

## PROS AND CONS OF PREPAYING YOUR FUNERAL

Preplanning your own funeral, while difficult for most of us, can help ease the emotional and financial burden for your survivors at a stressful time. But should you *pay* in advance for your funeral?

Prepaying for a cemetery plot, for the funeral service, for funeral merchandise such as a casket or headstone – what the funeral industry refers to as “pre-need” planning – has its benefits. But as with many financial purchases, one should explore the options carefully before deciding.

Prepaying can provide peace of mind for you and your loved ones. It also generally ensures that you get what you want, such as the casket or type of service. This is especially true of a cemetery plot. The location you desire today might not be available 10 or 20 years from now if you wait until death to buy it.

Experts also say that arranging and paying for a funeral in advance tends to result in lower cost, versus waiting until death when family emotions may drive decisions. You’re also paying for tomorrow’s funeral at today’s prices.

Prepaying can be beneficial for those who someday may need to qualify for government services, such as Medicaid for long-term nursing home care. That’s because prepaid funeral expenses usually don’t count against the person’s estate when the government determines financial eligibility.

But prepaying carries its risks. There have been incidents of funeral service directors going bankrupt or embezzling escrowed funds set aside to pay for funerals. So you’ll want to find out what consumer protection your state provides in this area.

What if you move and want to be buried somewhere else, or you decide later to go with another funeral home? Does the plan allow for a full refund or can the funds be transferred to another funeral home? Often you will have to pay an administrative or penalty fee for the right to transfer or cancel a funeral contract.

Prepaying doesn’t always guarantee that all future funeral expenses will be covered. For example, inflation for some funeral expenses not controlled by the funeral home, such as

flowers or obituaries, may outstrip the earnings of the prepaid plan. Thus, your loved ones either pay the difference or substitute something less expensive.

Another drawback is that you are tying up funds that you might need between now and then for emergency purposes.

If you decide to prepay, you may have several options to choose from. First, the funeral home may have established with a financial institution a trust designed to hold funds for future funerals (and the cemetery plot if they provide that). These usually are state-regulated irrevocable trusts in which all or most of the advance payment is invested (some states allow funeral homes to retain ten percent of the payment for current use).

Ideally, you should know the financial institution administering the trust and receive an annual statement to ensure that the funds are being handled according to the contract. Also, find out what happens to the interest earned by the trust. Some funeral homes take that interest for administrative costs.

A second arrangement is a permanent life insurance or annuity contract. The funeral home may be named as beneficiary, though not in all cases. But it might be cheaper and easier to simply boost the coverage on your own current insurance policy.

A third option is a payable-on-death Totten trust. In this case, you would set up this POD account at a financial institution such as a bank, often with the funeral home named as the beneficiary, though it's not required. The funds are designated for funeral expenses and transfer without going through probate.

Another option is to simply set up your own investment account that you earmark for funeral expenses. Price current expenses for the funeral you want (detail the service for your loved ones) and invest that amount. Inflation of funeral expenses typically has followed the general rate of inflation, so adequate investing should give your loved ones enough funds at the time to arrange for the type of funeral you've preplanned.

This arrangement gives you more flexibility should you move or change plans; however, it can't guarantee, as do the other options, that your loved ones will spend the money as you wish.

August 2005 – This column is produced by the Financial Planning Association, the membership organization for the financial planning community, and is provided by local member Bill Rodau, MS, MBA, CFP® at *Creative Financial Services*, 262-820-0870, [www.cfsfeeonly.com](http://www.cfsfeeonly.com). The column is provided for your general information only and you should contact this planner or other professionals for specific advice regarding your unique situation.