

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. "Pre-arrangement" is also used interchangeably with "preneed," but one can prearrange without prepaying.

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 Pre-planning

There are several advantages to pre-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 and thoughtful 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 or Pay-on-Death Accounts.

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 should cover the cost increased by inflation. Annual interest is subject to income tax.

• Regulated Trusts. All states, except the District of Columbia, regulate the sale of commercial trust agreements. Regulated trust laws generally provide for *some degree of* consumer protection, specifying the portion of your money which must be deposited in a bank or savings and loan. Some states require 100% trusting and do not leave money in the hands of the mortician. Unless designated as "irrevocable," individual savings and regulated trusts are subject to claim by the state if you receive SSI or Medicaid.

• Insurance-Funded Plans. Life insurance or an annuity contract may provide for an ever-increasing death benefit to account for inflation, but insurance does not usually grow as fast as money in the bank. Morticians often 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. Insurance may be more portable than other pre-paid plans if you die while traveling or move.

Advantages of Pre-paying

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 are applying for Medicaid.

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 funeral homes. 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:

- In many states, if you move, die while traveling, or simply change your mind—from body burial to cremation, perhaps—you will not receive a full refund including the interest.
- Money paid today may not cover inflated future funeral costs, resulting in possible substitution of cheaper merchandise or additional money from survivors (just what you tried to avoid).
- On the other hand, as more low-cost discount funeral homes open up (as we are beginning to see), the price may go down.

- Money you pay today for funeral arrangements may be needed for emergencies.

More Pitfalls

- 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%.
- Cash value on insurance is pennies on the dollar.
- The seller of today's funeral services may not be in business at the time of your death.
- 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 for your funeral.

Significant Considerations

Before you buy a prepaid funeral, consider these things:

- Your plan should allow for a full refund with little or no penalty.
- Your money should be safe, as in a federally insured bank. Funeral insurance plans are not as tightly governed, so take extra caution.
- Your plan should be transferable if you move.
- Some funeral homes no longer guarantee that your payment will cover the arrangement in full.

Medicaid Spend-down

If you anticipate that you will need to spend down your assets to qualify for Medicaid, the state of Washington allows you to set aside a funeral fund of \$1,500. in addition to \$2,000. in assets. If your desire is to be cremated, \$1,500 is more than adequate to cover those expenses. The simplest thing is to set this money aside in a special bank account—Pay on Death or Totten Trust. Only if you desire burial, may it be advantageous to purchase a pre-paid funeral plan. Burial costs can be significantly more than the \$1,500 allowed under Medicaid rules. Reasonable burial funds would be exempted from Medicaid if funded through an irrevocable trust or insurance policy.

Conclusion

We heartily endorse the idea of pre-planning your funeral. However, be very cautious about pre-paying for your final arrangements. 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. We provide you with this information to assist you with the research, but the final decision is yours.

Prepaying Your Funeral

Benefits & Dangers



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