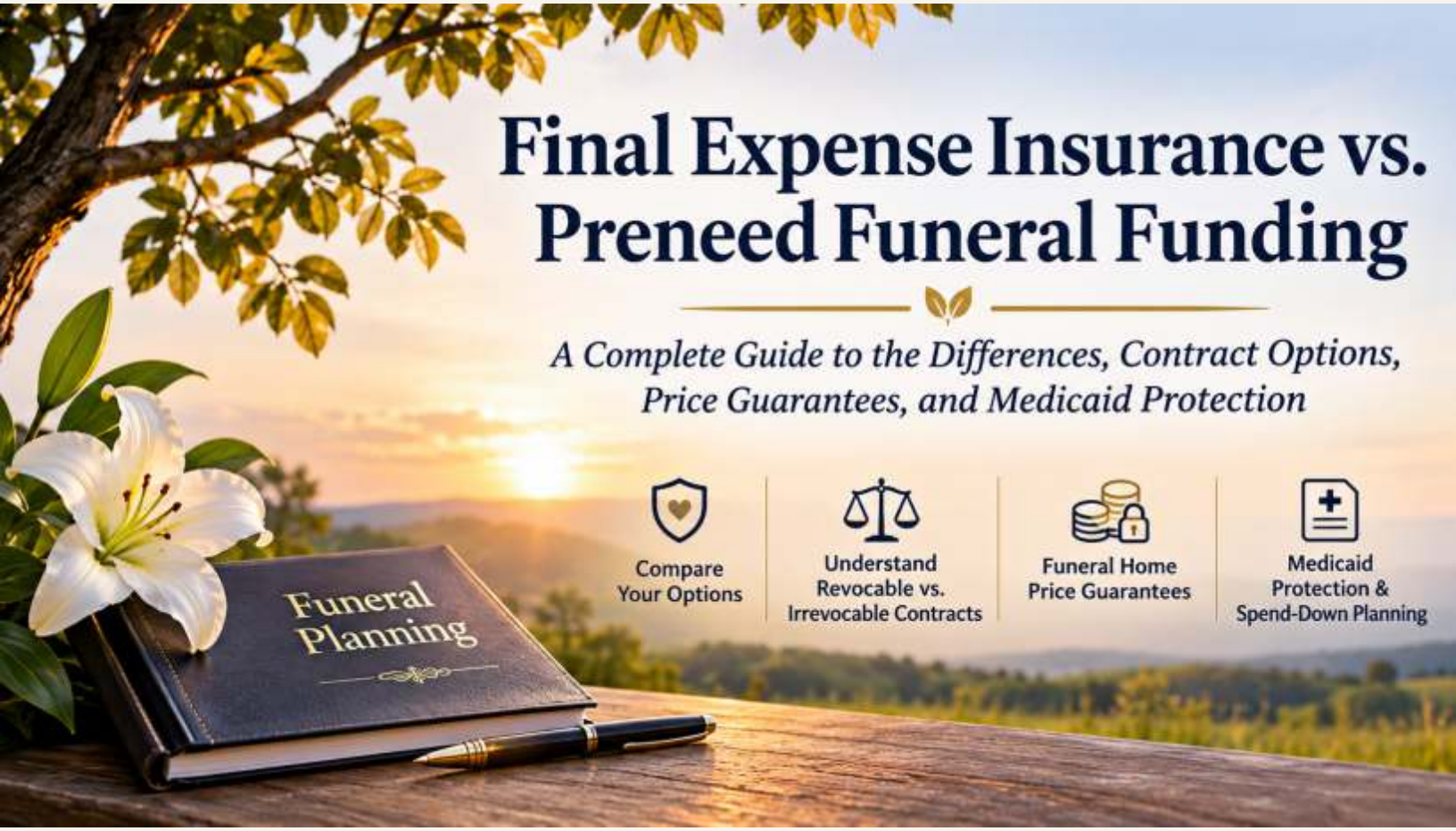

FUNERAL FUNDING & MEDICAID / FAMILY EDUCATION SERIES

Final Expense Insurance vs. Preneed Funeral Funding

Understanding the Differences and Protecting Your Family

By Jennifer Gaston

MyPrePlanning.com
PLAN TODAY. EASE TOMORROW.

