



The funeral time bomb

April 2015

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OneFamily



The International Longevity Centre - UK (ILC-UK) is an independent, non-partisan think-tank dedicated to addressing issues of longevity, ageing and population change. It develops ideas, undertakes research and creates a forum for debate.

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About Engage Mutual and OneFamily:

On 1 April 2015, Engage Mutual and Family Investments merged to become OneFamily, headed by CEO Simon Markey. For the time being, both will continue to trade under their respective brands. Engage is a leading provider of over 50s life cover; its product has a Defaqto 5 Star Rating.



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Introduction from Engage Mutual, (now part of OneFamily)

This is the second in our series of special reports working with the UK's leading think-tank on longevity and demographic change, the International Longevity Centre-UK (ILC-UK), to look in-depth at topics that are of concern to us and our customers.

Like our previous 'Serious Illness in the Over 50s' report, which we commissioned because we are the only over 50s life cover specialist to give both serious and terminal illness payment options, this latest paper provides an invaluable insight into a key area and one which we often find hard to talk about – funerals.

'The Funeral Time Bomb' is a game-changing analysis of future funeral costs and reveals how much more costs could rise than previously thought. Crucially it also demonstrates how many more families will be affected as the 'babyboomer' generation ages.

The key message is that we all need to plan financially for our own funerals or we will be in danger of leaving behind a legacy of debt that could be devastating for our families and loved ones.

It isn't all doom and gloom because we can all start planning today, and at little cost. We can also consider cheaper options.

Many of our customers already buy our Over 50s policy so their families get a lump sum when they die to put towards their funeral costs.

Payments can start from as little as £8 per month and there is guaranteed acceptance for those aged 50-80 years without any medical examinations.

The policy includes serious and terminal illness payments. There's also access to free practical and advice services and we can also release up to £5,000 of the pay-out before probate through our nominated beneficiary scheme.

For further on information on how we can help, visit www.engagemutual.com.

Approach

Funeral costs are rising, but barring a few studies, there has been little analysis about what is driving these costs and how they are likely to shift over future generations. This is an important omission from the debate – unless we fully understand the key facts, the determinants of funeral costs and their likely future trajectories, we could reach an impasse where funerals become unaffordable for the vast majority of households. This report therefore seeks to fill this significant evidence gap by undertaking our own original analysis of official statistics. It is, to our knowledge, the most up to date and holistic analysis of the rising cost of funerals in the UK. The research has been made possible through the support of Engage Mutual.

Executive Summary

2015 is a tipping point for numbers of deaths in the UK. We estimate that over the next 20 years the number of deaths is likely to rise by 20%¹. As the baby boomer generation ages, the downward trend in the number of deaths seen since the 1990s is set to reverse.

Funeral costs are soaring in the UK. The cost of a simpleⁱ funeral rose 80% between 2004 and 2014, from £1,920 to £3,590². Once additional costs, such as flowers, catering and a memorial are accounted for, the average amount spent on a funeral in 2014 came to £5,423.

Increasing pressure on funeral services as a result of the impending rise in deaths is likely to push prices even higher. Increasing numbers of deaths are potentially a game changer for the funeral industry and current predictions of future funeral costs must consider the implications of increasing numbers of UK deaths. We predict that the dramatic rise in deaths, which has not been considered in current forecasts of costs, will push funeral costs up to £7,000 by 2020 if not more.

Increasing burial and cremation costs are major factors in the recent rises in overall funeral costs. Between 2012 and 2014 average burial costs in the UK rose by 9% and cremation costs rose by 12%³. A lack of burial space combined with a sharp rise in the number of funerals is likely to result in continuing increases in burial costs. And while crematoria are likely to have capacity to deal with the increase in deaths, if energy prices rise, cremation costs will also increase.

Aggregate spending on funerals in the UK is set to rise by nearly £1 billion. We estimate that in 2007, total funeral spending in the UK reached £2.5bn. By 2014, despite a fall in the total number of deaths, aggregate spending rose to more than £2.8bn. With the approaching rise in the number of deaths, and continuing price increases likely, we project that aggregate spending on funerals in the UK could rise to £3.7bn by 2020.

People not planning for funeral costs could lead many into debt. While some people leave financial provision for their funeral, many do not. It is estimated that 22% of those who have arranged a funeral in the past five years had to do it without financial provision having been made by the deceased⁴. This is a real problem, given that more than half of UK households have less than £3,000 in savings⁵. Although some people may have made other provision for payment of their funeral other than from their savings, it is an indication that those on modest incomes may have little option other than going into debt.

Financial support for the bereaved is very limited. Government Funeral Payments have not kept up with rises in funeral costs and in 2012 the average amount awarded represented just 37% of the costs of a simple funeral⁶. Eligibility for Funeral payments is complex and the qualifying conditions strict, with 47% of applications in 2012-13 being turned down.

The burden of funeral debt on families. Families who cannot afford the cost of a funeral are being forced into debt. It has been estimated that 109,000 UK adults incurred funeral debt in 2013 (funeral debt is where money has been borrowed to cover the cost of a funeral), with the average funeral debt standing at £1,305 per person⁷. In total, funeral debts incurred during 2013 equated to £142m⁸. Our projections based on current trends, suggest that total UK funeral debt could reach a quarter of a billion by the mid-2030s. This is because a larger number of families will be facing the death of up to four parents as the baby boomers age.

ⁱ A simple funeral includes burial or cremation, the services of a funeral director, and a minister or celebrant.

For some, borrowing costs are unaffordable. At the individual household, level borrowing costs can be unaffordable. We illustrate how for the bottom income quartile of UK households an unsecured loan to cover the average cost of a funeral could have crippling financial consequences. If they were able to secure a loan of £3,500 (the average cost of a simple funeral) over two years they would have monthly repayment costs equivalent to at least 10% of their household income. This situation would clearly be exacerbated if they lost two or more relatives in quick succession – which is not uncommon. Such high repayments as a proportion of income is clearly unsustainable and could result in poverty and deprivation if it results in households cutting back on essential items.

There is an urgent need for more support and greater pre-planning. Given the potential for households to fall into financial distress when facing funeral costs, there is an urgent need to ensure adequate support for those with modest incomes and little savings at the point of need, as well as to increase the prevalence of pre-planning to avoid such a desperate situation from occurring in the first place.

