



Funeral *Consumers*

ALLIANCE

The Pitfalls of Prepaid Funerals

~or~

Why does FCA say prepaying is usually
bad idea?

*'Before you need, you
preneed'*

The mindset and the money

- Prepaying funerals can cause problems in two ways
- **The mindset:** prepaying creates unrealistic expectations. Problems sometimes come later, after the death, affecting survivors
- **The money:** prepaying can be a bad financial deal, making your money worth less than if you kept it in your own name
- Price guarantees don't work the way you think they do.

What motivates people to
prepay their funeral?



Fear.

The mindset: fears explored

- *'I don't want my kids to have to make these decisions.'* **Why?**
- *'I don't want my kids to have to pay for it.'* OK. So why not open a bank account and name them as at-death beneficiaries?

The mindset: fears explored

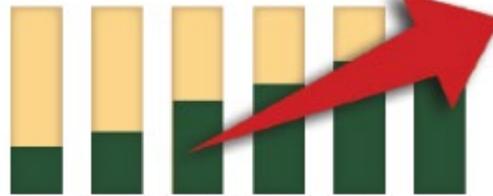
- *'I want to make sure it's all taken care of.'*



You're engaging in magical thinking. Time for a reevaluation.

Funeral Costs Are Rising FAST

For the last 30 years, funeral costs have been growing much faster than the overall Consumer Price Index.



AVERAGE FUNERAL COST IN 2015

\$9,000

This doesn't include common costs like cemetery property, markers, etc.

Source: National Funeral Directors Association, Trends and Statistics, 1960-2015

Source: Funerals - A Consumers Guide, FEDERAL TRADE COMMISSION, www.ftc.gov

Leave Memories, Not Bills

The most Government benefits will pay your family is \$255.

Source: A special lump sum death benefit, Social Security Administration, www.SocialSecurity.gov

\$255



So...where will your loved ones get the money to make up the difference?

Life Insurance Benefits Can Help

Sometimes referred to as final expense insurance or a burial policy, life insurance has become a popular solution for many people who are looking for a way to set aside cash for a proper funeral.



The mindset: 'It's all taken care of' . . .

What does that mean?

- People try to exert control over something they can't actually control---their own death
- *'I want to make this easier for my survivors'* isn't always the real motivation. We're actually doing this for ourselves, to soothe our fears of death.
- Ask yourself: Is this really about me and my fears? Have I actually asked my survivors about their preferences? Have I given them permission to be part of the funeral planning conversation?

'It's all taken care of'

Is it?

- What happens if you die three states away from the funeral home you prepaid?
- What if the casket you prepaid is no longer made (this is likely)?
- What if the funeral home you prepaid goes out of business or develops a bad reputation?
- What if you change your mind?

The Money: Basics of Prepaid Accounts

- When you prepay a funeral, the money doesn't go into the funeral home's own bank account.
- The money must either be put in a trust account at a financial institution, or it is used to buy a life insurance policy.

Important! Where is Your Money?

- You need to know which financial institution is holding your money, or which insurance company.
- Have you checked? If not, why not? Wouldn't you check occasionally on your balance if you put \$10,000 in the bank?
- You need to know who has the money if you transfer the account to a different funeral home.

The Money: Price Guarantees

- There's no such thing as 'locking in today's prices' the way you might think
- Price-guaranteed contracts have financial downsides that most people don't understand.

Price Guarantees: How They Really Work

- The funeral home doesn't actually 'freeze prices.'
- Their prices **will** go up over time, as all prices do.
- If the value of the money you prepaid is more than the cost of the funeral at death, you do **NOT** get a refund.

Price-guarantee: Scenario A

1. Jane prepays \$10,000 for her eventual funeral.
2. Jane signs a price-guaranteed contract.
3. Jane's money is deposited into a trust account where it earns interest.
4. Jane lives another 8 years. Her original \$10,000 has grown in value to \$12,000.

Price-guarantee: Scenario A

5. But, the funeral home's prices have only gone up \$1,000 in that intervening 8 years.
6. The \$10,000 funeral Jane prepaid now costs \$11,000 at the time of her death. That's what any customer would pay today (at-need).
7. The funeral home is entitled to ALL of the accrued value in Jane's trust account.
8. The funeral home gets the entire \$12,000 in Jane's trust account, even though the retail price of the funeral today is only \$11,000.

Price-guarantee: Scenario A

9. This means that Jane has paid \$1,000 **MORE** by prepaying.

10. If she had kept her money in her own name, she would have had the use of that \$1,000 extra.

Price-guarantee: Scenario B

1. Jane's \$10,000 prepayment only grows to \$10,500 by the time she dies.
2. But, the funeral home's price has grown to \$11,000.
3. The funeral home has to "eat" the \$500 loss as part of the price-guarantee
4. BUT! How likely do you think Scenario B is? Not very. If funeral homes expected to routinely lose money (Scenario B) instead of making more money (Scenario A), they wouldn't be selling these contracts.

Summary of Price Guarantees

1. The funeral home's prices don't really "freeze". The funeral home only promises to give you the funeral without charging more than the original amount of money you deposited.
2. If your deposited money is worth more than the funeral cost at the time of death, the funeral home gets the extra.
3. Neither your survivors nor your estate will get a refund of that excess money.

E.P. Mahar & Son, Inc.

