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## ***PreNeed (Pre-Paid) Funeral and Burial Plans***

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### **Advantages and Disadvantages of Prepaid Plans**

One way to plan in advance for the end of one's life is to sign a formal contract called a "[preneed funeral plan](#)." With this plan, money to pay for a funeral and/or burial is held in a trust, in an escrow account or paid through an insurance policy on the life of the person desiring the plan. Parts of or all of the funeral service and burial are designed in advance and pre-funded in advance and the family has little to do but show up.

This type of planning has become very popular in recent years. A survey conducted by the AARP in 1999, found that two out of five people over age 50 had been approached to pre-purchase funerals and burial goods and services. An AARP survey in 1998 indicates that 32% of all Americans over age 50, roughly 21 million people, have prepaid some or all of their funeral and or burial expenses (but not necessarily through a formal preneed plan). Breaking that down; about 25% of the over age 50 population have prepaid for their burials (cemetery plot, mausoleum or niche), 18% have prepaid for headstones, urns, caskets , grave liners or vaults, opening and closing of graves and so on and 13% have prepaid for goods or services from a funeral home or funeral director. The same survey indicates that over \$25 billion is being held in preneed trust funds. Roughly another \$25 billion is waiting to be paid out in life insurance benefits. Prepaid or preneed funerals and burials are big business.

Funerals and burials funded privately by the family, or paid from an individual life insurance policy and arranged informally through a funeral home or funeral director are generally not subject to state regulation. Any formal arrangement through a second party or involving a contract is subject to regulation in all states. Each state has adopted different rules as to who can sell these plans, what the plans can provide, what contract provisions must be, how the plan is to be funded and what recourse purchasers might have in the event of fraud or default. All states call these regulated plans "preneed" funeral and burial arrangements.

Here are some advantages as to why one would want to buy a preneed plan for funeral and burial services and goods.

- It provides peace of mind knowing these arrangements have been made in advance.

- It avoids the burden on family members to make decisions when they are most vulnerable to manipulation.
- It allows one to virtually control from the grave by determining in advance the funeral products, funeral services, burial products and burial services that one would prefer having for final arrangements.
- It helps the family to avoid taking loans, arranging finance plans, raiding savings or selling assets to pay for a funeral and burial.
- It guarantees (for many contracts) that if products and services currently purchased are not available in the future, equivalent substitutes will be provided at no additional cost.
- It locks in guaranteed prices (available with some contracts) forever.
- It allows for inflation in future costs (for those contracts that do not guarantee prices) by investing money in an interest-bearing account or buying life insurance that increases in value over time.
- Depending on the contract, it may allow for transfer to another funeral home or for partial or full refund.

Unfortunately, there are also problems with prepaid, preplanned final arrangements.

- With some trust fund and insurance funding options there may be no refund if someone wants to cancel the plan in the future.
- If a purchaser moves to another state there may be no transfer options or there may be different rules governing the funding option.
- In some contracts, interest earnings on investments resulting in excess money not needed for the plan may be retained by the funeral home or funeral director.
- On installment plans interest may be charged but not credited to the account.
- In certain insurance funded contracts, the ownership or death benefit may be irrevocably assigned to the contract holder (funeral home), preventing the purchaser from enjoying ownership rights in the policy.
- In certain insurance funded contracts, a growth in the death benefit over time that exceeds the cost of the preneed plan services and goods may be pocketed by the contract holder (funeral home) instead of being refunded.
- If the contract provider goes out of business or fails to secure 100% of the funds for future payment, there may be no recourse to get all of the money back that was put in.
- If certain services or goods that were purchased initially are not available in the future, but more expensive versions might be, the family may be forced to pay extra for those items.
- In certain insurance funded plans, if the insured dies too soon, there may have been a waiting period in which few or no benefits are paid at death, thus forcing the family to pay out of pocket for the funeral.
- Certain unscrupulous providers may have failed to provide an itemized list of services and goods or failed to identify properly, specific services and goods, thus allowing the provider in the future to substitute less expensive items or to leave out services and goods that were originally anticipated in the agreement.

### **What Services and Goods Can Be Prepaid?**

All states allow for prepaid plans for [funeral services](#) and merchandise. This would include such things as picking up the body, embalming and restoration, rooms or chapel for viewing and funeral services, casket, vault or grave liner, transportation, permits, death certificates, obituaries and so forth. Almost all states allow for prepaid burial services and merchandise as well. Only about six states do not allow it. Burial services and merchandise might include opening and closing the grave, grave markers, vaults or grave liners, mausoleums or niches. Cemetery plots are excluded from prepaid plans in all states.

The AARP has excellent information for consumers on planning for funerals. Quoting from the AARP:

"Most states have a licensing board that regulates the funeral industry. You may contact the board in your state for information or help. If you want additional information about making funeral arrangements and the options available, you may want to contact interested business, professional and consumer groups."

To [find a planner](#) in your area you may also contact the National Care Planning Council at [info@longtermcarelink.net](mailto:info@longtermcarelink.net) or call 800-989-8137