Funeral finance

Death and the salesmen

Insurers and undertakers profit from people who prepay their final expense

"WHEN are you thinking of dying?" asks John Cleese, a British comedian, in a recent television ad. Dressed as the Grim Reaper, he addresses the viewer as he prepares a cup of tea. "Your loved ones could be left all alone and distressed and facing a whacking great bill," he warns. His advice? Phone in and buy a funeral plan.

As populations age, ads of this sort, imploring people to make financial preparations for their demise, are appearing on both sides of the Atlantic. Some 1.3m Britons now have a pre-paid funeral plan, up from just over 400,000 in 2005. An estimated 2.5m more have a funeral-insurance policy. Millions of Americans prepay some or all of their funeral costs.

The average American funeral now costs nearly $9,000, according to the National Funeral Directors Association (NFDA). In Britain prices have risen by 5.5% on average each year over the past decade, faster than inflation. Add to that stories in the press of bereaved people unable to afford the burial of their loved ones, and the scene is set for salesmen to proffer "peace of mind".

Consumer advocates worry about the value of some pre-paid funeral packages and insurance schemes, however. They wonder whether customers really know what they are signing up for. And since death is certain, why not simply save up so that a legacy can pay for a send-off?

The most straightforward option for people who want to spare relatives the cost of burying or cremating them is indeed to leave them money. A legacy used to pay for a funeral will, in most places, be exempt from inheritance tax. A funeral plan, known as "pre-need" in America, is bought from a plan provider or undertaker, and paid for in a lump sum or instalments. An alternative is funeral insurance, often sold as "final expense" or "over-50s" insurance, which is also paid in instalments.

Funeral insurance works like other life-insurance policies, with monthly premiums that vary with age and, sometimes, behaviour such as whether the buyer is a smoker. Whereas a pre-paid plan promises a funeral of a specific value (at their most basic they cover the undertaker's bill), insurance policies generally promise a fixed cash amount. This can typically be spent on something else, should the pre-appointed beneficiary decide.

Such products can be useful, especially if payouts are indexed to inflation or, ideally, to increases in funeral prices. Unlike other life-insurance policies, they typically do not require a medical examination (though do often have an upper age limit of 85). This makes them especially attractive to people who are not eligible for other life-insurance products. Buyers of funeral plans, too, like the fact that they can visit a funeral director, write down their wishes and pay immediately. The main reasons people buy them, says Gordon Swan of Golden Charter, a British firm owned by independent funeral directors, are "emotional and security-related, not financial". They like to "know that it's all sorted".

Except that often, it isn't. A funeral plan rarely covers the full cost of a funeral. Burial plots (which can cost thousands of dollars) are almost never included. Nor are extras such as headstones, flowers or fees for death certificates. Many plans restrict when and where cremation or burial can take place, and may charge steeply for any changes. In Britain funeral plans are not regulated, though customers often think they are. Last year Fairer Finance, a British advocacy group, highlighted concerns about mis-selling and the solvency of some providers. The Financial Services Compensation Scheme responded by clarifying that it would not refund buyers if funeral plans went bust.

The lump-sum payout from funeral insurance also comes with caveats. For starters, policies rarely pay out in full if the customer dies within two years of the start date. In some countries the money can only be spent with an insurer-approved provider. They can be terrible value.

For some particularly poor policies, premiums are paid indefinitely but the payout is capped. Since most people live longer than they expect, it is not uncommon to pay far over the odds. Salesmen often take advantage of people who are not very numerate, says James Daley of Fairer Finance. He cites a recent case of a woman who paid £10,000 over the years into a policy with a maximum £2,500 payout.

"At-need" funeral lending, a growing business in America, is another subject of concern. Lenders provide emergency loans via undertakers, typically charging 15-35% interest and sometimes lending to people who will struggle to repay. The good news for undertakers, one such lender brags, is that people who have been given loans are more likely to spend more on a funeral, "meaning more sales for the funeral director".

Last rights

Like engaged couples and first-time parents, recently bereaved people must take big decisions at a time of heightened emotion. Insurance salesmen and funeral directors hint that a "proper send-off"—a swanky coffin, a grand headstone and fancy catering—is a statement of love and respect. That idea is widely shared: haggling about a funeral can feel like a display of hard-heartedness. The best fix for the industry would be a move away from the idea that a funeral has to be expensive, says Josh Slocum of the funeral-consumers' alliance in America. "The big missing piece in the market has been a critical, informed consumer." ■

With all the trimmings