



# What You Need to Know About Final Expense Life Insurance

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## **After you die you won't have to worry about your unpaid bills.**

**But somebody will.** Let's face it: Dying is expensive. The average funeral costs \$6,500, according to the National Funeral Directors Association, and that doesn't include cemetery expenses and other items that can push the bill above \$10,000<sup>1</sup>. In addition, the average American owes nearly \$9,846 in credit card and other debt, according to the Federal Reserve.<sup>2</sup> And that doesn't include what's due on your home mortgage. Throw in probate costs, taxes and other legal and estate matters, and it all adds up to a financial burden that could take years to pay off. Final expense life insurance can relieve your family of that concern, allowing them to mourn and to tie up loose ends without worrying about where the money will come from.

## **Understanding the Basics**

Final expense insurance is a life insurance policy written for a specific purpose: To cover your funeral costs and other short-term debts you leave behind. Most policies are available in face amounts typically ranging from several thousands of dollars up to a maximum of \$50,000 or \$75,000 – much less than a standard life insurance policy. That's because these policies are only intended to cover final expenses and not longer-range expenses like ongoing living costs or college or retirement funding.

If you're trying to determine whether final expense insurance is right for you, here are some key features and considerations to keep in mind:

- **Permanent Coverage:** With very few exceptions, final expense insurance is whole life insurance, a form of permanent life insurance. Unlike term insurance, which only pays a death benefit if you die during the "term" of the policy, usually 10 or 20 years, a whole life policy remains in effect as long as you continue to pay your premiums.

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<sup>1</sup> National Funeral Directors Association, 2004

<sup>2</sup> Federal Reserve Consumer Credit Report, 2006; U.S. Census Bureau Population Estimate, 2006



# What You Need to Know About Final Expense Life Insurance (continued)

- **Level Premiums and Benefits:** With whole life insurance, the premiums and the death benefit are guaranteed to remain the same for as long as you keep the policy in effect.
- **Cash Values:** A whole life policy also comes with guaranteed cash values that grow over time on a tax-deferred basis. If necessary, you can access your cash account for a variety of purposes – if you’re in a tight financial spot, for example, or if you need the money for an important purchase or to supplement your retirement income. This is known as a policy loan. You ultimately must repay any loan with interest or your beneficiaries will receive a reduced death benefit.
- **Simple Application Process:** The process of applying for a final expense policy is very streamlined. Premiums are mostly dependent on your age at the time of purchase. Typically, there is no medical exam or long questionnaire. Usually you’re just required to

Having final expense insurance helps ensure that your death won’t result in financial hardship for those you love.

answer some medical questions. This is called Simplified Underwriting, and it’s a nice option to have if you’re a little older or not in great health. If you’re concerned that you may be uninsurable, you should consider a “Guaranteed Issue” policy. With this type of policy, if you can answer “no” to a few simple health questions, you will be issued the policy. Of course, the downside to simplified underwriting is that the cost is usually higher than what you would pay for a fully

underwritten life insurance policy where the questions are more extensive and a medical exam is generally required.

- **Two Types of Policies:** There are two types of Final Expense policies. *Immediate Full Benefit Policies* are generally offered to people who have no serious immediate health concerns. The full value of these policies becomes available as a death benefit as soon as the policy is issued. *Graded Benefit Policies* are available for people who have health issues. These policies typically provide limited benefits during the first two or three years. If you were to die during that period, your beneficiaries would receive a percentage of the death benefit. If you live beyond that initial provisional period, the policy would pay the full death benefit.
- **Flexible Payment Options:** Most companies give you the option of a single premium (an up-front, lump-sum payment) or multi-year payment plans (typically paying over 3, 5, 7 or 10 years).

## Determining Your Needs

Because final expense insurance is for a specific set of needs, the amount of coverage that’s right for you depends on your own circumstances. You’ll need to think about what kind of funeral you want as well as estimate how much money will be needed to cover other final expenses such as probate, taxes, mortgage balances, car loans and other outstanding debts. The best way to do this is with the help of a qualified insurance professional who can walk you through a comprehensive needs analysis and help you choose the right amount and type of insurance.