

Prepaying Your Funeral

Benefits and Dangers

What is Preneed?

"Preneed" is a term coined by the funeral industry to describe the arrangement and payment of a funeral prior to death. Obviously, if you are to have any say in it, you must plan in advance of your death.

"Prearrangement" is also used interchangeably with "preneed".

The marketing of preneed plans for funeral services and merchandise is increasingly prevalent. Everyone connected with the funeral industry is promoting preneed purchases. Various companies, including insurance companies, "for-profit cremation societies," and "preneed associations" flood the mail with advertising which touts the benefits of their preneed plans. There are a number of pitfalls, as well as options, about which consumers should be well-informed. Therefore, we say, "Let the buyer beware."

Advantages of Planning

There are several advantages to planning your funeral:

- You may choose the type of funeral service you desire.
- You will save your survivors from making choices during the stress of bereavement.
- You can do comparison shopping at available mortuaries.
- You can make knowledgeable decisions.
- You will be stimulating family discussion, sharing, and decision-making.

Financing a Funeral

There are three basic ways to set aside money for funeral arrangements:

- *Totten Trusts.* This is an individual trust or savings plan earmarked for one's funeral. The consumer controls the account and can withdraw from it at any time. Usually a sum of money equal to today's funeral costs is deposited in a passbook, certificate of deposit (CD), or money market account, payable to a beneficiary of your choice. These funds will be available immediately at the time of death without the delay of probate. Accumulated interest covers costs increased by inflation. Annual interest is subject to income tax.
- *Regulated Trusts.* All states, except Alabama, Vermont and the District of Columbia, regulate the sale of commercial trust agreements. Regulated trust laws provide for some consumer protection, specifying the portion of your money which must be deposited in a bank or savings and loan. But only about half of states require that 100% of your prepaid funeral money be put in trust. Unless designated as "irrevocable", individual savings and regulated trusts are subject to claim by the state if you receive social benefits.
- *Insurance-Funded Plans.* Life insurance or an annuity contract may provide for an ever-increasing death benefit to account for inflation. Morticians usually sell such insurance and expect to be named the beneficiary. Other insurance plans advertised as "preneed plans" are not tied to specific funeral goods and services. They are simply life insurance, and you may choose the beneficiary you want to control the use of the funds.

Advantages of Prepaying

By paying in advance you may:

- Ensure that money is available for your funeral service.*
- Provide peace of mind if you have no others to make final arrangements.
- Set funds apart from other assets if you apply for certain social benefits.

Shop Around

Comparison shopping is important when choosing funeral arrangements. The costs of such items as caskets or "professional services" vary dramatically from mortuary to mortuary. Compare prices from at least three mortuaries. You are entitled by law to be provided with a detailed price list or given prices over the phone. If you are not sure what is included in "professional services", be sure to ask.

Watch out for Pitfalls

Disadvantages of paying in advance:

- Remember that states generally regulate prepaid *funeral* expenses differently from prepaid *cemetery* expenses. Regulations on preneed cemetery purchases are usually much looser and offer the consumer far less protection.
- In many states, should you move, you cannot shift your arrangements to a new location or receive a refund unless you leave the state.
- Money paid today may not cover inflated future funeral costs, resulting in possible substitution of less expensive merchandise or additional funding from survivors (just what you tried to avoid).
- Money you pay today for funeral arrangements may be needed for other, emergency purposes.
- If payment is made in installments and you do not complete the payments, your refund may be reduced by a sales charge which could be as high as 30%.
- If your state does not require funeral directors to provide you a 100 percent refund of your money if you decide to cancel your prepaid funeral, you may get back much less back than you paid in.
- The seller of today's funeral services may not be in business at the time of your death. If death occurs prior to the time you complete payments, your agreement may not be honored in full.
- In many states part or all of the interest earned on your account may be withdrawn each year by the seller as part of his administrative fees.
- Your survivors may not be aware you have prepaid your funeral.

Significant Considerations

Important factors to consider before you purchase a paid plan:

- Your plan should allow for a full refund with little or no penalty.
- Your money should be safe. A Totten Trust is a regulated trust governed by state laws. and if the states are taking proper control, your money is probably safe. Funeral insurance plans are not as tightly governed, so extra caution should be taken.
- Your plan should be transferable if you move.
- Obtain a guaranteed agreement in which the funeral director agrees that the original price, plus interest, will pay for the designated funeral.
- Make sure leftover funds will be paid to your estate. Otherwise, the mortician will probably keep them.

We heartily endorse the idea of planning your funeral in advance. Comparison shopping for prices and services is important for any large purchase, and funerals are no exception. However, be very cautious if you pay for your funeral in advance. Maintain control over your funds to assure they will finance your funeral when the time comes, and to confirm your money is protected. These are considerations of paramount importance. Your local memorial society can assist you in research, but the final decision is yours.

Another excellent resource on preneed is available from the American Association of Retired Persons. Send a postcard request for *Prepaying Your Funeral?*, Vol. 2, No. 2, to: AARP Fulfillment 601 -E- Street NW Washington, DC 20049.

**This depends on how strong your state's trusting requirements are, the type of contract you've paid for, and many other factors.*