Most people who create estate plans do so to try to benefit their loved ones by leaving them resources and trying to reduce the administrative burden in the future. One tool sometimes used is a prepaid funeral plan.

These plans can prove helpful, but they can sometimes be disastrous. Before enrolling in a plan, it is important to understand how these plans work and the effects on other aspects of your estate plan. Of course, you also need to research to ensure the company is reputable.

How Prepaid Funeral Plans Work

A prepaid funeral plan is a contractual arrangement with a funeral home in which you agree to pay a specific amount to cover funeral expenses described in the contract. The amount may be paid in a lump sum or in installments over time. Amounts typically run between $10,000 and $25,000.

These plans enable people to make their own decisions about the arrangements they want ahead of time, and they can avoid pressure and stress on the family during a time of mourning. However, many experts warn that the plans end up costing families more than they would have paid if they had waited to make arrangements when needed. One reason for the added expenses is that plans often include administrative setup fees and ongoing maintenance fees.

Texas’ Requirements for Prepaid Funeral Plans

Unscrupulous companies have defrauded people in the past with regard to prepaid funeral plans, so Texas, like other states, has enacted specific laws to protect consumers. Before a company can sell prepaid funeral services or merchandise, it must have a trust-funded permit from the Texas Department of Banking or sell through a third party that holds a trust-funded or insurance-funded permit.

The intent is to ensure that the company will be able to provide the services paid for when the time comes. However, the legal requirements may not apply to all aspects that may be associated with a plan, so it is a good idea to have an attorney review the contract and the company before you agree to make this significant investment.

Impact on Medicaid Eligibility

Medicaid can provide benefits to cover the cost of nursing home care, but to qualify, you must demonstrate that you have very few countable assets and a very low income. Some assets, however, do not count toward your eligibility limit.

A prepaid funeral contract can be one of those non-countable assets, so putting money into a plan can be one strategy to help qualify for Medicaid long-term care benefits. However, it is important to ensure that the plan satisfies the rules. For instance, the plan must be an irrevocable plan that cannot be canceled, so that means you need to be certain it is the right plan for your situation and that it is set up with a reputable company.

Tax Deductions

Individuals cannot claim tax deductions for funeral expenses, and this includes amounts for prepaid funeral plans. However, if the estate pays for those expenses, then the executor of the estate can deduct funeral expenses or the cost of a prepaid funeral plan. Since your estate is not created until the time of your death, however, arranging to have an estate cover the cost of a prepaid funeral plan can be problematic.

Talk to Your Estate Planning Attorney Before Investing in a Prepaid Funeral Plan

Your estate planning attorney may be able to suggest numerous alternatives to help your loved ones meet their final needs without investing in a prepaid funeral plan. However, if you are considering a Medicaid preparation strategy, a prepaid plan could be a useful component of that strategy.

At The Nordhaus Firm, we work to develop comprehensive plans to meet the full range of clients' needs during their lifetime and to ease the burdens on loved ones in the future. Schedule a strategy session with us to develop, review, or update your plans.