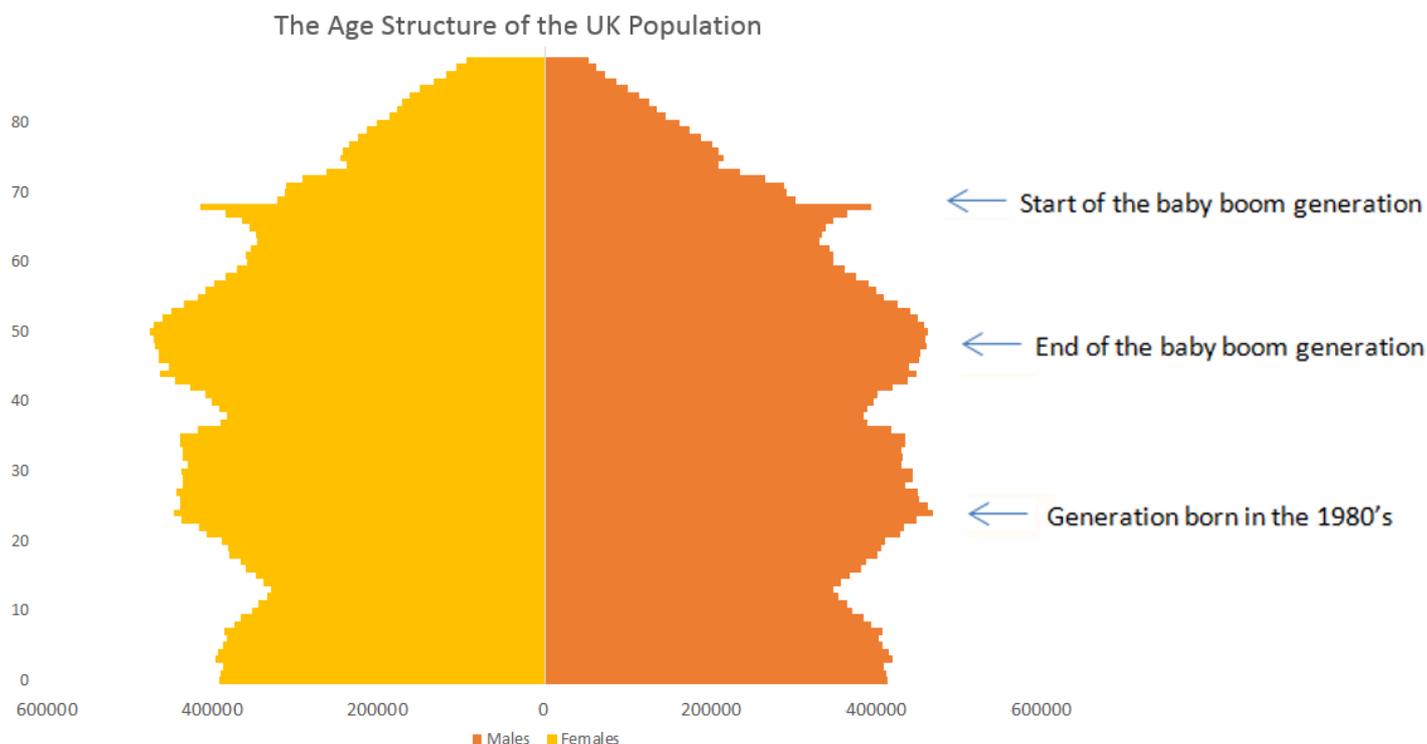
More specifically, this report recommends that:

- **Individuals need to engage in financial planning for their death.**
This can be done by means of designated savings or via a funeral pre-payment scheme or through insurance. Not only does pre-planning protect relatives from large funeral bills, they ensure that the deceased's wishes for their funeral are followed.
- **The State must provide increased support.**
Funeral Payments need to be increased to reflect changes in funeral costs. The cost of a simple funeral rose 80% between 2004 and 2014 while the average funeral payment awarded rose by just 36%. Payments should be reviewed each year to ensure they accurately reflect funeral costs. Eligibility criteria needs to be simplified and given the sharp rise in funeral costs the government should consider making Funeral Payments available for a larger number of families.
- **Attitudes towards death and funerals need to change.**
People need to start planning for their death earlier and should let their family know of their wishes. Cheaper funeral options need to be made available through new approaches to the traditional options. Burial space cannot be granted in perpetuity and grave management needs to change - we would do well to move towards the model seen in continental Europe where grave space is leased for just 10-50 years. Individuals should be also open to alternative burial arrangements such as woodland burials.

Increasing funeral costs already affect a large number of people every year. As we start to see the annual number of deaths in the UK grow, and as we expect funeral costs to continue rising, it is an issue that will require increasing consideration.

Introduction

In 2015 the last of the baby boomers will turn 50, and the oldest among them will turn 70. The baby boomers, born in the post-war years 1945-1965, are clearly visible as a bulge in the UK population. Close to 16 million children were born in the 20 years after the Second World War, peaking at 881,026 born in 1947⁹.



Source: The Age Structure of the UK population in 2015, ONS

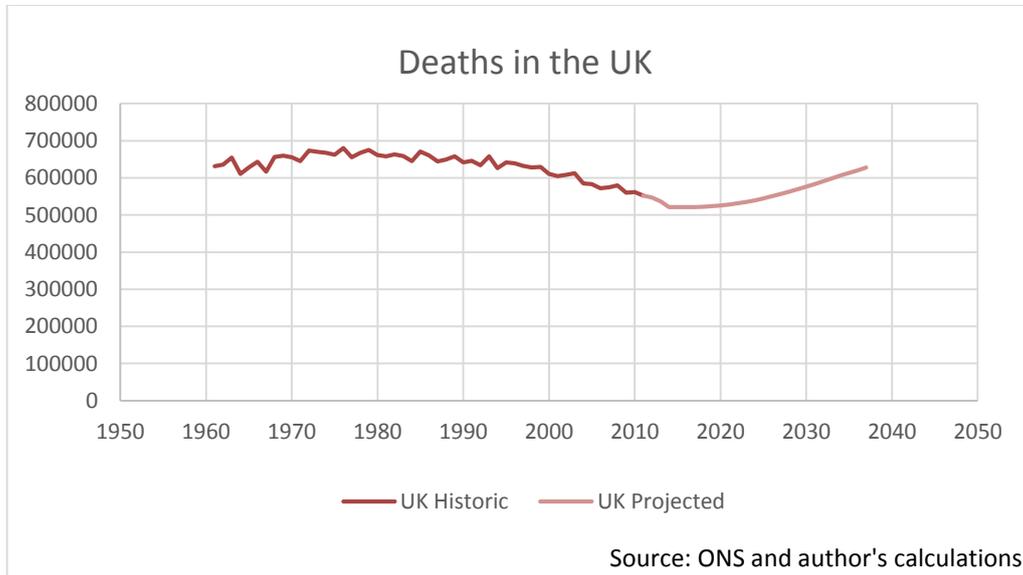
The baby boomers attract special attention not only as a large generation but also as the cohort who challenged and redefined traditional values and ways of life during the 60s and 70s. Furthermore, baby boomers were the first to grow up with the full support of the welfare state. They are significantly healthier and wealthier than their forbears, living longer and earning more.

