

Types of FINAL EXPENSE INSURANCE



Nobody likes to think about the details around death, but the fact of the matter is funerals and burials aren't cheap. Depending on the situation and one's personal preferences, they often cost thousands of dollars. In 2023, the national median cost of a funeral with a viewing and burial was about \$8,300, according to the National Funeral Directors Association. Final expense insurance can help someone ensure their wishes around their end-of-life arrangements can be carried out by the loved ones they leave behind.

What Is Final Expense?

Final expense insurance, also known as “burial insurance” or “funeral insurance,” is a type of permanent whole life insurance. Instead of providing income replacement for loved ones (like most life insurance policies do), final expense insurance is meant to cover the costs related to the policyholder's viewing, funeral and cremation or burial. Legally, however, beneficiaries can often use the policy's payout to pay for anything they wish.

Generally, this type of policy is issued to people ages 50 to 85, but it can be issued to younger or older individuals as well. It often has a lower face value than other whole life insurance policies — usually anywhere from \$5,000 to \$25,000 — but death benefits can go as high as \$100,000.

Costs final expense insurance can help cover:

- Medical bills
- Transfer of remains to funeral home and/or cemetery
- Preparation of the body
- Caskets or urns
- Burial plots and headstones
- Use of facilities and staff for viewing and/or funeral
- Memorial-printed packages
- Other end-of-life expenses

For agents, this can be a great addition to your product offerings. You'll find that final expense insurance itself isn't hard to learn, with low face amounts, low premiums and simplified underwriting. Final expense appointments are generally short, and the target market and need for this product are both extensive.

Types of Final Expense Insurance

There are four main types of final expense insurance: guaranteed issue, graded, modified and level (preferred or standard rating). We'll go into more detail about each, but you can start to see the differences in the table below.

Note: All types of final expense policies pay full benefits for accidental death.

Type of FE Policy	Benefit for Non-Accidental Death	Underwriting
Guaranteed Issue	Waiting period, death benefit is equal to return of premium + interest rate for a specified number of years	No underwriting
Graded	Waiting period, death benefit is equal to a percentage of the death benefit	Simplified issue underwriting
Modified	Waiting period, death benefit is equal to return of premium + an interest percentage declared at policy issue	Simplified issue underwriting
Level (Preferred or Standard Rating)	No waiting period, full death benefit	Simplified issue underwriting

Note: Benefits and payout schedules vary by carrier, policy and state — check with each carrier!

GUARANTEED ISSUE

Applications for guaranteed issue final expense policies are rather straightforward with no health-related questions. Carriers that provide these products will often limit issue ages, offer reduced face values and modify the death benefits by offering return of premium, plus an interest rate for the first two to three years of the policy. Many guaranteed issue final expense policies do not come with additional riders. The premiums on these products are usually the highest that you will find. You're guaranteed coverage — but at the highest rate.

“Typically, guaranteed issue final expense policies are issued to clients with severe or multiple health issues that would prevent them from securing insurance at a standard or graded rating.”

issues that would prevent them from securing insurance at a standard or graded rating. These health conditions may include (but aren't limited to) renal disease, HIV/AIDS, organ transplant, active cancer treatments and illnesses that limit life expectancy. Often times, these prospects have difficulty performing activities of daily living (ADLs) or are in nursing home care.

It's important to note that different carriers offer a range of issue ages on their guaranteed issue policies. Some will also offer higher face values while others will allow for better death benefit conditions by improving the interest rate with the return of premium or lessening the number of years until a full death benefit is available. There are even carriers that will offer built-in riders, such as chronic illness and accidental death riders. If you have a client that requires a

guaranteed issue final expense policy, ensure you find the right fit for your client by comparing the features, benefits and rates of policy available to you.

GRADED AND MODIFIED FINAL EXPENSE

Graded and modified final expense policies are similar to each other, but each policy has its own details you must consider.

Graded final expense policies usually have a two-year waiting period before the carrier pays the entire death benefit to a beneficiary, but some don't pay out a full death benefit until the fourth year. If a non-accidental death occurs before two years, the policy will usually only pay a percentage of the death benefit. For example:

- If a non-accidental death happens in year one, the carrier might only pay 30 percent of the death benefit.
- If a non-accidental death occurs in year two, the carrier might only pay 70 percent of the death benefit.
- For a non-accidental death in year three or later, the carrier would probably pay 100 percent of the death benefit.

