



## Funeral Bonds

A funeral bond is a managed investment with the purpose of meeting the costs of future funeral expenses. A Funeral Bond can be an effective solution for those wishing to ensure the expense of their funeral is covered and their loved ones are not burdened with these costs. A Funeral Bond can be advantageous from a tax and social security perspective.

On death, the capital and interest are paid to either a pre-designated funeral director or to the Estate. The capital is guaranteed, and that capital earns interest, which accumulates within the fund. The investment cannot be accessed prior to death. Funds can be invested as a lump sum, or as an instalment plan, but the amount invested should not exceed the expected funeral costs.

### How do Centrelink/DVA Assess Funeral Bonds?

Centrelink/DVA apply a Funeral Bond Allowable Limit. The Funeral Bond Allowable Limit from 1 July 2023 is \$15,000 (indexed on 1 July each year). An exempt Funeral Bond must also meet the following criteria:

- ✿ The interest must be added to the capital, ie: it cannot be withdrawn.
- ✿ The funds cannot be accessed prior to death.
- ✿ The investment can only be used to pay for funeral costs.

Exempt Funeral Bonds that meet the criteria are not assessed by Centrelink/DVA for either the income or assets test.

### How are Funeral Bonds Taxed?

A Funeral Bond is a tax-paid investment. What that means is; the investment earnings are not taxed in the hands of the bond owner and do not need to be included in their annual tax return. Tax is applied within the fund at the current corporate rate of 30%.

### How do Funeral Bonds Differ from Pre-paid Funerals and Funeral Insurance?

Funeral Insurance is a lump sum insurance that pays a pre-determined fixed benefit amount in the event of death, in return for regular premium payments. The potential disadvantages of Funeral Insurance are:

- ✿ Premiums increase as you get older.
- ✿ There may be 'waiting periods' that apply.
- ✿ You may end up paying more in premiums than the insured benefit amount depending on the timeframe of the policy.
- ✿ Premiums need to be maintained for the duration of the policy. If they are stopped at any time, the policy may lapse, and no benefit would be payable.

A pre-paid funeral plan allows you to choose and pre-pay for your funeral in advance. It is not an investment like a Funeral Bond. The potential disadvantage of a Pre-Paid Funeral is that they can be inflexible (for example, if you move interstate).

Pre-paid funeral plans, like funeral bonds, are exempt from the Centrelink Income and Assets test, while Funeral Insurance does not receive favorable treatment from a Centrelink perspective.

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