Even in their later years the baby boomers are still causing a stir. As a result of their ageing, the proportion of our population aged over 65 is projected to rise from around 18% today to over 22% by 2030¹⁰. This demographic change has wide ranging implications both for the economy and for wider society, putting pressure on health and social care services as well as on the pensions system. We are already seeing policy changes in response this demographic shift, such as a rise in the State Pension Age, and more can be expected in the next Parliament.

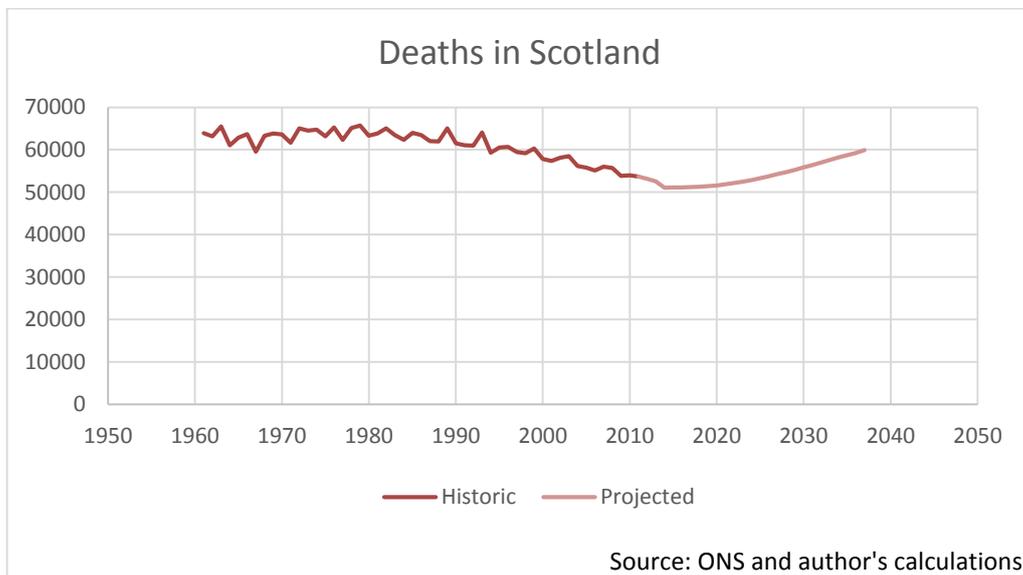
The greying of the baby boomers also means that an increasing number and proportion of the UK population are nearing the end of their lives. The resulting inevitable increase in the number deaths coincides with the significant increases in funeral costs which are already at an all-time high. This report projects future patterns of dying in the UK and investigates whether a rise in deaths in the UK will lead to further increases in funeral costs. It then goes on to outline the ways in which families are trying to keep up with rising funeral costs and explores potential ways in which continuing price rises might be avoided.

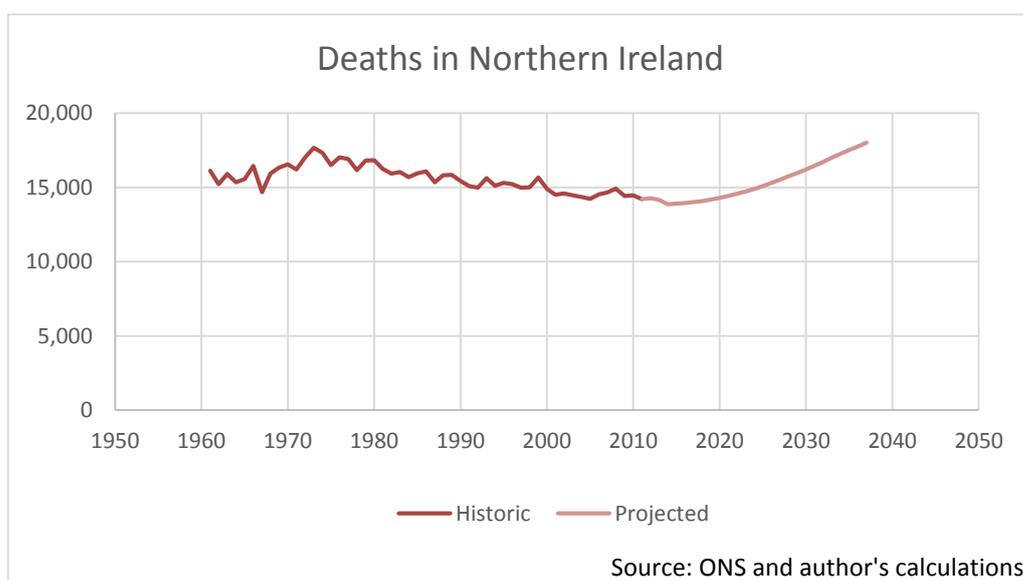
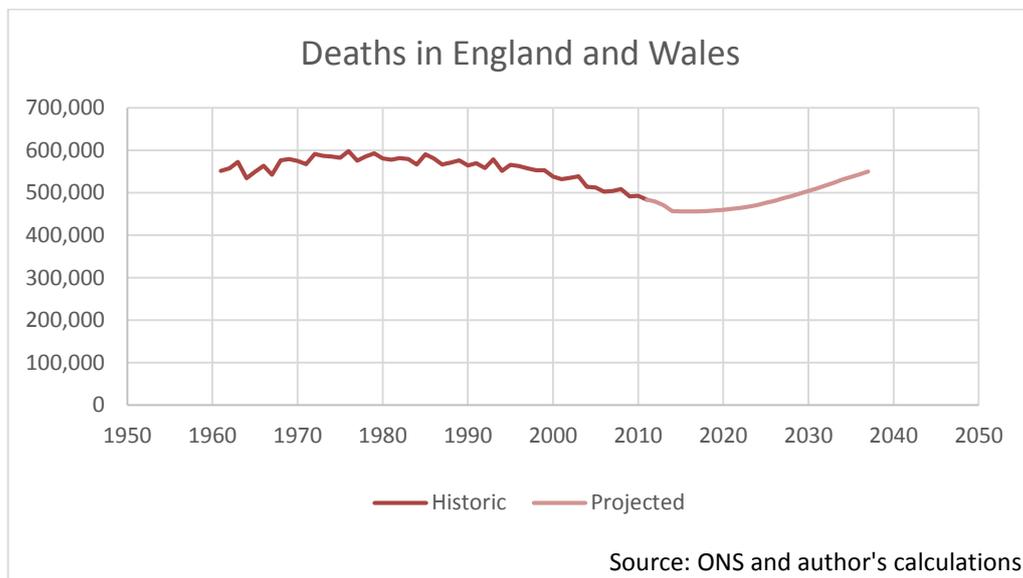
Deaths in the UK

Since the 1990s the annual number of deaths in the UK has been in decline. However, deaths in the UK are expected to trough in 2015, at around 521,000, and then steadily start to increase. We are at a tipping point – in the next 20 years we project that deaths will increase by 20%. By 2037 annual deaths in the UK are expected to reach over 627,000, a level last seen around 1998.