Funeral Home

P.O. Box 17, 628 Main Street • Bennington, VT 05201
802-442-2516

PREPAID FUNERAL CONTRACT AND TRUST AGREEMENT

I. PARTIES

PURCHASER: _____
Street Address _____
Town _____ State VT Zip 05262

FUNERAL PROVIDER (Name of Establishment) E.P. Mahar & Son, Inc.
Name of Funeral Director _____
Street Address _____
Town Bennington State VT Zip 05201

II. OTHER PERSONS WITH AN INTEREST IN THIS PREPAID FUNERAL ARRANGEMENT

BENEFICIARY (If different from Purchaser): SAME
Street Address _____
Town _____ State _____ Zip _____

TRUSTEE (If same as Funeral Provider, so state): SAME
Street Address _____
Town _____ State _____ Zip _____

ESCROW AGENT: _____
Street Address _____
Town Binghamton State NY Zip 13902-7502

PERSON EXPECTED TO BE RESPONSIBLE FOR FUNERAL (and who is to be notified of this prepaid funeral arrangement unless Purchaser waives notification):
Street Address _____
Town _____ State _____ Zip _____

(Purchaser's Initials)
(Funeral Provider's Initials)

III. SPECIFIC CONTRACT PROVISIONS

A. Subject to the terms and conditions set forth herein and the reverse side hereof, Mahar & Son Funeral Home agrees to sell and provide and Purchaser agrees to buy the funeral services and goods described on the Statement of Funeral Goods and Services set forth in Schedule A hereto at the purchase price set forth in Paragraph 3 hereof.

B. The funeral services and goods shall be provided to the person designated above as the Beneficiary upon the death of the Beneficiary. Promptly following provision of the funeral goods and services set forth herein, a representative of the Mahar & Son Funeral Home shall sign the affidavit of performance attesting to the provision of such goods and services.

C. The price of the goods and services set forth on Schedule A including an amount attributable to sales taxes payable thereon is \$ 5,690.00. An additional amount of \$ 631.00 has been allocated toward cash advance items. The total cost of all arrangements (including all services, merchandise, and cash advances items) is \$ 6,321.00.

D. Purchaser has made an initial payment of \$ 6,321.00. Any remaining balance will be paid before or at the time of death of Beneficiary. If funding is less than 100 percent of the total contract, the manner of installment payments will be noted immediately below.

E. Specific manner of installment payments, if any: _____

F. The Mahar & Son Funeral Home agrees to pay for cash advance items up to the amount specified on Schedule A, and further agrees to accept the balance in the account (when all installments, if any, have been paid) in full satisfaction of the price for the funeral goods and services specified on Schedule A.

E.P. MAHAR AND SON INC.

FUNERAL HOME

628 Main Street

Bennington, Vermont 05201

(802) 442-2516

Funeral Pre-arrangements for Mrs. [REDACTED]

May 3, 1999

Removal from the place of death	\$ 170.00
Personal and Professional Services	1,295.00
Embalming	395.00
Necessary Preparation of Remains	180.00
Funeral Service	350.00
Use of the Funeral Coach	210.00
Use of Funeral Cars	145.00
Registrar Book, Prayer Cards, Acknowledgements	70.00
Batesville Vintage Bronze Casket	1,895.00
Wilbert Monticello Vault	980.00
Offering to the Clergy	75.00
Grave Opening in St. John's Cemetery	400.00
Marking Monument with year of death	75.00
Funeral notice in Bennington Banner	60.00
Certified Certificates	21.00

--

\$ 6,321.00

Additional winter grave opening fee at St. John's Cemetery from December 1 to April 1 is \$175.00 as of this date.

Price quoted does not include calling hours.

The Bennington Banner charges for funeral notices.

These costs are in effect as of this date and are not guaranteed costs in the future. If the expenses are pre-paid, and held in an escrow account, the funeral home guarantees to provide the funeral goods and services selected by the Purchaser for the amount of money in the escrow account at the time of need. The cost of the funeral goods and services selected by the Purchaser will not be affected by future price increases. The funeral home will accept the principle and interest in the escrow account as payment in full, except for cash advance items, which are not guaranteed.

Schedule A

Received payment in full
May 7, 1999
[Signature]

Some items that cannot be price-guaranteed by funeral homes

1. Cemetery costs (opening and closing of the grave, vault installation fees, etc.)
2. State charges for death/cremation certificates
3. Limousines
4. Crematory fees
5. Obituary fees from newspapers

Prepaying: Trusts v. Insurance

1. A trust account is like a bank account. If you cash it out, you get your money back (less any fees that your state's laws permit funeral-sellers to deduct).
2. Insurance is different. If you cash it out, you usually only get about half back of what you paid in. "Insuring" your death by buying an insurance policy is really to make your money worth half of what it was worth if you change your mind and cash out.
3. Insurance that you pay for with installments almost always costs as much or more as you will get in a pay-out for your funeral.

Prepaying for a Medicaid 'spend-down'

1. Prepaying may be a good idea if you have to do a Medicaid spend-down.
2. A spend-down is when Medicaid makes you spend your own money first before you qualify for Medicaid for nursing care, etc.
3. Medicaid won't count as an asset any money that you prepay toward a funeral (depending on state limits)

Prepaying for a Medicaid 'spend-down': drawbacks

1. It's a catch-22 for those who want to shelter money from Medicaid, but who wouldn't otherwise spend that amount on a funeral.
2. Either the funeral home gets your cash, or Medicaid does.
3. No, your survivors don't get a refund if the funeral doesn't cost as much as the amount you prepaid. Medicaid gets it.

Better ways to plan ahead (if Medicaid is not an issue)

1. Do the actual planning ahead with your family. That means talking in detail with them so they know how to make decisions if circumstances change.
2. Put your money into a savings account at a bank, and designate one or more survivors as the beneficiaries at death.
3. You can cash out a savings account without penalty if you need to.
4. If you die away from the funeral home's service area, the savings account money is more quickly accessible than a prepaid account at a funeral home.