Close the lid on rising cost of dying

TIP: Don't buy funeral insurance.

Tip of the Week

Paul Whear

Paying for your funeral shouldn't get your heart racing (and if it does, you should see a doctor) but as we age it is something we need to consider.

Often advertised as "peace of mind for the price of a cup of coffee a day", funeral insurance is an obvious option for people preparing for death expenses.

Yet a recent Australian Securities and Investments Commission report released in late 2015 found that in 2014, 80 per cent of funeral insurance policies were cancelled before use, the main reason being cost.

With premiums increasing as you age (the average premium for an 80-84-year-old is four times that of someone aged 50-54) it is a commitment that can become very expensive when your income is likely to be falling.

Of course, when consumers cancel their policies they also lose the value of their premiums paid to date. In 2014, ASIC found that more than $315 million was spent on funeral insurance premiums; nearly three times what was paid out in claims.

With funeral insurance often costing twice the amount of the funeral itself, is it possible to prepare for that time without paying through the nose?

The answer is yes and the best way to prepare is to consider your options well before funeral services are required.

Most of us will continue to work well into our 50s and 60s, and this is the time to consider your end-of-life finances.

While you may still have 30 years up your sleeve, by covering the costs early you're paying for them with your income and not your pension.

One option is a high-interest savings account. By setting up a direct deposit into a special-purpose account during employment, by the time you are ready for retirement you'll have a nice kitty for future funeral costs. The issue here is that there's no guaranteeing you'll keep these funds for your funeral and the costs of dying are likely to fluctuate with the economy, making it hard to predict how much will be required in 30 years.

Another avenue is to use funeral bonds.

Consider your options when thinking about funeral costs.

Much like the savings option noted above, here you contribute into a bond while working and the funds are released to your loved ones once you've passed.

This a better option because savings are considered an asset under the Centrelink deeming rules for pensions and part pensions, while a funeral bond of up to $12,250 is excluded.

A prepaid funeral plan is another option that offers an attractive mix of benefits for anyone wanting to fund their own, or a dependant's, funeral costs.

After making your funeral choices, the cost of the funeral is fixed at today's price. You can then spread your payments over three years. Prepaid funeral plans are also exempt from the Centrelink deeming rules for pension and part-pension entitlements. The main benefit being that once the funeral is fully paid there are no additional costs, regardless of how much a funeral could cost in the future.

My advice is to take care of your funeral costs while you are still working and to choose the path that best suits your lifestyle needs while bringing the most value. Considerations should include the cost of the event, now and in the future, your future income and likely pension entitlements, your family and most importantly, your farewell desires.

While it's certainly not everyone's favourite topic to discuss, preparation today means your family can grieve without the stresses of financial burdens tomorrow.

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