

Insurance companies and funeral homes often tout the benefits of the prepaid 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 prepaying that the seller will not tell you about. The 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

Two types of life insurance policies can be set up to specifically cover funeral-related expenses; they will pay out immediately after death. ***Pre-need insurance*** is sold by a funeral provider who will use the death benefit to cover prearranged funeral expenses. The premiums, however, are paid to an insurance company. In some states, you must name the funeral home director as the beneficiary; other states forbid it. ***Burial insurance*** is usually purchased from an insurance company; funds are paid to a named beneficiary, who can use the death benefit in any way they choose.

These insurance policies are generally more portable than other prepaid 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.

■ 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 as trustee.

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. Maximum allowable assets vary by state, but may be as low as $2,000.

Be 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. 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 in person—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 choices right away, and give them copies of any contracts or written wishes. Do not put these in a safe deposit box—they might not be found and read until too late—after your funeral. Do not simply tell your children, "Everything is taken care of." They ***will*** have to make choices after you die. By prearranging, you and your family will enjoy peace of mind, knowing that the important decisions have been made and thoroughly discussed.

Set up a Payable on Death account

If you want to set money aside for your funeral without handing it over to a funeral firm, consider establishing an individual "payable on death" (POD) account or Totten trust at a bank. You deposit 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. These 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. Your local funeral consumer group can help you with the research. The final decision is yours, so choose wisely.

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Should You Prepay Your Funeral?

Safer Ways to Plan Ahead

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