The UK wide picture is mirrored across the different UK countries.





The projected increase in deaths across the UK is driven by the ageing of the baby boomer generation, who are now aged between 50 and 70. Life expectancy for this generation is around 86 for men and 89 for women¹¹. This means that as the large baby boom cohort continues to age, an increasing number of this group will reach the end of their lives over the next two decades.

Funeral Costs

A growing number of deaths will result in a growing number of funerals, and, in the absence of pre-planning, a growing number of families who will have to absorb the costs of arranging a funeral. Funeral arrangements vary from individual to individual and families have different customs, but most funerals come with a significant price tag.

Funeral costs can be broken down into essential and discretionary costs. Essential costs include burial and cremation costs, the cost of the funeral director, and the minister or celebrant. Such costs make up the price of a simple funeral. The average price of a simple funeral in 2014 was £3590¹².

However, many people choose to spend much more on a funeral. Families want to honour tradition and to pay their respects, and although the stigma surrounding a pauper's funeral has decreased, there is still social pressure to give the deceased an "appropriate" send off. Additional discretionary

costs typically include the costs of a memorial, of death and funeral notices, of flowers, of limousines, and of the venue and catering for the wake. Discretionary costs fluctuate from funeral to funeral but over the last eight years, people have spent on average £1,955 on additional funeral-related costs¹³. In 2014 the average price of a funeral including discretionary spending was £5,423¹⁴.

Simple funeral**Price Tag: £3,590****Included:** Burial or cremation, the costs of a funeral director, a minister or celebrant.**The full works funeral****Price Tag: £5,423****Included:** Burial or cremation, the costs of a funeral director, a minister or celebrant, a memorial, death and funeral notices, flowers, limousines, a venue and catering for the wake.

Both essential and discretionary funeral costs have risen significantly in recent years, with the cost of a simple funeral rising by 80% between 2004 and 2014. The full cost of a funeral including additional discretionary costs rose 23% over the same period.

Aggregate funeral spending

- In 2007, funeral spending in the UK totalled over £2.5bn.
- By 2014, despite a fall in the total number of deaths, aggregate spending rose to more than £2.8bn.
- With the coming rise in deaths, and continuing price increases, aggregate spending on funerals in the UK could rise to £3.7bn by 2020¹⁵.

Why are funeral costs increasing?

In recent years, the major increases in funeral spending have been on essential costs.

Rising Cremation Costs

Cremation costs rose 51% between 2007 and 2013¹⁶. Price rises are partly down to changes in government legislation and partly due to rising energy prices.

Mercury is toxic, causing damage to the brain, kidneys, nervous system and unborn children, yet despite this mercury is also found in tooth fillings. When individuals with mercury fillings are cremated the dangerous mercury is released in to the atmosphere. As a result in 2005 legislation was introduced which meant that by 2012 50% of crematoria had to be fitted with special filters to reduce the mercury emissions generated when tooth fillings are incinerated. Newly opening crematoria must also be fitted with mercury abatement systems. However, such systems can be costly and in 2006 the Federation of Cremation and Burial Authorities predicted that the improvements in mercury abatement would add between £25 and £30 on to the cost of a funeral by cremation¹⁷.

Cremation costs have been driven up further by increasing energy bills. Cremation uses roughly 285 kilowatt hours of gas and 15 kilowatt hours of electricity on average per cremation¹⁸ and energy prices have consistently risen in recent years. Indeed between 2007 and 2013 electricity prices went up by 12.6% and gas prices rose by 31.1%¹⁹.

Rising Burial Costs

Burial costs rose 69% between 2007 and 2013 and 1 in 5 Funeral Directors surveyed in 2013 agreed that a lack of burial space was an important factor in rising funeral prices²⁰. Indeed back in 2006 the Ministry of Justice found that 12% of Church of England burial grounds in England and Wales were only open to burials in existing graves while 19% were closed to burials. The same survey found that 12% of Local Authority burial grounds were only open to burials in existing graves and 11% were closed to burials²¹. With such a shortage of burial space it is unsurprising that burial costs have risen.

Rising Costs of a Funeral Director

Between 2008 and 2013 increases in the costs of hiring a Funeral Director were well above inflation, with prices rising by more than 5% a year for much of the period²². One possible reason for this is as funeral costs become increasingly unaffordable funeral directors have to take on bad debts from clients who are unable to pay. Such debts then have to be passed on to other clients via price increases.

Rising Church Costs

The fees for a Church of England official at a funeral rose by 58% from £102 to £160 in 2013. However in Scotland there are no compulsory church fees and people are simply recommended to give a donation. In 2013 this donation was £71 on average²³. Minister's costs are also lower in Northern Ireland, around £50 in 2013, and in Wales, £70.

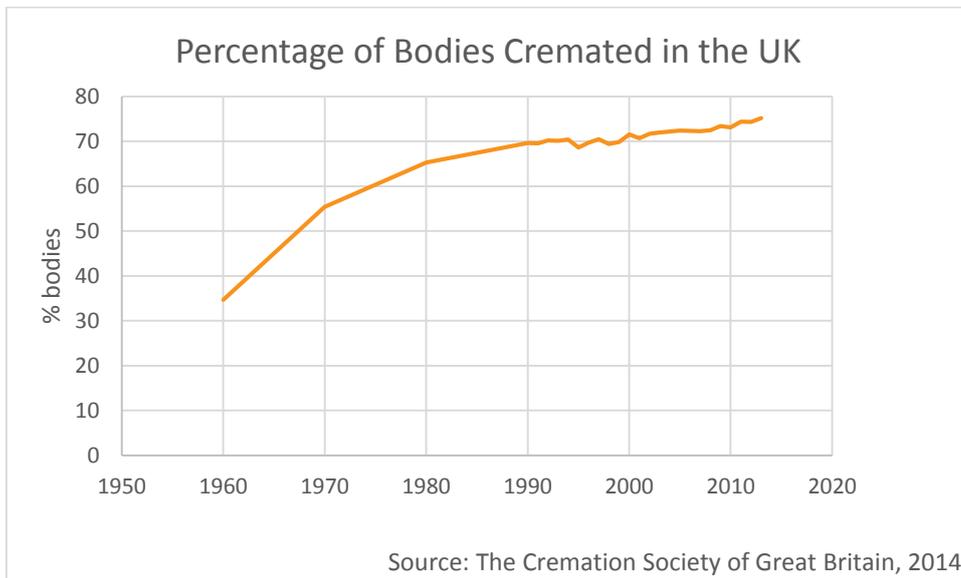
Will the increase in the number of deaths lead to further rises in funeral costs?

