

September 2010

Pre-Funding Funerals

Cameos Comparing Products

Prepared for InvoCare

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1. Executive Summary

1.1 Background

Rice Warner Actuaries (RWA) has been engaged by InvoCare to compare and analyse the advantages and disadvantages of different methods of prefunding funeral products. The products compared are prepaid funeral plans and funeral insurance policies.

The specific products compared are the Guardian Plan¹, a leading prepaid funeral plan which is available through a network of over 180 funeral homes throughout Australia and the InsuranceLine Funeral Plan², a leading funeral insurance policy, insured by Tower Australia Limited, which is a wholly owned subsidiary of Tower Group.

This report contains the results of our comparison of each of the products.

Section 2 provides some background information on each of the product types and sets out the advantages and disadvantages of each. Sections 3, 4, 5 and 6 analyse the costs and benefits of each of the products from the perspectives of different individuals. Finally, Appendix A details the assumptions behind the analysis.

1.2 Conclusion

Whilst the Guardian Plan costs more than the InsuranceLine policy in the early years, for most clients a pre-paid funeral plan such as Guardian Plan provides significantly better value for money.

For example, for a 75 year old:

- Between 6 to 7 years the cumulative insurance premiums paid exceed the benefit paid, thereby making the InsuranceLine policy more expensive;
- There is a very high likelihood³ of living to age 81 or beyond. If the insured lives beyond age 81 he or she has to pay progressively higher premiums in order to maintain the benefit and the total cost becomes progressively higher over time, relative to the cost of a pre-paid funeral.
- Importantly, under the InsuranceLine policy, if the insured has trouble meeting their financial commitments as they become older and do not continue the premiums, the entire benefit is lost and all past premiums paid are forfeited.

The Guardian Plan involves an initial lump sum contribution (such as \$6,000, as assumed in this report) but then provides for the full funeral costs irrespective of the date of death by locking in the cost of the funeral at today's prices.

¹ The product current at the date of this report, which has a Product Disclosure Document dated 1st October 2009

² The product current at the date of this report, which has a Product Disclosure Document dated 1st December 2006

³ An 85% probability for a woman and an 76% probability for a man

Guardian Plan also provides the additional benefit of customising the beneficiary's funeral service with a caring local accredited funeral home of choice that means that it offers better overall value for money and it can be a one off transaction where the beneficiary does not have to remember to pay premiums.

The Cameos set out in Section 3, 4, 5 and 6 show the "breakeven" points after which the Guardian Plan provides better value than the InsuranceLine Funeral Plan in terms of cumulative cost. The Cameos assume that stepped premiums are paid under the InsuranceLine Funeral Plan. If level premiums were paid then the breakeven points would be even earlier than for stepped premiums.

The InsuranceLine Funeral Plan provides family cover for a substantial discount to the price paid if the family members had each taken out individual cover. It also provides a double benefit in the event of death as a result of an accident.

This report was prepared and peer reviewed for InvoCare by the following consultants.

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This report constitutes a Statement of Advice as defined under the Financial Services Reform Act. It is provided by Rice Warner Actuaries Pty Ltd. which holds Australian Financial Services Licence number 239 191.

2. Background Product Information

2.1 Prepaid Funeral Plan

A prepaid funeral plan entitles the beneficiary to receive their desired funeral services in the future in exchange for a sum of money that is paid today at today's prices. That is, individuals pre-purchase their funeral and no longer have to be concerned about price increases in the future. A Guardian Plan is a good example of a prepaid funeral plan.

A Guardian Plan prepaid funeral plan is available to anyone over the age of 18 (a specified dependant can be 16 years old), and there is no upper age limit. Prepaid funeral plans are an exempt asset for social security purposes and may help persons to qualify for a part pension or alternatively increase existing part pension benefits. No health questions are asked.

An individual pre-paid funeral plan must be purchased for each individual, with no discount for couples or families.