Modified final expense policies, similar to graded policies, look at health conditions that would place your client in a more restrictive modified policy. These may include recent alcoholism, angina, a stroke, an aneurysm or cancer. With modified policies, there's usually a two-year waiting period before the carrier pays the entire death benefit to a beneficiary. If a non-accidental death occurs before two years, the policy will only pay a return of premium, plus a declared percentage interest. For example:

- If a non-accidental death happens in year one or two, the carrier will return the paid premiums, plus 10 percent interest (general average) on those premiums.
- For a non-accidental death in year three or later, the carrier would probably pay 100 percent of the death benefit.

Graded or modified policies aren't only for older clients. Generally, you'll find that clients who qualify for graded or modified final expense policies usually have less-than-perfect health and a specific health issue that is recent or chronic in nature and would prevent them from getting a standard or more traditional whole life policy. Some products have specific health issues that will get preferential treatment from the carrier.

LEVEL-BENEFIT FINAL EXPENSE OR SIMPLIFIED ISSUE TRADITIONAL WHOLE LIFE

Normally, level-benefit traditional final expense or simplified issue whole life policies have the cheapest premiums and the largest availability of additional riders that clients can add to policies. This type of product usually brings the most flexibility in the form of issue age, face value and, in some rare cases, participating dividends.

While typical final expense carriers have limits on age, there are carriers that view their traditional whole life products not just for final expense, but as insurance policies that are versatile to meet a client's needs.



“ Unlike guaranteed issue, graded or modified final expense policies, traditional final expense policies are typically for clients who are in good or excellent health.”

Unlike guaranteed issue, graded or modified final expense policies, traditional final expense policies are typically for clients who are in good or excellent health. Depending on the insurance carrier, both a preferred rate class and standard rate class may be offered. A client in excellent health with no current prescription medications or health conditions may qualify for a preferred rate class with the lowest premiums possible. A client in good health — even with a few maintenance medications, but no significant health issues — may qualify for standard rates. Additionally, since these types of policies can be written outside of a true final expense need, an illustration of example scenarios tailored to the client may be required to accompany an application.

Note: In a “participating policy” (also known as a “par” policy) the insurance company shares the excess profits (divisible surplus) with the policyholder in the form of annual dividends. Typically, these “refunds” are not taxable because they’re considered an overcharge of premium (or “reduction of basis”).

How Final Expense Insurance Works

In general, final expense insurance works similarly to other forms of life insurance. If your client applies for a policy, they may or may not be approved for one, depending on the policy they’ve applied for and any other qualifying factors for it. If your client purchases a policy, they’ll have to name at least one beneficiary. When your client passes away, their final expense policy will pay out to any living beneficiaries they’ve designated. Let’s take a quick look at how final expense premiums, underwriting, beneficiaries and payouts function.

PREMIUMS AT A GLANCE

As with other insurance products, what your clients will pay for a final expense insurance policy depends on the carrier, policy and state. Your clients’ health, gender and age can also be huge factors in determining their premium(s). Similar to other life insurance policies, if your clients smoke, use other forms of tobacco or nicotine, have preexisting health conditions, or are male, they’ll likely have to pay a higher rate for a final expense policy. Moreover, the older your client is, their rate for a policy will be higher since insurance companies believe they’re taking on more risk when they offer to insure older clients.

Your Clients’ Final Expense Premiums May Be Higher If They:

- Smoke or use tobacco
- Have preexisting health conditions
- Are a male
- Are older in age, especially 85+

TYPES OF FINAL EXPENSE INSURANCE

As you're selling final expense policies, you'll see there are three main types of premiums for these policies: single, limited, and lifetime. Single-pay policies require policyholders to pay the entire cost of the policy upfront, while limited-pay policies allow the policyholder to pay for the policy over a set number of years (usually 20 or less). With lifetime-pay policies, policyholders pay a monthly or annual premium for the policy until they pass away or decide they no longer want to continue the policy.

Single-Pay

Policyholders pay for the policy upfront

Limited-Pay

Policyholders pay for the policy over a set number of years

Lifetime-Pay

Policyholders pay for the policy monthly or annually until they pass away or terminate their coverage