Whether we see a continuing increase in funeral prices as a result of the projected increase in the number of deaths will largely depend on whether funeral directors, crematoria and burial sites can keep up with a large increase in demand.

Burial and cremation preferences

Demand for burial or cremation will largely be determined by individuals' preferences. A poll carried out on behalf of Engage Mutual in 2012 found that 51% said they would like to be cremated and 19% said they would like to be buried, while 30% of people were unsure of their preferences upon death.

UK burial preferences have changed over time. In 1960 less than 40% of bodies were cremated yet by 2013 this figure had risen to 75%. The level of cremation has plateaued over the past decade and is unlikely to rise too far above its current level.



Burial Space

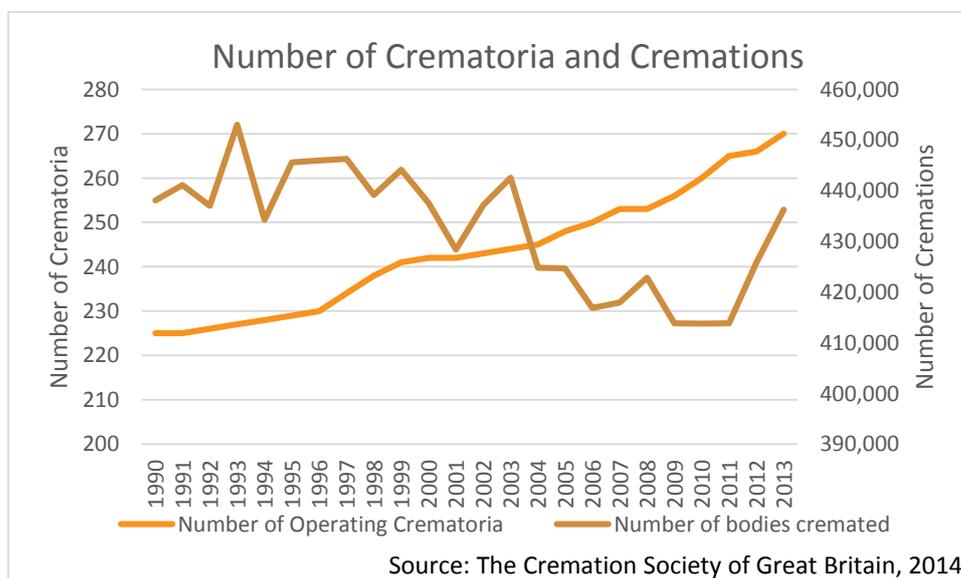
In 2013, 25% of bodies, close to 133,500, were buried²⁴. If the proportion of bodies being buried remains at this level by 2030 there will be demand for over 143,200 burial spaces, an increase in demand of 16.9%²⁵.

It seems likely the current burial system, where an individual typically has the rights to their burial space for 75-99 years, will struggle to meet this level of demand. A survey by the BBC in 2013 reviewed the responses of 358 local authorities (out of a total of 699 approached) in England and Wales and found that 44% said they had 20 years or less burial space remaining. 25% said they could run out of burial space in a decade. Moreover 20 local authorities reported that they could run out burial space in less than 10 years²⁶.

Given the pressures on burial space it seems likely that burial costs will continue to rise as the number of deaths increase.

Cremation Capacity

While cremation rates have increased significantly over the last 50 years so has the number of crematoria. The increase in cremation prices in recent years cannot be explained by excess demand.



The rises in cremation costs as a result of the introduction of environmental legislation on mercury emissions are likely to be a one off. However, cremation costs could continue to increase if energy prices rise further. While energy prices have fallen in recent months, in the medium to long term it is likely that energy costs will begin to rise again. Indeed projections by the Department for Energy and Climate Change forecast a rise in gas prices in 2015 and 2016, and a rise in oil prices from 2018 onwards²⁷.

The cost of a Funeral Director

Funeral Directors are not highly regulated and providers range from small family run businesses to large chains. In theory the industry should be able to expand its capacity to meet the increases in demand and there are few major barriers to new entrants.

However, the recent rises in the fees have not been caused by excess demand but by the financial difficulties experienced by customers. Bad debts passed on to Funeral Directors by customers who cannot afford to pay will represent a bigger problem to Funeral Directors if burial and cremation costs continue to rise and their fees may increase further.

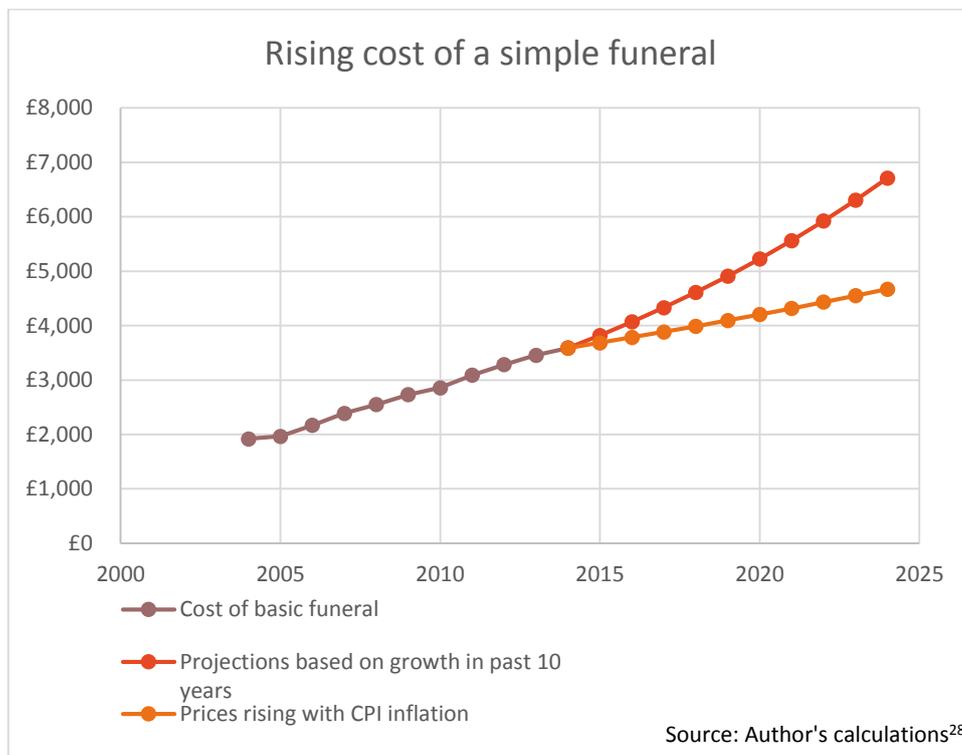
The bottom line on funeral costs

With an increase in deaths projected, already limited burial space, stagnant growth in real household incomes and future energy prices uncertain, funeral costs are likely to continue growing. As a result, the cost of bad debt to funeral directors is also likely to increase and costs could be further compounded. Furthermore with local government budgets being continually squeezed, over 80% of councils say they will increase the charges for their services in the next year²⁸. This could mean even more rises to cremation and burial costs.