Final Expense Insurance vs. Preneed Funeral Funding



By Jennifer Gaston
Advanced Planning Specialist | Licensed Financial Strategist

Two approaches to preparing for funeral expenses. Different benefits, different protections, and important decisions that can affect your family long after the planning is done.

Most people understand that funeral expenses will eventually need to be paid. What is less understood is that setting money aside for a funeral is not necessarily the same as actually planning and funding one.

Final Expense Insurance and Preneed Funeral Funding are two common ways to prepare financially for the cost of a funeral. Both can help reduce the financial burden on surviving family members, but they accomplish that goal in very different ways.

One generally provides money to a beneficiary after death. The other can connect funeral funding directly to the arrangements and services a person has selected in advance.

There are also important distinctions between revocable and irrevocable preneed contracts, whether funeral prices can be guaranteed, and how these arrangements may be treated when someone needs to qualify for Medicaid assistance with long-term care.

Understanding those differences can help families make informed decisions, protect their resources, and avoid unpleasant surprises during an already difficult time.

What Is Final Expense Insurance?

Final Expense Insurance is generally a form of life insurance, often a smaller whole life policy, marketed specifically to help pay expenses associated with a person’s death.

These policies commonly provide death benefits ranging from several thousand dollars to $25,000 or more, depending on the insurer, applicant’s age, and eligibility.

When the insured person dies, the insurance company pays the policy's death benefit to the designated beneficiary. That beneficiary may then use the proceeds for funeral expenses, outstanding medical bills, debts, or other financial obligations.

The important distinction is that Final Expense Insurance provides money, but it does not

automatically provide a funeral plan.

A person might purchase a $15,000 final expense policy believing their funeral is taken care of. However, unless arrangements have been made separately, the family may still be responsible for choosing the funeral home, selecting merchandise, arranging services, and making dozens of decisions after the death occurs.

Advantages of Final Expense Insurance

 Flexibility: Beneficiaries can generally use the insurance proceeds for whatever expenses they believe are most important.

 Choice of funeral provider: Families are not ordinarily committed to a particular funeral home.

 Potentially permanent coverage: Whole life coverage generally remains in force for life, provided premiums are paid and policy conditions are met.

 Simplified underwriting: Many policies offer simplified health questions, and some offer guaranteed acceptance, although restrictions may apply.

 Financial support beyond the funeral: Money remaining after funeral expenses can be used for other family needs.

Disadvantages of Final Expense Insurance

The greatest disadvantage is that the insurance benefit does not guarantee what the funeral will cost. A $12,000 policy purchased today may not provide enough money for the same funeral 15 or 20 years from now.

 Premiums paid over many years may eventually exceed the policy's death benefit.

 Missing required premiums can cause coverage to lapse.

 Some policies have graded benefits or limited payouts for nonaccidental deaths during an initial waiting period.

 A beneficiary may spend the proceeds on something other than the funeral.

 A family may still have to make all funeral arrangements during an emotionally difficult time.

 A policy with accessible cash surrender value may affect eligibility for certain means-tested government benefits.

Final Expense Insurance can be a valuable financial tool. But purchasing it should not be confused with making actual funeral arrangements.

What Is Preneed Funeral Funding?

Preneed Funeral Funding is a method of arranging and financially preparing for funeral goods and services before death occurs. Unlike traditional final expense coverage, preneed funding is generally associated with a written funeral agreement describing the arrangements a person has selected.

These arrangements might include the type of service, visitation, transportation, casket or cremation merchandise, and other preferences. The funding itself may be provided through a specialized insurance policy, annuity, or funeral trust, depending on state law and the available program.

The purpose is to connect the money being set aside with the funeral arrangements it is intended to provide.

This creates two distinct benefits:

Financial preparation: Funds are established to help pay funeral expenses.

Personal preparation: Important decisions can be made in advance, with the individual's wishes documented rather than left entirely to surviving family members.

Advantages of Preneed Funeral Funding

 Funeral wishes can be documented in detail.

 The family has fewer decisions to make after a death.

 Funding is connected to the intended funeral arrangements.

 Certain contracts may provide guaranteed prices on selected goods and services.

 Qualified irrevocable arrangements may receive favorable treatment under Medicaid resource rules.

