

## **Life Insurance or Funeral Insurance**

### **Pro—**

- The funds are easily portable if you move (but a new funeral home does not have to honor the same prices you were given at the first funeral home).
- The insurance company is the taxpayer and pays taxes on the income earned. You won't be bothered by any paperwork.
- If a funeral home is the beneficiary and the contract is irrevocable, it won't be considered an asset for Medicaid eligibility.

### **Con—**

- The full death benefit may not be paid during the first two years if paying on the installment plan and/or if death was due to a pre-existing condition.
- If you want to change plans and cancel or can't keep up with the payments, you will get back only about half of the money you paid.
- If you have a standard life insurance policy with a next-of-kin as the beneficiary (not the funeral home), it will be considered an asset for Medicaid eligibility. You will be forced to cash it in for maybe half its face value.
- If you are using insurance to pay for your funeral and paying over time, you may end up paying twice what the funeral actually costs. Be sure to get the total of all payments disclosed ahead of time.

- There may be a 30-day delay in payment from the insurance company, and the funeral home may charge a finance fee or demand the money before the funeral regardless.

### **Questions to ask—**

- If I am paying over time, what will the total of all payments be?
- What if I can't keep up the payments?
- How much will I get back if I move to another town or state or change my mind and just want a refund?
- Can I transfer my preneed funeral arrangements to another funeral home?
- What do I need to know about Medicaid eligibility? When should a preneed contract be irrevocable? When not?
- How can I be sure the money I'm paying will be there when I die? What if the funeral home or insurance company goes out of business?
- Is the preneed seller giving me a choice of how to pay for my funeral and adequate time to think about it so I can choose what's best for me, or does the seller seem quota-driven or commission-driven?
- Am I being asked to make out the check to the funeral home instead of the bank or insurance company?

For more information or to file a complaint, contact:

Office of the State Banking Commissioner  
302-739-4235

<http://banking.delaware.gov/services/complnt.shtml>

*What you need to know and  
what you should watch out for  
when*

# **Pre-paying for Your Funeral in Delaware**

Prepared by  
Funeral Ethics Organization  
87 Upper Access Rd.  
Hinesburg, VT 05461  
802-482-3437

<http://www.funeralethics.org>

## Funding Your Prepaid Funeral Plan

There are several ways to pay for your funeral. You should know the plusses and problems of each.

### Pay-on-Death Savings Account or CD at the bank

#### Pro—

- If you can't afford to put aside the full amount of your funeral right away, you can add payments slowly without incurring finance charges which may be incurred when buying insurance.
- Money is readily available at the time of death if a next-of-kin or other is named on the account, too.
- The money in a savings account is yours and can be used for emergencies if needed.
- You can easily change your funeral plans because you control the money.
- All of the interest is yours. There will be no administrative charges withdrawn from your account.
- A CD may pay more interest than a savings account or trust.

#### Con—

- You will have to declare the interest income on your tax return. (But if you don't have a lot of income, there won't be any taxes due.)
- It is likely to be considered an asset if you are applying for Medicaid eligi-

bility. You will need to use this money to pay the funeral home directly at that time.

- There is no penalty for cashing in a CD early if there is a death, but there is a fee charged otherwise. Be sure to ask how much that might be if you think that might happen.



### A Qualified Funeral Trust

#### Pro—

- The trust is the taxpayer and pays taxes on the interest earned. You won't be bothered by any paperwork.
- If you move or change your mind, you'll get back 100% of what you paid and the interest, per Delaware law.
- If the preneed contract has been made irrevocable, it will not be considered an asset for Medicaid eligibility. There is a \$15,000 cap on irrevocable contracts.

#### Con—

- Many funeral directors do not like the paperwork it takes to set up a qualified funeral trust and for filing the annual tax return.
- If you are low-income, Uncle Sam is getting taxes on interest that otherwise wouldn't be taxed.
- There is no guarantee fund to protect consumers against embezzlement of trust funds, and no annual report to the consumer is required.



### A Master Trust or Simple Trust (Pooled funds or individual account)

#### Pro—

- If you move or change your mind, you'll get back 100% of what you paid and the interest.
- You are supposed to receive an annual report of the interest earned which will serve as reassurance that your funeral funds are in safe-keeping and haven't been embezzled.
- If the contract has been made irrevocable, it will not be considered an asset for Medicaid eligibility.
- You should be able to make time payments to build the trust, but watch out for possible finance charges.

#### Con—

- You will have to declare the interest income on your tax return. (But if you don't have a lot of income, there won't be any taxes due.)
- Many funeral directors do not like the paperwork for sending the annual report of interest income.
- A trust can be converted to insurance although your permission should be sought first. Be sure to read the problems with insurance before agreeing.
- There is no guarantee fund to protect consumers against embezzlement of trust funds.

