

## Funeral Insurance

This fact sheet is for information only. You should get professional legal or financial counselling advice about your personal situation.

### Main ideas

- You can pay more in funeral insurance premiums than the policy pays out (much more, in some cases).
- If you cancel your policy, you usually will not get any premiums back.
- Premiums can increase as you get older, even on 'level' premiums. They can become unaffordable.
- There are other ways to save for your funeral.

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## Funeral insurance can be misleading

Preparing for the cost of your funeral is a good idea. It can save your family money and stress when the time comes. But there are better ways to do this than funeral insurance.

There are different types of funeral insurance (or funeral plans). You usually choose an amount – say \$5,000 to \$15,000 – and this is paid to a person you choose to cover the cost of your funeral. Be sure to read the Product Disclosure Statement (PDS) before you sign up.

**Manipulative marketing:** some advertisements target the elderly and vulnerable using slogans like 'Don't leave your family with financial stress'.

**Confusing information:** sometimes consumers aren't given clear information, especially when a policy is sold over the phone. Sometimes consumers do not understand how much their premiums will rise over time.

Policies may have 'stepped' or 'level' premiums. 'Stepped' premiums usually start lower but increase with your age as you get older. 'Level' premiums usually start higher and are generally more constant, but these too can increase over time. Premiums in both types of policies can increase due to inflation or general cost increases – check the wording of the product disclosure statement carefully and get advice if you feel misled.

**False assumptions:** some consumers think the premiums are paid into an account so the money is there for them when it is needed. Funeral insurance is more like car insurance – you don't get your premiums back if you don't continue the policy.

**Tricky terms:** Some policies advertise that 'the benefit will never be less than the total premiums you've paid for each life insured'. This sounds like you can stop paying premiums once you've paid the benefit amount. But it usually doesn't work that way; you must keep paying premiums. When you die, your beneficiary is paid the benefit amount and the extra premiums. BUT... if you cancel the policy before you die, nothing is paid.

## **Pamela's Story**

In 2014 Pamela took out a funeral insurance policy. She told the telephone salesperson that she could afford premiums of \$30 per fortnight. She was told that if she took a 'stepped premium' the premiums would increase only by 'little amounts' each year. She initially took out a policy for \$7,000 cover at premiums of \$30.63 per fortnight.

By 2022 the premiums had risen to \$62.97 per fortnight (more than double), but her cover was only \$8,500 (a 20% increase).

Pamela's only source of income is the aged pension. After paying for her nursing home accommodation and funeral insurance, Pamela has \$10 per week to live on. The premiums will rise again next year – that will mean the premiums will be more than she has after paying for her nursing home care. When that happens, Pamela will be forced to cancel her insurance policy. All of her premium payments (over \$10,000 by this stage) will be lost, and her family will need to find the money for her funeral.

## **The problem with funeral insurance**

- Unless you die in around 5-10 years, you are likely to pay more in insurance premiums than the benefit paid when you die. ([To estimate how long you will live, see the online calculator at My Longevity](#))

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- If you cancel the funeral insurance policy you will usually not get any money back.
  - Many funeral policies have ‘stepped’ premiums – the premiums go up as you get older. This can be a big problem as usually your income goes down and your expenses go up (for things like home help and medical costs) as you get older.
  - If you end up living on the Age Pension, you will probably not be able to afford the increasing premiums. If you stop your payments your policy will be cancelled and you will lose all the money you have paid so far.
  - Usually, funeral policies only cover deaths caused by accidents in the first 12 months (not sickness or other causes). This can also apply any time you change from one policy to another.
  - Sometimes it can take a long time for your family to get the insurance payout. They need to find the money at the time of your funeral.

## Alternatives to funeral insurance

**Pre-paid funerals:** These can be a good option, if you are sure you won’t move interstate before you die. Make sure you deal with a reputable company and read the fine print. Many companies will let you pay by instalments.

**High-interest savings account:** Your bank or financial institution can reimburse funeral expenses but it may take time – talk to them about how they pay the money.

You could also open a joint bank account in your name, and the name of a trusted family member:

- You can put in a small payment every fortnight, depending on what is affordable.
- Your family member can access those funds as soon as they are needed for your funeral.
- The money stays in your account even if you miss or completely stop making payments. Your money is safe, and you’ll get interest on it (but check the tax implications for the family member, and if you are on Centrelink benefits, whether it may affect your payments).

**Funeral bonds:** an investment product that pays interest. You pay a deposit and then add in payments over time, earning interest. Make sure you read the product disclosure statement carefully, and understand how it works. The money can only be taken out for your funeral.

**Superannuation:** When you die your super fund will pay out your super balance and any life insurance to your beneficiary. They can use this money to pay for your funeral, but sometimes it takes a long time to get it. Talk to your super fund about how they pay money when you die.

**Getting superannuation released early:** In some circumstances (like if you have a terminal illness) you may be able to get your super early to cover funeral expenses. You may also get

some super early to pay funeral expenses of a dependent. [For details see the ATO rules about getting super early.](#)

**If you are a Veteran:** You may get funeral payments from the Department of Veterans' Affairs (DVA), your trade union, or your state or territory government. [See the publication DVA: What to do when someone dies](#) or call 13 32 54 (1800 555 254 for regional callers).

**If your family is on Centrelink:** [A bereavement payment may be available through Centrelink.](#) Call 13 23 00 (1800 810 586 for TTY service).

**If you are on Centrelink:** [Centrelink has information about the impact of some of these options, such as funeral bonds and prepaid funerals, on your benefits](#)

**If you are First Nations:** check with your Land Council or Native Title body if your membership entitles you to some funeral benefits.

Most states and territories have procedures to help arrange for simple funerals if you can't afford one.

## **Cancelling a funeral insurance policy**

The law gives you a 'cooling-off' period (normally 30 days) after you buy an insurance policy. You can contact your insurer and cancel your policy in this period. You will get a full refund if you have not made a claim. Some insurers may charge an administration fee for the cancellation.

## **Getting premiums back if you have been misled**

If you think you have been misled by an insurance company when you signed-up for funeral insurance, you can:

- Ask for recordings of the phone conversation where you were told about your funeral insurance policy.
- After listening to the recording, if you think the company misled you about the policy, call the Insurance Law Service. Our number is 1300 663 464. We are a free service.
- [You can complain to the insurer. If it is not resolved you can lodge a dispute with the Australian Financial Complaints Authority \(AFCA\). For details on how to do this, read our Insurance Complaints to AFCA fact sheet.](#)

## **Need more help?**

For links to further services and information [visit our Useful Links page.](#)

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