2.2 Funeral Insurance

Funeral insurance products are targeted across a broad age range from 17 years upwards. The InsuranceLine Funeral Plan policy can only be applied for up to 80 years of age. After 90 years of age, cover continues for free.

Funeral insurance products are designed to cover funeral costs and do not ask any health questions. In comparison with broader life insurance policies, the absence of underwriting combined with relatively low average policy size means that the cost of cover is relatively high and, whilst it covers death from any cause after the first 12 months⁴, it only covers death by accident before then.

The InsuranceLine Funeral Plan provides family cover for a substantial discount to the price paid if the family members had each taken out individual cover. It also provides a double benefit in the event of death as a result of an accident.

⁴ The product is also available with a 24 month accident only period, for a slightly lower cost

2.3 Comparison of the Product Types

Table 1. Advantages of the Comparison Products

	Prepaid Funeral Plan (Guardian Plan)	Funeral Insurance (InsuranceLine)
Advantages	<ul style="list-style-type: none"> ▪ It provides for the full funeral costs irrespective of the date of death. It locks in the cost of the funeral at today's prices thereby providing protection against inflation ▪ It gives the client the opportunity to personalise and select the funeral services they wish to be provided. ▪ It gives you peace of mind in the knowledge that your affairs are in order and that your family will not be burdened financially or emotionally by having to make funeral arrangements ▪ Flexible payment options with the ability to pay the full price up front or by instalments up to 3 years ▪ No investment risk ▪ Payment for a Guardian Plan contract regardless of the amount is totally exempt from both assets test and deeming rules for the income test. It does not adversely affect the age pension and in some cases entering into a Guardian Plan contract may help the client qualify for the age pension or increase their existing part pension ▪ There are no personal tax consequences for the plan owner and proceeds from the prepaid funeral plan are fully used by Guardian Plan to fund funeral expenses ▪ No medical or health checks required 	<ul style="list-style-type: none"> ▪ Provides good value for individuals who die in a relatively short period of time after the payment of their first premium (but not in the first year or two, unless as a result of an accident) ▪ Premiums are relatively cheap at younger ages ▪ Family Plan available for additional premium which covers your partner and all financially dependent children under 18 years of age. ▪ No investment risk ▪ Does not affect your pension or other social security benefits. It does not adversely affect the age pension. ▪ Proceeds from insurance policy are not taxed and there are no personal tax consequences for the plan owner ▪ No medical or health checks required

Table 2. Disadvantages of the Comparison Products

	Prepaid Funeral Plan (Guardian Plan)	Funeral Insurance
Disadvantages	<ul style="list-style-type: none"> ▪ An initial lump sum contribution is required, although a monthly instalment plan is available ▪ Need individual plans to cover other family members 	<ul style="list-style-type: none"> ▪ No benefit is received if premiums cease to be paid - all past premiums paid are forfeited ▪ You must select the sum insured which may or may not be sufficient to cover future funeral costs ▪ There is Accident Only Cover for the 12 or 24 months after the policy has been purchased. That is, you will only receive insurance benefits if your death is caused by an accident in this period ▪ You do not get to choose in advance the type of funeral you require ▪ Benefits do not necessarily have to be used to fund funeral expenses ▪ Your family may have to handle all of the funeral arrangements if not already arranged beforehand ▪ Premiums are generally very expensive at advanced ages

3. Cameo 1 - Aged 75

Ken is 75 years old and recently attended a friend’s funeral. He started thinking about his own funeral and how he wanted to be remembered. He started asking himself some serious questions, “Who would know what I want when the time came and more importantly how would my family afford it?”

Ken decided to investigate the different methods of prefunding his funeral. He compared Guardian Plan prepaid funeral plan and InsuranceLine Funeral Plan insurance policy (each of these products being representative of their respective product types).