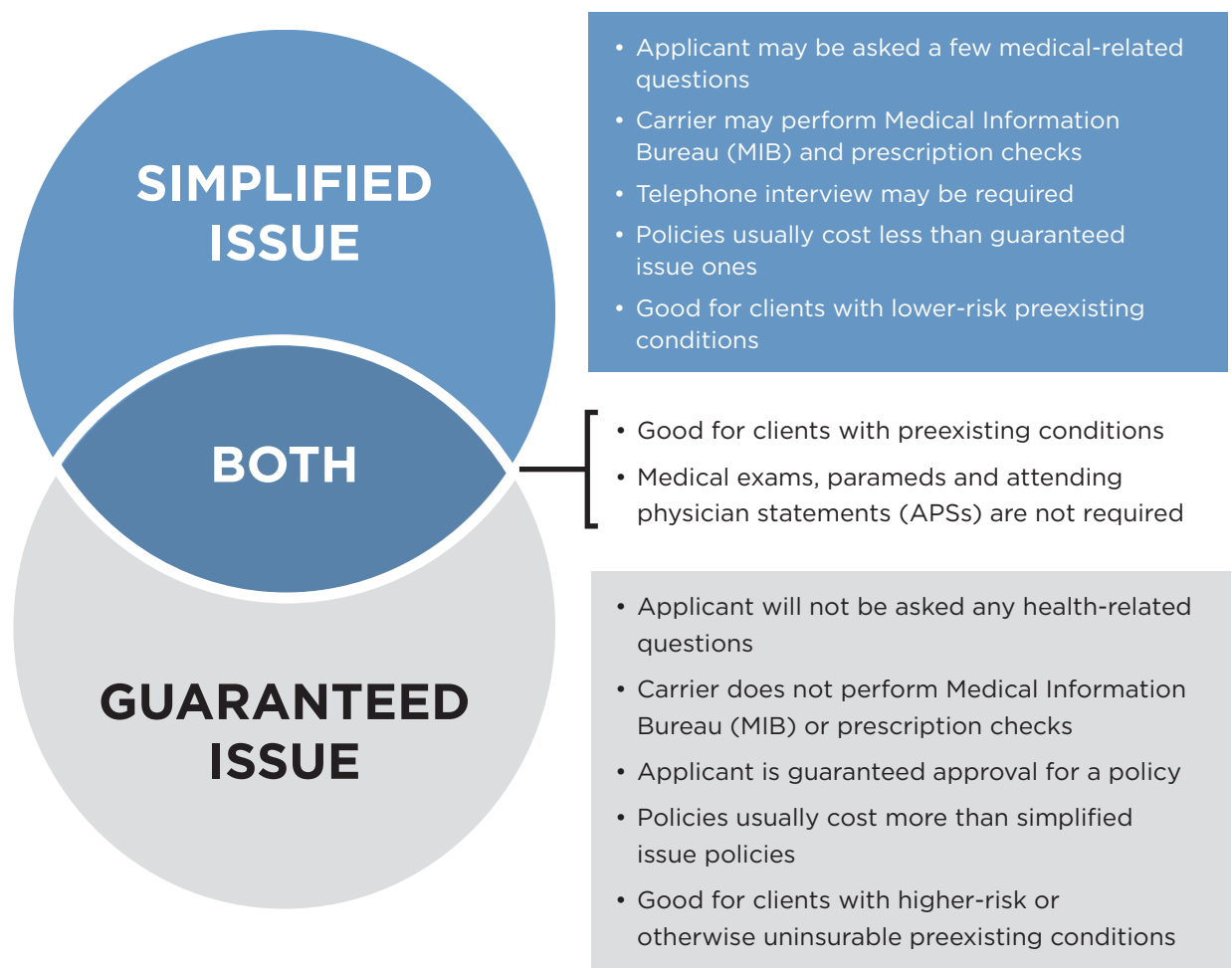
One nice thing about final expense insurance premiums is that, once your clients have purchased a policy, their rates will never increase. That's because final expense policies have level (or "fixed") premiums. The policy will also remain in force as long as the policyholder pays their premium(s).



AN INTRODUCTION TO UNDERWRITING

While many other life insurance policies may require medical or paramedical exams, or attending physician statements (APs), final expense insurance policies do not. That's one of the great things about final expense policies. At most, applicants have to answer health and prescription drug questions and/or complete a telephone interview. In other words, underwriting requirements can be very minimal!

That being said, there are two main types of underwriting for final expense policies: simplified issue and guaranteed issue. With simplified issue policies, clients generally only have to answer a few medical-related questions and may be denied coverage by the carrier based on those answers. Conversely, guaranteed issue policies generally don't require the applicant to answer any medical-related questions. If the applicant meets the qualifications, a guaranteed issue final expense policy has no additional underwriting to be approved.



Note: Traditional whole life policies that offer simplified issue underwriting will have more extensive underwriting than that for standard, graded or modified final expense policies.

Even though underwriting isn't that intense for final expense policies, it's still important for agents to ask their final expense prospects about their health history and prescription medications.