The above analysis indicates that funeral costs have not yet peaked and we are likely to see further rises in coming years.

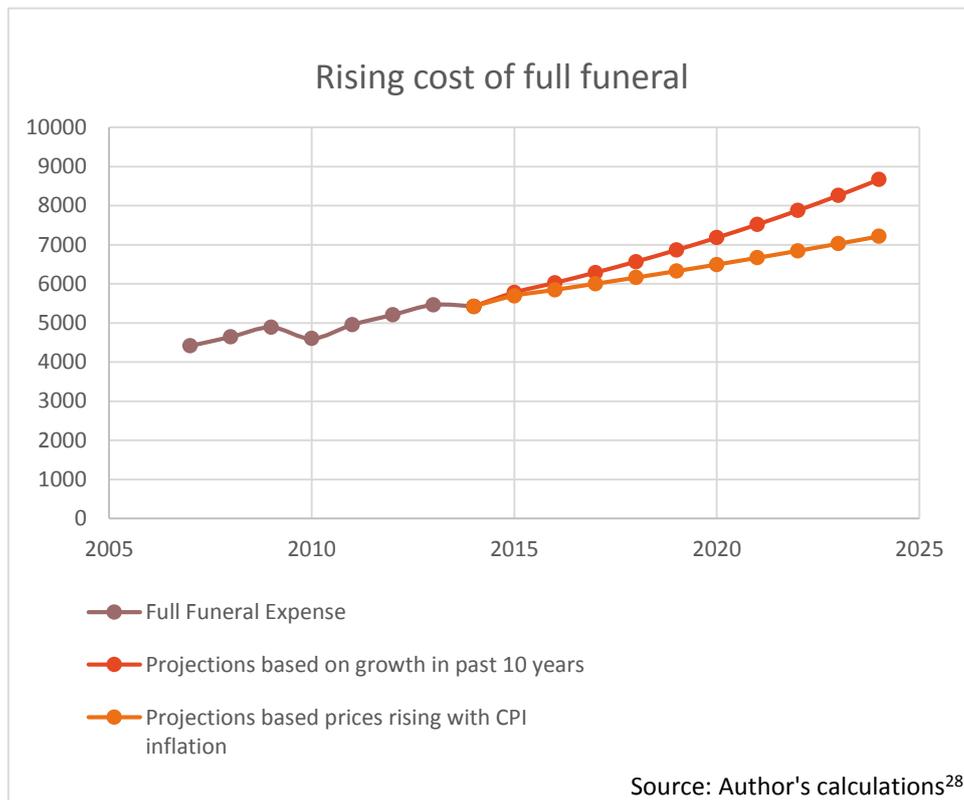
Projecting future funeral costs

Looking forward, if funeral costs continue to rise at the pace seen in the last decade, by 2024 the cost of a simple funeral will have almost doubled to £6,713. Even if costs simply rise in line with average prices, based on the levels of CPI inflation seen over the past 10 years, the cost of a simple funeral will still rise to £4,672 by 2024.



It is also possible to project the likely future costs of a full funeral, which would include any discretionary costs. However as discretionary costs fluctuate year on year, and people may choose to spend less on discretionary extras as the cost of a simple funeral rises, this is more difficult. Indeed in 2014, discretionary spending was actually lower than it was in 2007 (£1,833 compared to £2,027).

Below we have assumed that people will spend £1,955 on discretionary costs, which was the average spent between 2008 and 2014. We then look at how inflation and changes in the price of the simple components of a funeral are likely to impact on the total price of a funeral. If full funeral costs simply rise in line with inflation, then they are likely to be around £7,200 by 2024. However if the price rises seen in the past decade continue, in another ten years' time, the total cost of a full funeral could reach nearly £8,700.



How are people going to meet rising funeral costs?

Given the projected increase in deaths, and given that funeral costs are likely to continue to rise in the coming decade, a growing number of families will struggle with funeral bills. Some individuals make financial provisions for their own funerals through designated savings, pre-paid funeral plans, or life insurance. However many do not. In 2014, a YouGov poll found that among those who arranged a funeral in the past five years, 22% of people said the deceased had left no financial provision for the funeral. 46% of respondents to this survey agreed that the funeral cost 'more' than they expected and amongst those who said it costs 'more' than they expected, 42% said they had problems meeting the cost. Despite this, only 11% of people in this group chose a cheaper funeral than they initially hoped for³⁰.

Foresight - paying for your own funeral

Pre-payment schemes

A funeral pre-payment scheme allows an individual to plan and pay for their funeral in advance of their death. Not only do they ensure that the deceased's wishes are followed, they can ensure that relatives are not left with a large funeral bill. There are many different payment options, including a full upfront payment or smaller monthly payments over 12-120 months.

However such schemes should be approached with some caution. Which? found that paying in instalments over a long period could increase the overall cost of a scheme significantly due to

administration fees and interest. Indeed they calculated that 'paying over 60 months can add between 15% - 26% to the overall cost'³¹.

It is also important to check what is included in a funeral plan. Some plans may not include limousine hire or may have limits on the distance they will travel to collect the deceased.

Furthermore, not all plans guarantee protection against cremation or burial price increases. If prices rise significantly between the purchase of the plan and the funeral, families will have to pay the difference.

Whole of Life insurance

Another means of planning for funeral costs is for people to take out Whole of Life insurance.

These policies pay out on the death of the policy-holder (although some policies now pay out part or the whole of the sum insured prior to death in the event of the policyholder having a serious or terminal illness).

There are two main types. The first is a medically underwritten policy where people are taken through an application process and are asked about their medical history among other things. The insurer will then decide whether or not to accept them as a customer and will also determine what they need to pay to be covered by the insurance. Premiums are determined by 'risk', for example, the more likely a person is to become ill or have a shorter life expectancy, the higher their premiums as they may have a shorter period of paying into the policy.