The results of Ken’s analysis are shown in the table and graph below:

Table 3. Cumulative Costs and Benefits

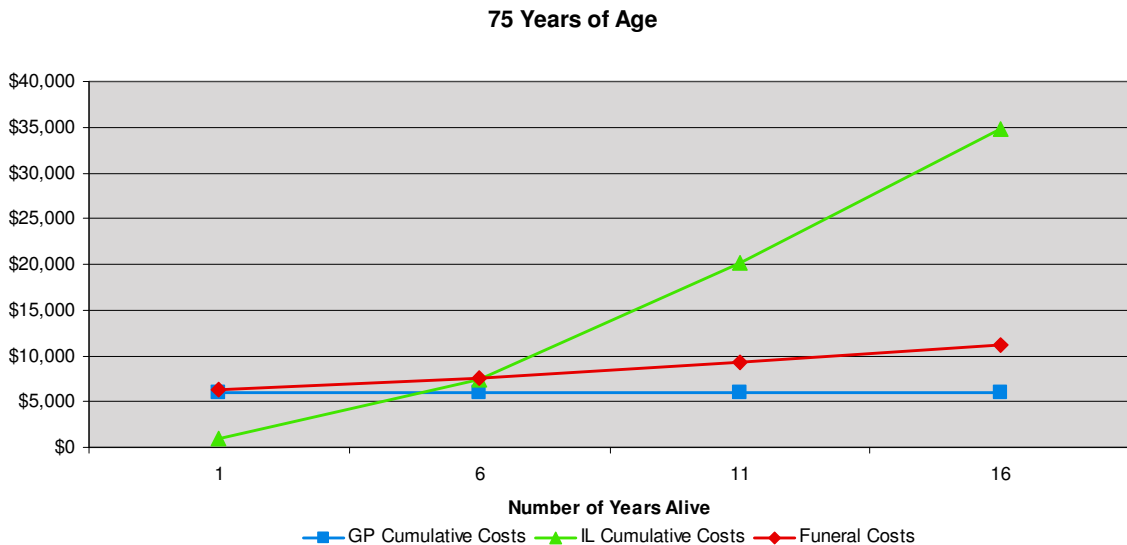
Number of Years Alive	Age	Guardian Plan Cumulative Costs \$	InsuranceLine Cumulative Costs \$	Funeral Costs \$	Guardian Plan Benefit (1) \$	InsuranceLine Benefit (2) \$
1	76	6,000	866	6,240	6,240	6,000
6	81	6,000	7,466	7,592	7,592	7,658
11	86	6,000	20,149	9,237	9,237	9,773
16	91 ⁽³⁾	6,000	34,823	11,238	11,238	11,880

(1) Guardian Plan benefit is equivalent to selected funeral costs at date of death.

(2) InsuranceLine benefit is the sum insured at date of death.

(3) Premiums have been assumed to cease at age 90

Graph 1. Cumulative Costs Compared to Estimated Funeral Costs



Under this scenario, both the Guardian Plan and the InsuranceLine policy will meet the costs of the funeral, whenever death occurs⁵. However, the cost to the client varies between the two products:

- Between 6 to 7 years the cumulative insurance premiums paid under the InsuranceLine policy exceed the benefit paid, thereby making it more expensive than the pre-paid funeral plan.
- In the first 6 years the benefit paid under the InsuranceLine policy is greater than the cumulative insurance premiums paid.

There is a very high likelihood⁶ that a 75 year old will live to age 81 or beyond.

If Ken lives beyond age 81 he has to pay progressively higher premiums in order to maintain his benefit and Graph 4 shows (the green line) that the total cost becomes progressively higher over time, relative to the cost of a pre-paid funeral.

Importantly, under the InsuranceLine policy, if Ken has trouble meeting his financial commitments as he becomes older and does not continue his premiums, his entire benefit is lost and all past premiums paid are forfeited.

