

The provider will be entitled to a deduction for the nett investment income when it is distributed to the estate of the deceased or a funeral director.

The executor of the estate will be responsible for tax on this income when received. If paid to a funeral director the proceeds of the policy are assessable to the funeral director at the time of receipt (ie principal and earnings).

Prepaid Funeral Plans

An alternative to a funeral bond is a prepaid funeral plan. Arrangements for the funeral are agreed upon with a funeral director. The price is set at the time of prepayment and no further amounts are charged at the time of death. Increases in cost are covered by the earnings of the investment. It may not include the cost of the burial plot which may need to be paid for separately.

Payments can be made as a lump sum or in instalments over an agreed period, usually up to 3 or 4 years. The instalment method is more expensive. A certificate should be provided by the funeral director detailing all the arrangements.

A refund of money prepaid or the transfer of the certificate may be possible.

Money paid into the plan is invested by the trustee and cannot be accessed by the funeral director. Earnings are not paid to the investor. They are used to cover the cost of inflation.

Money is not subject to the income or asset tests for social security or Veterans' Affairs. There is no limit on the amount of prepayments for the funeral. Payment of a burial plot is also not subject to the income or assets tests.

It is important to choose a funeral director who

is a member of the Australian Funeral Directors Association or other similar association. If the chosen funeral director is no longer in business when the funeral is required, one of the other members will provide the service.

Some states have legislation that specifies the investments which may be used for prepaid funeral contributions. Commonly funeral bonds are used.

Investing With Safety

- Money lodged in funeral bonds cannot be accessed. Only lodge what is needed for the funeral, keeping other funds aside for living expenses.
- The money lodged is invested as disclosed in the PDS. Check for any guarantees and what they cover.
- Fully understand the product and its consequences before investing. Read the PDS carefully as this may avoid future problems.
- Ensure all requirements are accounted for and covered to avoid unexpected expenses when the funeral is required.

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The National Information Centre on Retirement Investments Inc (NICRI) is an independent organisation funded by the Australian Government Department of Families, Housing, Community Services and Indigenous Affairs. NICRI provides a free independent source of investment information for consumers and works at arms length from Government and the financial services industry.

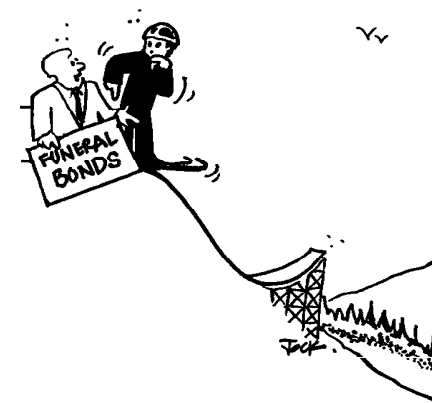
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National Information Centre on Retirement Investments Inc.

Funeral Bonds & Prepaid Funeral Plans



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Investment Product Series

INFORMATION CURRENT FROM 21/01/08



What are Funeral Bonds ?

Funeral bonds are used for accumulating funds to pay funeral costs. Policies cannot be surrendered or accessed until death. They are offered by friendly societies and trustee companies.

Money can be invested as a lump sum or through regular instalments. Additional deposits may be possible.

Interest (bonuses) is paid annually and is added to the investment.

Upon death, accumulated interest (bonuses) and capital is paid to the estate to help cover funeral expenses. Alternatively the proceeds can be paid to a nominated funeral director.

Check what is payable on death carefully with any fund being considered. Some funeral bonds will pay the total balance of funds to the estate. Other funeral bonds can only pay the actual amount required for the funeral to the estate. Proof of funeral costs may be required. Surplus funds may remain in the fund. Check the Product Disclosure Statement (PDS) carefully and invest enough money to pay for the funeral wanted.

Fees

- Entry fees vary, usually 0% - 4%.
- Annual management fees vary around 2.0% of the total value of the fund. They are deducted from investment earnings before the annual bonus is declared.
- Exit fees may apply for a limited time.

Features

- The maximum investment amount is usually \$10 000. Some funds may allow larger investments.
- Minimum initial investment is usually \$500 or if using a regular savings plan \$100, with monthly payments of about \$50.
- Bonds may be owned individually or jointly but generally only one funeral may be paid for with the bond. On the death of the first owner, the survivor can elect to access the funds to pay for funeral expenses or to leave the investment to mature on their own death. Check available options with the provider.
- Bonds can be assigned to funeral directors in conjunction with a pre arranged funeral.
- In the event of death while travelling transport can be arranged by paying an extra premium.
- Some product providers may distribute tax refunded to them when the bond is paid out.

But Remember...

- Money can only be paid out on death. Early access is not possible.
- If the bond only returns the actual amount required to pay funeral expenses the estate may lose some capital and/or earnings if the account balance is higher.
- The funeral may cost more than the value of the bond and more money may be needed from other sources to pay for it.

Government Income Support

Funeral Bonds of up to \$10 000 per person, excluding investment returns, are exempt under both the income and assets tests.

If more than \$10 000 is invested the full amount is assessed under both tests.

A funeral bond investment is not an exempt asset if the investor has another funeral bond in their own name or jointly owned with their spouse or if they have prepaid their funeral expenses.

For further details contact a Centrelink Financial Information Service Officer (FIS) or the Department of Veterans Affairs.

Bonds assigned with prearranged funerals are treated as prepaid funerals.

Taxation

Bonuses earned on funeral bonds purchased before 1 January 2003 are totally free of tax and do not have to be shown on your tax return. The friendly society does not pay tax on the earnings of these bonds either, so earnings are credited to the account tax free.

Benefits paid out upon death are also exempt from taxation. Any money not used for funeral expenses and returned to the estate by the fund may be liable for income tax. This is the responsibility of the Executor.

For policies purchased after 31 December 2002 the earnings will be taxable in the hands of the product provider with effect from 1 January 2003.