However, for those in good health and with a good medical history, medically underwritten Whole-of-Life insurance can in many instances be the most cost effective option.

The other form of Whole-Of-Life insurance is guaranteed acceptance Over-50s life insurance that pays a lump sum upon death, which can be used to put towards funeral costs or to leave something behind for loved ones. The lump sum is fixed in advance, although some providers offer increasing life insurance where both the premium and the payment increase in line with inflation. A major advantage of over 50s life insurance of this type is that customers can be accepted regardless of their medical history and without the need for a medical or increased premium.

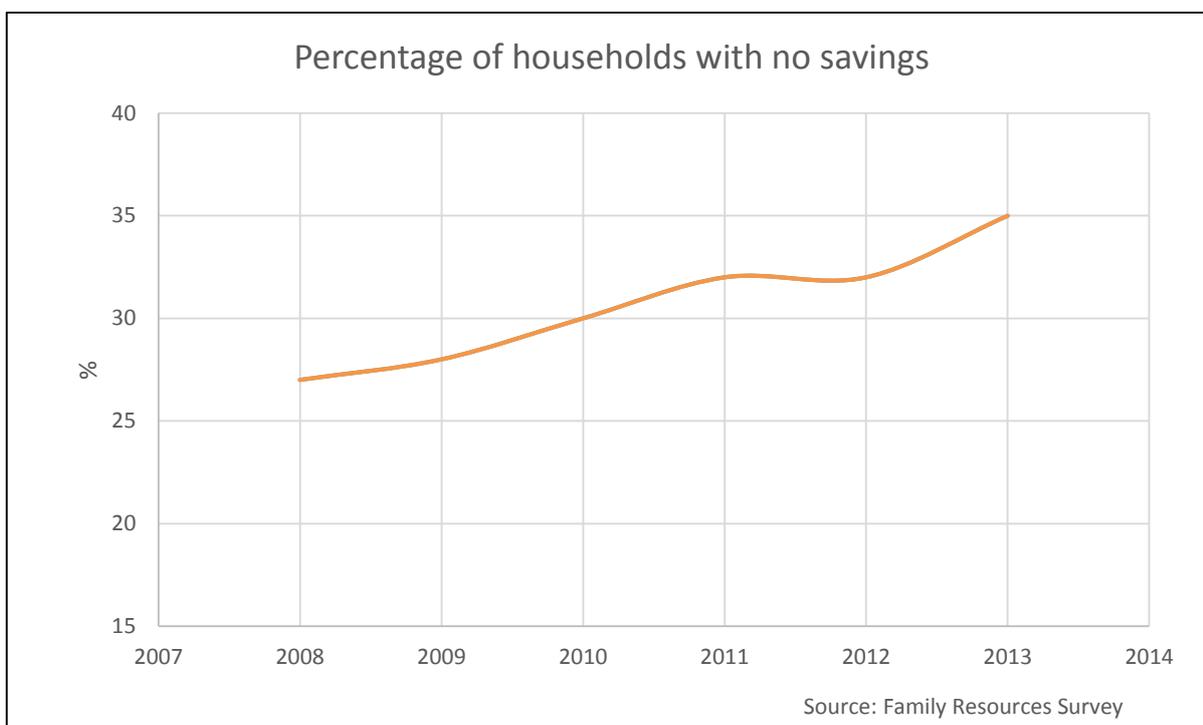
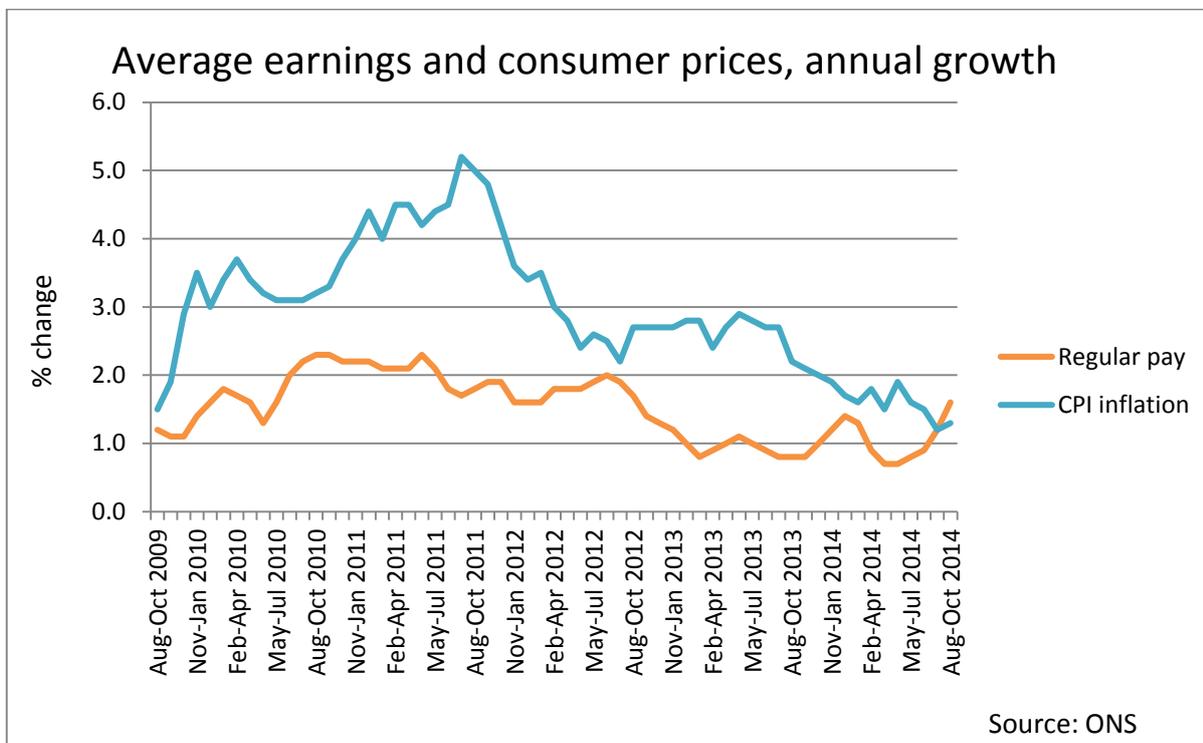
Over 50s life insurance can help if families are faced with bills when relatives die but it does entail a payment of a monthly premium.

In both cases, if the payments are not kept up the plan will be cancelled and individuals would not get any money back.

How do relatives pay for funerals?

