

Irrevocable Funeral Trusts and Funeral Insurance

by Gary Villnow

What are Irrevocable Funeral Trusts and Funeral Insurance?

An Irrevocable Funeral Trust is a trust created by a person to pay for his or her funeral and funeral related expenses. In many cases, a funeral trust is funded with a single premium life insurance policy, but other assets can be used to fund the trust. The life insurance policy or other asset is placed into the trust until the person who created the trust passes away. After the person who created the trust passes away, the proceeds of the life insurance policy will be used by the trust to pay for funeral and related expense.

Funeral Insurance also known as “pre-need” insurance is life insurance that is specifically purchased to pay for funeral expenses. The funeral home is listed as the beneficiary up to a certain amount which is calculated to pay for the funeral and related expenses, with the balance paid to other named beneficiaries.

In addition to Irrevocable Funeral Trusts and Funeral Insurance, Prepaid Funerals are another option to arrange for the payment of funeral expenses. Prepaid Funerals can be established through specific funeral homes. Some Prepaid Funerals can come with price guarantees.

What are the advantages of Irrevocable Funeral Trusts and Funeral Insurance?

There are several benefits to prearranging for funeral costs through the use of Irrevocable Funeral Trusts, Funeral Insurance, and Prepaid Funerals. Among them are the removal from placing family members in the position of arranging, planning and paying the costs of a funeral. Additionally, with recent Medicaid rule changes, it is much more difficult to shelter assets from the nursing home. Funds used to purchase funeral assets are exempt as available assets by the Medicaid program and will not prevent a person from receiving those benefits. The purchase of funeral assets is not considered a divestment and therefore will not disqualify a person from receiving Medicaid benefits based on the purchase of funeral assets.

The purchase of funeral assets may also protect against rising costs associated with funeral and funeral related expenses. Prepaid funerals may come with price guarantees and Funeral Policies and Funeral Trusts may accrue income tax free interest to be applied to funeral expenses.

What types of expenses are eligible for prepayment?

Generally, the arrangement for all expenses related to a person’s funeral can be paid through the use of these types of funeral assets. Eligible expenses would include funeral home director and staff services, clergy honorariums, death certificates, musicians, stationary, flowers, clothing, transportation, cemetery charges, and burial plots.

Do any of these prepayment options have an advantage over the others?

The flexibility that comes with a funeral trust may be advantageous as a person’s residence may change or ownership of the funeral home may change. The flexibility of a funeral trust may also provide some advantage when paying for different types of costs related to a person’s funeral.

A prepaid funeral that comes with a price guarantee may provide some advantage when dealing with rising costs associated with funeral expenses

Who can help me establish a Funeral Trust, Funeral Insurance or a Prepaid Funeral?

Assistance in setting up these types of funeral assets can be obtained by attorneys, financial planners and insurance agents.

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