been made and thoroughly discussed.

#### ▣ **Set up a Pay-on-Death account**

If you want to set money aside for your funeral expenses without handing it over to a funeral firm, consider establishing an individual "payable on death" (POD) account. You deposit in a bank enough money to cover the current price of a funeral, then let the accumulated interest cover any cost increase due to inflation. You can always top it up over time if interest rates are low. This account can be made payable upon death to a trusted family member or friend who will use the money properly for your funeral. (We do not recommend making a funeral director your beneficiary.) The funds will be released immediately after your death without the delay of probate. POD bank accounts are FDIC-insured, they remain in your name, and money can be withdrawn at any time. However, such accounts are treated as countable assets by Medicaid, and the interest is subject to income tax.

### Conclusion

We heartily endorse advance planning, which allows comparison-shopping and makes the arrangements easier for your survivors. But if you decide to pay for your funeral in advance, be very cautious. You should interview and evaluate multiple funeral homes before signing any agreement for future delivery of funeral goods and services. Your local funeral consumer group can help you with the research. The final decision is yours, so choose wisely.