 Some programs offer portability if the individual moves or chooses another funeral home.

 Depending on the contract, insurance-funded plans may provide growth or additional death benefits.

Disadvantages of Preneed Funeral Funding

 Not every funeral home guarantees its prices.

 Some merchandise, services, and third-party expenses may be excluded from a price guarantee.

 Changing funeral homes may affect guarantees or benefits.

 Cancellation and refund rights depend on the contract and applicable law.

 An irrevocable contract generally limits access to the funds.

 Insurance-funded installment plans may have financing costs, waiting periods, or coverage limitations.

The quality of a preneed arrangement depends not only on the funding company, but also on the funeral home’s

written commitments and the consumer protections provided by state law.

Revocable vs. Irrevocable Preneed Contracts

One of the most important decisions when funding a funeral in advance is whether the arrangement should be

revocable or irrevocable. These terms refer primarily to the ability to cancel the agreement and recover or control

the money used to fund it.

Revocable Preneed Contracts: Preserving Flexibility

A revocable preneed contract generally allows the purchaser to cancel the arrangement and recover funds

according to the contract’s terms and applicable state law. For someone who wants to plan ahead but maintain

financial flexibility, this may be an attractive option.

For example, an individual might establish a $10,000 revocable preneed arrangement, documenting funeral wishes

while retaining the ability to cancel or change the funding if circumstances require.

The advantages are flexibility, greater access to the money, and the ability to reconsider financial decisions.

However, that flexibility has a potential disadvantage.

Because revocable funds may remain accessible, some or all of their value may be considered an available resource when determining eligibility for Medicaid long-term-care benefits.

Simply labeling money as funeral funds does not necessarily remove it from Medicaid resource calculations.

Irrevocable Preneed Contracts: Greater Protection, Less Access

An irrevocable preneed contract generally restricts the purchaser's ability to cancel the funding arrangement and receive the money back for personal use.

This distinction can become particularly important when an individual enters a nursing facility or anticipates needing Medicaid assistance.

Properly structured irrevocable funeral arrangements may be treated as unavailable resources for Medicaid eligibility purposes, subject to state-specific rules and limits.

Consider someone who has $15,000 set aside in an ordinary savings account for a future funeral. That money may be considered an available resource when the individual applies for Medicaid. If the individual instead purchases a properly structured and permissible irrevocable funeral arrangement, the qualifying funds may no longer be counted as available

resources.

This can allow the person to prepare for funeral expenses without requiring those particular funds to be exhausted

on nursing-home care. However, there is an important trade-off: the money is no longer freely available for

other purposes.

Irrevocable does not necessarily mean that funeral arrangements can never be changed. Depending on the contract

and state law, the individual may still be able to change selected services or transfer the arrangement to another

funeral provider without regaining personal access to the funds.

Funeral Home Guaranteed Prices: An Important Advantage

One of the potentially most valuable features of preneed funeral planning is the opportunity to protect against future increases in funeral costs.

Consider this hypothetical example: A person selects funeral arrangements costing $12,000 today. The funeral home agrees in writing to guarantee the prices of the selected goods and services covered by the contract. Twenty years later, the funeral home’s regular retail price for comparable arrangements has increased to $19,000.

If the contract is fully funded, remains valid, and its guarantee applies to those selections, the funeral home must honor its contractual commitment rather than charge the family the additional $7,000 for the guaranteed items.

Illustrative example: Selected funeral cost today: $12,000. Hypothetical retail price in 20 years: $19,000. Potential avoided increase on guaranteed items: $7,000. This is an illustration, not a forecast or promise of funeral inflation or a promise of savings. Potential avoided increase on guaranteed items: $7,000, assuming all contractual conditions are satisfied.

This is an advantage that ordinary Final Expense Insurance generally does not provide.

An insurance policy may pay its stated death benefit regardless of how much funeral prices have increased. A properly structured guaranteed-price preneed contract can instead place

the risk of specified future price increases on the funeral provider.

Not All Preneed Guarantees Are Equal

Consumers should understand that funeral homes may offer different types of preneed agreements.

Guaranteed-price contracts: The funeral home agrees to provide specified goods and services without additional charges for ordinary price increases, subject to the written agreement.

