



What You Need to Know About Burial/Preneed Life Insurance

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No one likes to think about their own funeral. But if you think that's hard, imagine your loved ones having to plan your funeral without knowing your final wishes – and then scrambling to come up with the money to pay for it. Pre-funding your funeral can relieve your loved ones of a significant burden, allowing them to focus on the issues that matter most when a loved one dies.

Why Consider Pre-Funding?

Funerals are expensive. According to the National Funeral Directors Association, the average cost of a funeral is \$6,500¹. And that figure doesn't include cemetery costs, flowers, limousines, acknowledgment cards, catering services, and more, which can easily push the cost beyond \$10,000. Whether you choose burial or cremation as your final disposition, pre-funding is an option you should consider. While cremation may be less expensive than a traditional full-service burial, the costs can still add up, especially if you'd like your final arrangements to include things like a memorial service, an urn or a cemetery plot or crypt to bury or entomb your remains.

Determining Your Needs

A funeral director can help you select everything you want for your funeral – the casket or urn, the flowers, the music, the headstone, and more. Your funeral director will prepare a Statement of Goods and Services that itemizes the agreed-upon costs, and then can talk to you about various funding options.

Preneed Life Insurance – The Basics

Preneed life insurance is one of the most common ways to pre-fund a funeral. It's basically an increasing benefit life insurance policy equal to the value of your funeral, but you assign the benefits to a funeral home rather than to family members. Essentially, you're pledging your life insurance policy to the funeral

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establishment in exchange for future services and merchandise. This is recognized by designating the funeral home as an assignee of the insurance policy. Here are some key features and considerations to keep in mind:

- **Inflation Protection:** Every year, the cost of a funeral gets more expensive and the death benefit of pre-need insurance grows to offset the increased cost. Many funeral homes will provide a guarantee that your preneed insurance plan will pay all the costs itemized in your Statement of Goods and Services, regardless of whether those services are required in 1 year, 5 years, 10 years or more.
- **Assignee Designation:** If you move or decide to work with a different funeral home, then be sure to complete a new Statement of Funeral Goods and Services with the new funeral home and assign the benefits of your policy to the new establishment.
- **Flexible Payment Options:** Most companies give you the option of a single premium (an up-front, lump-sum payment) or multi-year payment plans (typically paying over 3, 5, 7 or 10 years).
- **Simplified Underwriting and Guaranteed Issue:** Many companies that sell preneed life insurance have simplified underwriting, or risk assessment, which means you probably won't be asked too many questions about your health status or lifestyle issues during the purchasing process. With a "Guaranteed Issue" policy, if

you can answer "no" to a few simple health questions, you will be issued a policy. If you are older and in poorer health, this is an option you should consider.

- **Exempt Assets:** If you have to apply for public medical assistance, preneed life insurance policies generally qualify as "exempt assets," provided they are irrevocably assigned to the funeral home. With other pre-funding options, like a bank or regulated trust, you may have to give up money you've set aside for your funeral to qualify for medical assistance.
- **Tax Advantages:** Preneed life insurance policies accumulate cash values that grow tax-free. With most other forms of pre-funding, earnings on your invested assets are taxable.
- **Not for Everyone:** If you're young and relatively healthy, you'll be better off buying a standard life insurance policy (not one linked to a prearranged funeral plan) and later assigning a portion of the proceeds to a funeral home.

Where to Buy a Policy

Most funeral directors are knowledgeable about pre-funding options and many are licensed to sell preneed life insurance, so that's a good place to start. You can also speak to a qualified life insurance professional in your community. For tips on how to find the right insurance professional or company, visit www.life-line.org.