The Guardian Plan involves an initial lump sum contribution (\$6,000 in the example above) but then:

- Provides for the full funeral costs irrespective of the date of death by locking in the cost of her funeral at today's prices;
- Allows Ken to personalise his funeral service and select the services he wants without any time pressures, relieving the responsibility from his Executor come the time; and
- Gives him peace of mind knowing that his affairs are in order and that his children will not be burdened financially or emotionally during a stressful time.

The InsuranceLine Funeral Plan provides family cover for a substantial discount to the price paid if the family members had each taken out individual cover. It also provides a double benefit in the event of death as a result of an accident.

⁵ Although in the first twelve months the InsuranceLine policy only pays a benefit on accidental death

⁶ An 85% probability for a woman and an 76% probability for a man

4. Cameo 2 - Aged 70

Jill is 70 years old and, similar to Ken, she recently was affected by an unexpected death. Her husband recently passed away and she was left to organise and pay for his funeral at a very emotionally difficult time. She is now trying to get her affairs in order and help her family avoid the emotional and financial burden she had just gone through. The Executor of her will suggested that she should consider prefunding her funeral.

Jill decided to investigate the different methods of prefunding her funeral. She compared Guardian Plan prepaid funeral plan, and InsuranceLine Funeral Plan insurance policy (each of these products being representative of their respective product types).

The results of Jill's analysis are shown in the table and graph below:

Table 4. Cumulative Costs and Benefits

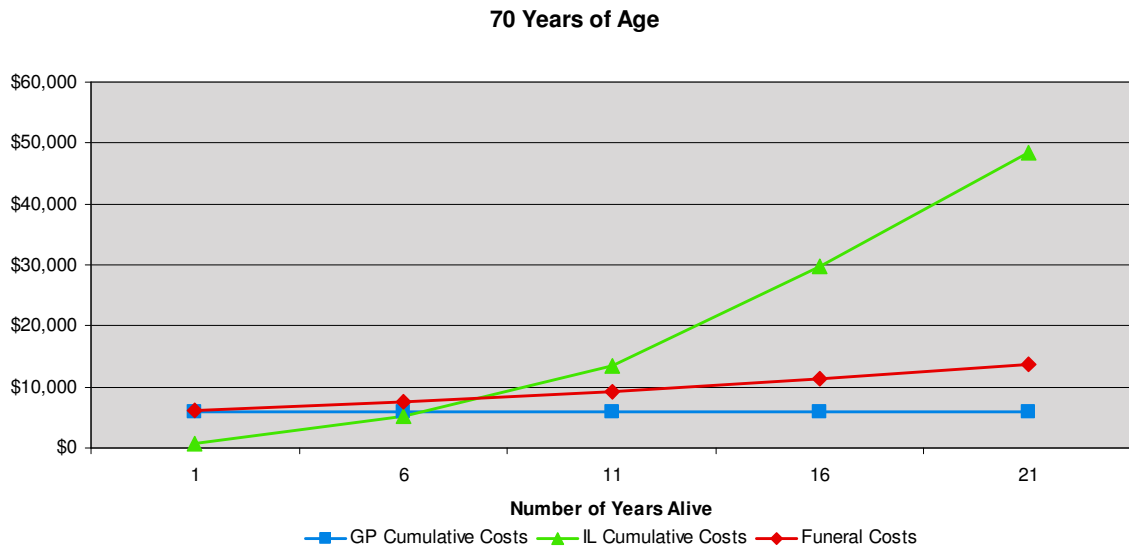
Number of Years Alive	Age	Guardian Plan Cumulative Costs \$	InsuranceLine Cumulative Costs \$	Funeral Costs \$	Guardian Plan Benefit (1) \$	InsuranceLine Benefit (2) \$
1	71	6,000	626	6,240	6,240	6,000
6	76	6,000	5,120	7,592	7,592	7,658
11	81	6,000	13,544	9,237	9,237	9,773
16	86	6,000	29,731	11,238	11,238	12,474
21	91	6,000	48,459	13,673	13,673	15,162

(1) Guardian Plan benefit is equivalent to selected funeral costs at date of death.