Non-guaranteed contracts: The funds accumulated through the preneed plan are applied toward the funeral home's prices at the time of death. If the cost exceeds the available funding, the family may be responsible for the difference.

Partially guaranteed contracts: Certain funeral home charges may be guaranteed, while other expenses remain subject to change.

Common expenses that may not be guaranteed include cemetery charges, opening and closing of graves, death certificates, newspaper notices, clergy or musician honorariums, flowers, and other third-party charges.

A guaranteed funeral agreement is only as comprehensive as the specific goods and services covered by its written terms. Consumers should ask which items are guaranteed, which are excluded, and whether the guarantee remains in effect if they move or transfer their arrangements.

The Federal Trade Commission’s Funeral Rule requires funeral providers to furnish itemized pricing and appropriate disclosures for funeral arrangements. See the FTC reference at the end of this article.

Medicaid Spend-Down Planning: Why the Type of Funeral Funding Matters

For many families, the differences between final expense insurance and preneed funeral funding become especially important when a loved one requires nursing-home care.

Long-term care can be extraordinarily expensive. Individuals who do not have sufficient income or resources to pay privately may eventually need assistance through Medicaid.

Unlike Medicare, which generally provides only limited coverage for qualifying skilled nursing care, Medicaid can help pay for eligible long-term nursing-facility care. However,

applicants must satisfy financial eligibility requirements, including limits on countable resources.

permissible expenditures to meet eligibility requirements.Funeral planning can be one of those permissible expenditures when handled correctly.

Final Expense Insurance and Medicaid

Life insurance policies are not all treated alike for Medicaid purposes.

Depending on the policy and applicable state rules, a whole life final expense policy may have a cash surrender value that is considered an available resource.

A term life policy generally has no cash surrender value, but other policy features and state rules still matter.

The death benefit is not necessarily the amount Medicaid counts while the insured is living. Ownership, cash surrender value, face amount, beneficiary designation, and any assignment of the policy can all affect the determination.

Consequently, owning a final expense policy does not automatically protect its cash value from Medicaid spend-down requirements.

Irrevocable Preneed Funding and Medicaid

Properly structured irrevocable funeral contracts may provide an important planning opportunity. Rather than spending available resources on unrelated purchases simply to meet Medicaid eligibility limits, an individual may be able to use qualifying funds to establish funeral arrangements in advance.

This can accomplish several worthwhile objectives simultaneously:

• Prepare for the individual's eventual funeral. • Preserve choices about the type of service and merchandise desired. • Reduce the likelihood that surviving family members will have to pay funeral expenses themselves. • Potentially exclude qualifying funeral funds from countable resources for Medicaid eligibility.

There are important safeguards. The agreement must satisfy the applicable state's requirements. The amount and nature of the funeral expenses must be permissible, and the contract must not create an improper transfer of assets.

A properly structured purchase for fair market value is different from simply giving money away to relatives.

Irrevocable funeral funding is not a blanket exemption from Medicaid’s five-year look-back rules.

Transactions involving excessive amounts, improper beneficiaries, or transfers for less than fair market value may

create eligibility problems.

Because Medicaid regulations differ among states, arrangements should be reviewed with a knowledgeable funeral planning professional and, when appropriate, an elder-law attorney before funds are committed.

What About Burial Spaces and Merchandise?

Another often-overlooked distinction involves burial spaces and certain funeral merchandise.

Under federal SSI resource rules, qualifying burial spaces held for an individual or eligible immediate family members may be excluded separately from the ordinary burial-funds allowance.

Depending on the applicable rules, qualifying items can include burial plots, caskets, burial vaults, urns, monuments, and certain cemetery-related expenses.

This matters because the treatment of money set aside for funeral services may differ from the treatment of qualifying burial-space items already purchased or held under an enforceable contract.

The Social Security Administration recognizes separate burial-funds and burial-space exclusions, although Medicaid's application of these provisions depends on the state and eligibility category.

For families considering substantial funeral or cemetery purchases during a Medicaid spend-down, proper itemization and documentation can make an important difference.

A Comparison: Which Option Provides What?