For one, this can allow agents to figure out what type of policy underwriting would work best for a particular client. And two, it helps agents narrow down their clients' options. Some carriers may disqualify clients for coverage based on what medications they're taking, and how long or why they've been taking them (i.e., maintenance or treatment). Other carriers disqualify clients or charge them higher rates if they have or had diabetes, chronic obstructive pulmonary disease (COPD), cancer or heart attack(s). The number of years that carriers look back on applicants' medical histories for certain conditions varies, but it's often two to five years.

WHAT TO KNOW ABOUT BENEFICIARIES & PAYOUTS

The main reason someone should buy final expense insurance is for the death benefit, which is meant to cover the policyholder's end-of-life expenses after they've passed. Beneficiaries play an important role in final expense insurance since they're the ones who receive the death benefit, or the payout, from the policy.

Two main types of final expense insurance beneficiaries exist: primary and secondary (or "contingent"). Primary beneficiaries are policyholders' first choice for who they'd like to receive the payout and secondary beneficiaries are their second choice. Secondary beneficiaries only receive the payout if all primary beneficiaries have passed away. Some carriers offer a tertiary beneficiary who is the policyholder's third choice.

When somebody buys a final expense policy, they must name at least one beneficiary, but policyholders have the ability to name multiple beneficiaries. In fact, policyholders can name multiple beneficiaries for each level, and must specify the percentages of how the payout would be divided between beneficiaries.

1

Primary Beneficiaries

Receive a set percentage of the payout when the policyholder passes away

2

Secondary Beneficiaries

Receive a set percentage of the payout if the policyholder passes away and all the primary beneficiaries have passed away

3

Tertiary Beneficiaries

Optional by carrier. Receive a set percentage of the payout if conditions are met according to the policy.

Note: These are examples — always check carrier guides.

“Remind your clients to only name people they trust as beneficiaries since, legally, final expense beneficiaries can often use the money for anything they wish.”

As your client decides who they'd like their beneficiaries to be, you should remind them to only name people they trust since, legally, final expense beneficiaries can often use the money for anything they wish. In certain situations, such as with a funeral trust, your client may be able to name a funeral home as a beneficiary, so the payout of the final expense policy goes there to cover the costs of their viewing and funeral. In this case, the client then selects a second beneficiary to get any remaining funds.

Policyholders should review their beneficiaries and all applicable contact information every year or so to ensure it's up to date. If the policyholder would like to, they can change their beneficiaries on the policy at any time, usually by completing a form.

How fast do final expense insurance policies pay out? It varies from carrier to carrier. Some insurers can pay out approved claims as fast as 24 hours after they're submitted, while others can take slightly longer. Final expense policies are designed to offer a quick payout so that the immediate costs of a funeral can be covered by the insurance policy.



A NOTE ON FUNERAL TRUSTS

Funeral trusts are different than a true final expense policy, but they can also be a great (and sometimes free), way to help your client prepare for the future and gain some additional benefits and protections. One of the great things about funeral trusts is that, with them, your client can potentially avoid having to spend down their assets to qualify for Medicaid. This is because Medicaid may not count funds in a funeral or burial trust as assets. Additionally, a client can fund a funeral trust tax-free with whole life insurance. And the proceeds of funeral trusts don't have to go through probate, which means they won't be subject to extra costs and delays.

If your client is interested in setting up a funeral or burial trust, there are a few things they should be aware of:

- The trust pays for funeral and/or burial costs first. Any excess or remaining funds go to the estate or the named beneficiary, depending on the trust option.
- It's possible to fund trusts using other insurance policies **without tax consequences** via a 1035 exchange.
- Trusts are irrevocable — they can't be reversed, surrendered or dissolved by anyone for any reason.

Keep in mind, the minimum and/or maximum amounts someone can put in a funeral or burial trust may vary by state. Medicaid eligibility and irrevocable assignment rules also vary by state.

ACTION STEP

Become Familiar With Final Expense Insurance

Get to know the different types of policies and how final expense premiums, underwriting,



Final expense life insurance can be used by the beneficiary designated as needed rather than being limited to specific funeral services and providers. Final expense life policies will have a lower face value than most traditional term or whole life policies as they are intended for a specific purpose of covering those final costs rather than providing comprehensive support for surviving family members. This type of policy generally doesn't require a medical exam, but premiums will be higher the older you are, and some benefit payouts may be limited during the first few years of coverage for those with significant health issues. Reducing or skipping premium payments will impact the amount of interest paid and may impact how long the policy lasts. Accessing the cash value of a policy will reduce the available cash surrender value and the death benefit. Policy guarantees are based upon the claims-paying ability of the issuing life insurance company.