(2) InsuranceLine benefit is the sum insured at date of death.

(3) Premiums have been assumed to cease at age 90

Graph 2. Cumulative Costs Compared to Estimated Funeral Costs



Under this scenario, both the Guardian Plan and the InsuranceLine policy will meet the costs of the funeral, whenever death occurs⁷. However, the cost to the client varies between the two products:

- Between 8 to 9 years the cumulative insurance premiums paid under the InsuranceLine policy exceed the benefit paid, thereby making it more expensive than the pre-paid funeral plan.
- In the first 8 years the benefit paid under the InsuranceLine policy is greater than the cumulative insurance premiums paid.

There is a very high likelihood⁸ that a 70 year old will live to age 78 or beyond.

If Jill lives beyond age 78 she has to pay progressively higher premiums in order to maintain her benefit and Graph 4 shows (the green line) that the total cost becomes progressively higher over time, relative to the cost of a pre-paid funeral.

Importantly, under the InsuranceLine policy, if Jill has trouble meeting her financial commitments as she becomes older and does not continue her premiums, her entire benefit is lost and all past premiums paid are forfeited.

The Guardian Plan involves an initial lump sum contribution (\$6,000 in the example above) but then:

- Provides for the full funeral costs irrespective of the date of death by locking in the cost of her funeral at today's prices;
- Allows Jill to personalise her funeral service and select the services she wants without any time pressures, relieving the responsibility from her Executor come the time; and
- Gives her peace of mind knowing that her affairs are in order and that her children will not be burdened financially or emotionally during a stressful time.

The InsuranceLine Funeral Plan provides family cover for a substantial discount to the price paid if the family members had each taken out individual cover. It also provides a double benefit in the event of death as a result of an accident.

⁷ Although in the first twelve months the InsuranceLine policy only pays a benefit on accidental death

⁸ An 87% probability for a woman and an 79% probability for a man

5. Cameo 3 - Aged 65

Peter is 65 years old and is soon to retire. He is trying to get his affairs in order and plan for the future. When updating his will and reviewing his estate planning, his solicitor suggested that he should consider prefunding his funeral. Whilst planning for the future Peter started asking questions, "How would my family afford a funeral when the time came or even know what I want?"

Peter decided to investigate the different methods of prefunding his funeral. He compared the Guardian Plan prepaid funeral plan and InsuranceLine Funeral Plan insurance policy (each of these products being representative of their respective product types).

The results of Peter's analysis are shown in the table and graph below:

Table 5. Cumulative Costs and Benefits

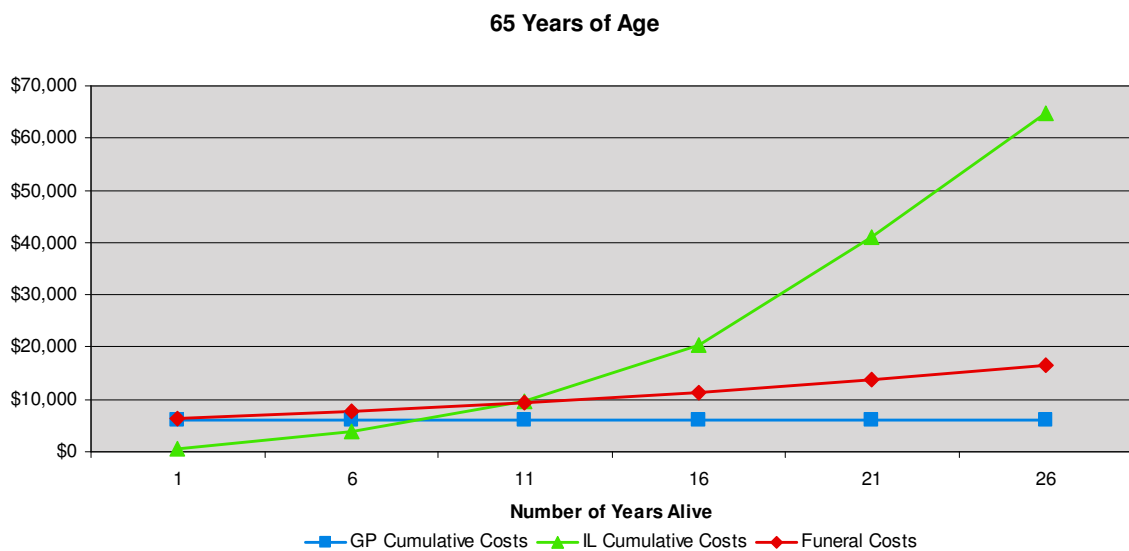
Number of Years Alive	Age	Guardian Plan Cumulative Costs \$	InsuranceLine Cumulative Costs \$	Funeral Costs \$	Guardian Plan Benefit (1) \$	InsuranceLine Benefit (2) \$
1	66	6,000	493	6,240	6,240	6,000
6	71	6,000	3,830	7,592	7,592	7,658
11	76	6,000	9,566	9,237	9,237	9,773
16	81	6,000	20,317	11,238	11,238	12,474
21	86	6,000	40,976	13,673	13,673	15,920
26	91	6,000	64,879	16,635	16,635	19,351