Feature Final Expense Revocable Preneed Irrevocable Preneed

Provides funeral funding Yes Yes Yes

Documents funeral wishes Separately Yes Yes

Funeral prices guaranteed No If offered If offered

Funds accessible during life Policy-dependent Generally yes Restricted

Beneficiary can use money freely Generally yes Contract-dependent Generally no

Medicaid resource exclusion Policy-dependent Limited exclusions May qualify

Funeral home transfer N/A Contract-dependent Contract-dependent

Inflation protection Not automatic If guaranteed If guaranteed

The most appropriate choice depends on the individual's priorities, financial situation, health, and desire for

flexibility.

Can Final Expense Insurance and Preneed Funding Work Together?

Absolutely.

In fact, these two approaches can complement one another

An individual might establish a funded preneed funeral agreement covering the funeral home's goods and services, while maintaining a separate life insurance policy to provide additional money for surviving family members.

For example, a person might arrange and fund a $12,000 funeral through a preneed contract and maintain an additional $10,000 life insurance policy to assist with other final expenses.

This approach can separate two objectives:

Preneed funeral funding addresses the funeral itself.

Additional life insurance can address the financial needs that remain after the funeral.

However, if Medicaid eligibility is a consideration, the ownership, cash value, and beneficiary arrangements of any additional insurance should be evaluated carefully.

Important Questions to Ask Before Purchasing Either Product

Before committing money to final expense insurance or a preneed funeral arrangement, consumers should understand exactly what they are purchasing. 1. Am I purchasing life insurance that pays money to a beneficiary, or funding actual funeral arrangements? 2. Is the agreement revocable or irrevocable, and what happens if I change my mind? 3. Are funeral home prices guaranteed, and which specific expenses are excluded? 4. What happens if I move or decide to use a different funeral home? 5. What happens if the funeral home closes or changes ownership? 6. Is the funding held in a regulated trust or backed by an insurance company? 7. Will my family receive any money remaining after the funeral, and who is entitled to it? 8. How will the arrangement be treated if I eventually need Medicaid assistance?

Consumers should receive clear written answers rather than relying solely on verbal assurances.

The Real Purpose of Funeral Planning: Protecting More Than Money

It is easy to approach funeral planning as a financial transaction. How much will it cost? How much should be saved? Which insurance policy offers the best benefits?

Those are important questions, but they are not the only ones.

When someone dies without having made their wishes known, the responsibility for deciding what happens next falls to the people who love them .Families may find themselves struggling with questions they never anticipated. Would Mom have wanted a traditional funeral or a simple cremation? Would Dad have preferred a visitation? What music would have been meaningful? How much should we spend? Are we honoring their wishes, or simply guessing?

These decisions are often made while family members are experiencing grief, exhaustion, and uncertainty.

Money can help pay for a funeral. It cannot tell a family what their loved one wanted. That is why meaningful funeral planning should involve more than purchasing an insurance policy or depositing money into a funeral account .It should include thoughtful conversations, documented preferences, an understanding of available funding options, and careful consideration of how those decisions may affect the people left behind.

A final expense policy may provide valuable financial assistance. A well-designed preneed arrangement may provide both financial preparation and meaningful direction.

Neither is automatically the right answer for everyone.

The best choice is the one that reflects your wishes, protects your interests, and leaves your family with fewer burdens and greater peace of mind.

Because the greatest gift of planning ahead is not simply having money available when the time comes. It is giving the people you love the comfort of knowing that the important decisions have already been made.

At MyPrePlanning.com, we believe informed decisions today can ease difficult decisions tomorrow. Whether you are exploring final expense insurance, considering guaranteed-price funeral arrangements, or preparing for possible long-term-care expenses, understanding your options is the first step toward a thoughtful plan.

Plan Today. Ease Tomorrow.

Educational notice: This article provides general information, not individualized legal, tax, insurance, or Medicaid eligibility advice. Medicaid exclusions, transfer rules, preneed cancellation rights, and funeral funding requirements vary by state and may change. Consult qualified professionals before making decisions involving Medicaid eligibility or irrevocable funding.

For readers who want to learn more, these government resources are particularly useful:

• Federal Trade Commission — The Funeral Rule • Security Administration — Prepaid Burial Contracts • Ohio Medicaid — Burial Funds and Contracts • Tennessee — TennCare • Social Security Administration — Burial Funds Exclusion