(1) Guardian Plan benefit is equivalent to selected funeral costs at date of death.

(2) InsuranceLine benefit is the sum insured at date of death.

(3) Premiums have been assumed to cease at age 90

Graph 3. Cumulative Costs Compared to Estimated Funeral Costs



Under this scenario, both the Guardian Plan and the InsuranceLine policy will meet the costs of the funeral, whenever death occurs⁹. However, the cost to the client varies between the two products:

- Between 11 to 12 years the cumulative insurance premiums paid under the InsuranceLine policy exceed the benefit paid, thereby making it more expensive than the pre-paid funeral plan.
- In the first 11 years the benefit paid under the InsuranceLine policy is greater than the cumulative insurance premiums paid.

There is a very high likelihood¹⁰ that a 65 year old will live to age 76 or beyond.

If Peter lives beyond age 76 he has to pay progressively higher premiums in order to maintain his benefit and Graph 4 shows (the green line) that the total cost becomes progressively higher over time, relative to the cost of a pre-paid funeral.

Importantly, under the InsuranceLine policy, if Peter has trouble meeting his financial commitments as he becomes older and does not continue his premiums, his entire benefit is lost and all past premiums paid are forfeited.

The Guardian Plan involves an initial lump sum contribution (\$6,000 in the example above) but then:

- Provides for the full funeral costs irrespective of the date of death by locking in the cost of her funeral at today's prices;
- Allows Peter to personalise his funeral service and select the services he wants without any time pressures, relieving the responsibility from her Executor come the time; and
- Gives him peace of mind knowing that his affairs are in order and that his children will not be burdened financially or emotionally during a stressful time.

The InsuranceLine Funeral Plan provides family cover for a substantial discount to the price paid if the family members had each taken out individual cover. It also provides a double benefit in the event of death as a result of an accident.

⁹ Although in the first twelve months the InsuranceLine policy only pays a benefit on accidental death

¹⁰ An 88% probability for a woman and an 80% probability for a man

6. Cameo 4 - Aged 60

Sarah is 60 years old and recently attended a friend's funeral. The funeral was quite unexpected and she started thinking about her own funeral and how she wanted to be remembered. She started asking herself some serious questions, "Who would know what I want when the time came and more importantly how would my family afford it?"

Sarah decided to investigate the different methods of prefunding her funeral. She compared the Guardian Plan prepaid funeral plan and the InsuranceLine Funeral Plan insurance policy (each of these products being representative of their respective product types).

The results of Sarah's analysis are shown in the table and graph below:

Table 6. Cumulative Costs and Benefits

Number of Years Alive	Age	Guardian Plan Cumulative Costs \$	InsuranceLine Cumulative Costs \$	Funeral Costs \$	Guardian Plan Benefit (1) \$	InsuranceLine Benefit (2) \$
1	61	6,000	359	6,240	6,240	6,000
6	66	6,000	2,924	7,592	7,592	7,658
11	71	6,000	7,183	9,237	9,237	9,773
16	76	6,000	14,505	11,238	11,238	12,474
21	81	6,000	28,226	13,673	13,673	15,920
26	86	6,000	54,593	16,635	16,635	20,318
31	91	6,000	85,099	20,239	20,239	24,697

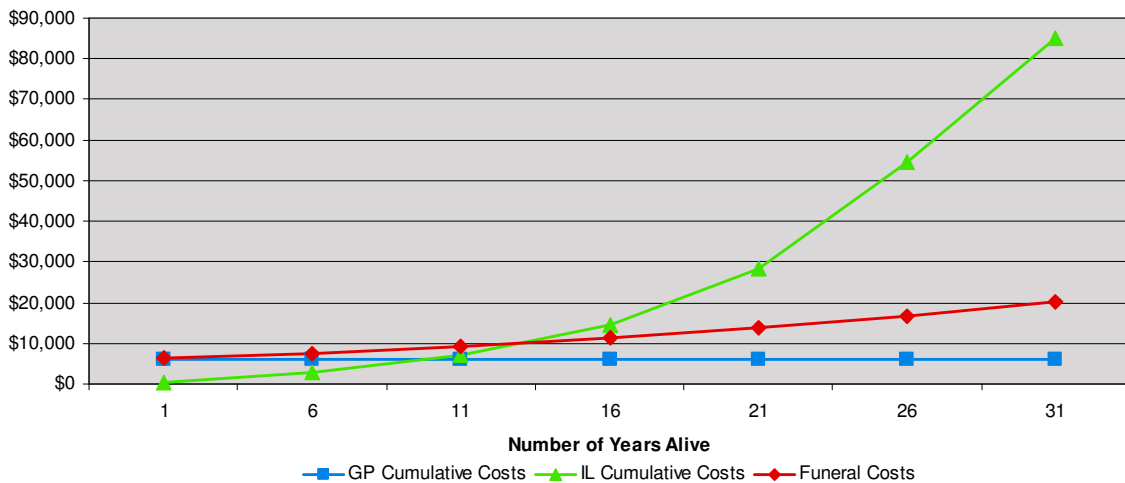
(1) Guardian Plan benefit is equivalent to selected funeral costs at date of death.

(2) InsuranceLine benefit is the sum insured at date of death.

(3) Premiums have been assumed to cease at age 90

Graph 4. Cumulative Costs Compared to Estimated Funeral Costs

60 Years of Age



Under this scenario, both the Guardian Plan and the InsuranceLine policy will meet the costs of the funeral, whenever death occurs¹¹. However, the cost to the client varies between the two products:

- Between 14 to 15 years the cumulative insurance premiums paid under the InsuranceLine policy exceed the benefit paid, thereby making it more expensive than the pre-paid funeral plan.
- In the first 14 years the benefit paid under the InsuranceLine policy is greater than the cumulative insurance premiums paid.

There is a very high likelihood¹² that a 60 year old will live to age 74 or beyond.

If Sarah lives beyond age 74 she has to pay progressively higher premiums in order to maintain her benefit and Graph 4 shows (the green line) that the total cost becomes progressively higher over time, relative to the cost of a pre-paid funeral.

Importantly, under the InsuranceLine policy, if Sarah has trouble meeting her financial commitments as she becomes older and does not continue her premiums, her entire benefit is lost and all past premiums paid are forfeited.

The Guardian Plan involves an initial lump sum contribution (\$6,000 in the example above) but then:

- Provides for the full funeral costs irrespective of the date of death by locking in the cost of her funeral at today's prices;
- Allows Sarah to personalise her funeral service and select the services she wants without any time pressures, relieving the responsibility from her Executor come the time; and
- Gives her peace of mind knowing that her affairs are in order and that her children will not be burdened financially or emotionally during a stressful time.

The InsuranceLine Funeral Plan provides family cover for a substantial discount to the price paid if the family members had each taken out individual cover. It also provides a double benefit in the event of death as a result of an accident.

¹¹ Although in the first twelve months the InsuranceLine policy only pays a benefit on accidental death

¹² An 89% probability for a woman and an 81% probability for a man

Appendix A. Assumptions

A.1. Prepaid Funeral Plan

The prepaid funeral plan is based on Guardian Plan, which is representative of a typical prepaid funeral plan. The table below contains the key assumptions underlying our analysis of the prepaid funeral plan.

Table 1. Prepaid Funeral Plan Assumptions

Item	Assumption	Comments
Current funeral costs including GST	\$6,000	This figure is based on InsuranceLine's advertising material for the typical cost of a funeral.
Initial prepaid plan price including GST	\$6,000	The prepaid plan price is the same as the current cost of a funeral. Note that prices vary according to the funeral service specifications.
Inflation of Funeral Costs	4.0%	This figure was estimated by InvoCare (one of the major providers of funeral services).
Instalment plan	-	Guardian Plan offers an instalment plan, but it has been assumed that the full plan price is paid at the time of signing the plan.

A.2. Funeral Insurance

The funeral insurance policy was based on InsuranceLine's Funeral Plan, which is representative of a typical funeral insurance policy. Our assumptions are based on the latest InsuranceLine Funeral Plan PDS (issued 1st December 2006). The table below contains the key assumptions underlying our analysis of the funeral insurance policy.

Table 1. Funeral Insurance Assumptions

Item	Assumption	Comments
Funeral Insurance Premiums	Varies	<p>Taken from the InsuranceLine Funeral Plan PDS. The weekly premium is the same for persons aged 17 to 44.</p> <p>The PDS provided example premiums in five year intervals from age 45 to 85 (inclusive). Premiums in between these five year intervals were assumed to be linear.</p> <p>Premiums cease at age 90 but the insured person will still remain covered for free after 90. Premiums between 85 and 90 were not available and therefore conservatively assumed that the premium paid at age 85 remains unchanged to age 90.</p>
Funeral Insurance Sum Insured	\$6,000	This figure is based on InsuranceLine advertising material for the typical cost of a funeral.
Weekly or Annual Premium	Weekly premium	Weekly premiums are paid fortnightly or monthly. Only 11 months' worth of premiums are payable if premiums are paid annually.
Sum Insured Inflation Protection	5.0%	PDS states that the sum insured will be increased by the greater of CPI and 5.0%. Given that the Reserve Bank of Australia has an inflation target range of 2.0% to 3.0% it is reasonable to assume that the sum insured is indexed at 5.0%. Inflation Protection ceases at age 90 when the insured person ceases paying premiums.
Stepped or Level Premiums	Stepped	<p>Stepped premiums increase annually according to age and unless otherwise requested, they also increase each year to allow for inflation. Stepped premiums start lower than Level premiums.</p> <p>Level premiums remain level unless you have selected inflation protection</p>
Accidental Death cover option 12 months or 24 months	12 Months	Accidental Death means a death caused by violent, accidental, external and visible means. After the Accidental Death period, you are covered for all causes of death. If you do die from a cause other than Accidental Death during the Accidental Death period, you won't receive your cover amount, but will get a refund of 100% of the premiums paid for that person.

A.3. Life Expectancy & Gender

In determining the price of a Guardian Plan and InsuranceLine Funeral Plan premiums, gender is not relevant and has not been considered. However the Cameos have considered different genders to reflect the different life expectancies of men and women.

Life expectancy probabilities used in this report are based on the Australian Life Tables 2005-07.