Savings

Of those who said it cost 'more' than expected, 35% of respondents to a YouGov poll used their own savings to help pay for the funeral. However this option may be increasingly unsustainable. In recent years wage growth has not kept up with increases in the cost of living. Since 2009, CPI inflation has consistently exceeded increases in median earnings, squeezing households' disposable income. As a result, since 2008 the number of households without any savings which they can dip in to has risen by 8%³², making paying for a funeral from household savings more difficult.



According to the Family Resources Survey, in 2013, 35% of households had no savings at all and 55% of households had less than £3,000 in savings. With the average funeral costing £5,423 this means that 14.5 million UK households simply would not be able to afford to pay a funeral bill at short notice unless they had taken out other forms of funeral cost provision such as life insurance. If people cannot pay for funerals directly from their own savings, funerals may need to be financed either through debt or state support.

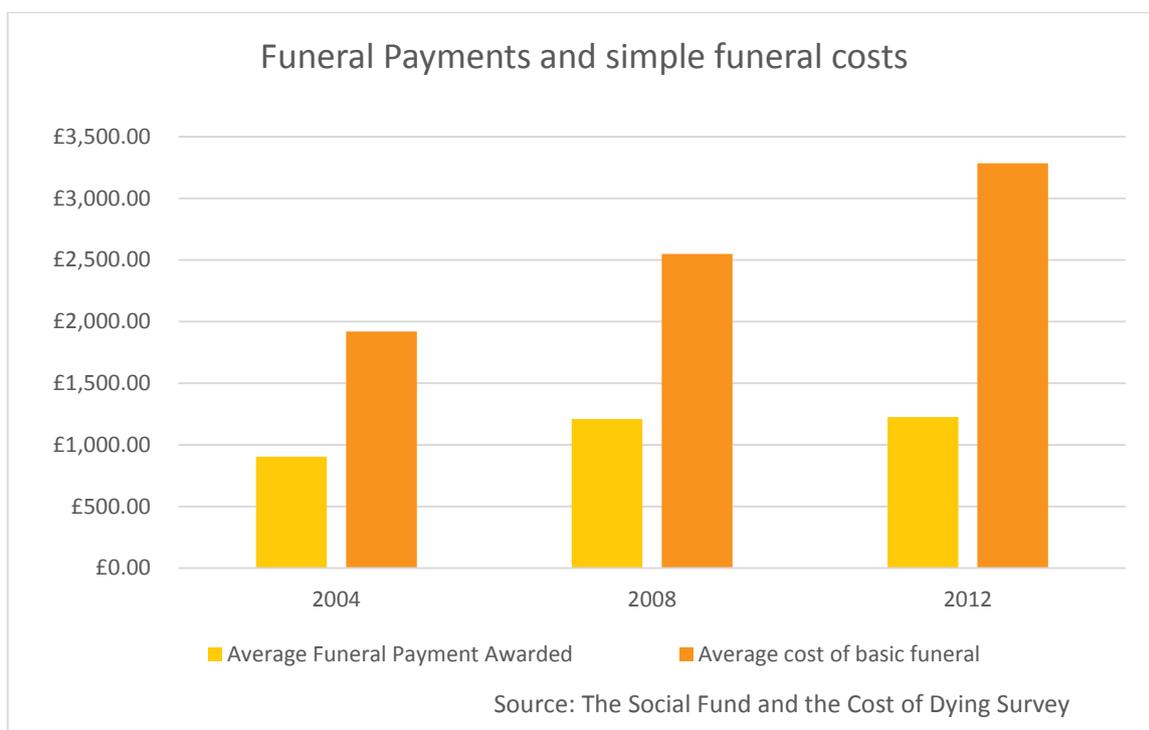
State support

There is some State support for funeral costs although there are tight eligibility and funding restrictions. Funeral payments can be claimed only if the applicant is the partner, or a close relative or friend of the deceased and only if the applicant receives a qualifying benefit. Such benefits include, but are not limited to, Income Support, Pension Credit, Housing Benefit, or Universal Credit.

In 2012-13 there were 66,000 applications for Funeral Payments in Great Britain but only 35,000 (53%) of these were successful.

State support is a falling percentage of the pie

Social Fund Funeral Payments cover the necessary burial or cremation fees and up to £700 for other costs such as the funeral director's fees, the coffin or flowers.



As the graph above shows, the average Social Fund Funeral Payment awarded has not increased in line with the increases in the costs of a simple funeral. In 2004 the average funeral payment awarded was £903 which represented 47% of the cost of a simple funeral. Yet by 2012, the average Social Fund Funeral Payment, £1,225, represented just 37% of the cost of the average simple funeral and just 23% of the cost of the average full funeral.

One explanation of why Social Fund Funeral Payments have become increasingly inadequate is that the additional £700 which can be awarded in excess of direct burial or cremation fees has not been increased in over a decade. This payment was capped at a maximum of £700 in 2003 and has not increased in line with inflation. If the cap had been updated in line with CPI inflation each year, in 2015 it would be worth over £900 (£922.52) which represents an increase of 32%.

Not only are Social Fund Funeral Payments increasingly inadequate, the system through which they are claimed can create additional financial problems for the relatives of the deceased. Funeral payments have to be claimed retrospectively. Families must first pay the funeral costs and then claim any Funeral Payments. This poses the additional problem of where an individual can turn to for money in the short term as well as the issue that many funeral payment applications are then subsequently declined. Indeed this was the case for 47% of applicants in 2012-13.

Budgeting Loans

The Government acknowledges that funeral payments are unlikely to be enough to cover the cost of a funeral and offers budgeting loans to bridge the gap. These budgeting loans are interest free and claimants are usually given up to 104 weeks to repay. However, budgeting loans are capped at £1,500 so even with the full loan and full Funeral Payment an individual is not likely to get more than

£2,725 from the stateⁱⁱ. This means that an individual would have still faced a shortfall of £731 if they had tried to pay for the average simple funeral in 2013.

State support becomes even more problematic when we acknowledge the fact that many people may not even qualify for a budgeting loan. An individual must have been receiving one of the qualifying benefits, or have been the partner of someone receiving one of the qualifying benefits, for at least 26 weeks. Furthermore they cannot get a full Budgeting Loan if they or their partner have more than £1,000 in savingsⁱⁱⁱ.

As it currently stands, support from the State is not going to help families meet the continuing rises in funeral costs over the coming years unless it starts to take rising funeral prices in to account.

Funeral Debt

According to a YouGov poll, of the 46% of people who said that the funeral cost 'more' than they expected, 28% borrowed money from family or friends and 20% went into debt to pay for a funeral, using a credit card or a loan. Based on these figures it has been estimated that 109,000 UK adults have incurred funeral debt³³. With the average funeral debt standing at £1,305; this equates to £142m of total funeral debt across the UK in 2013³⁴.

Things can only get worse

The projected rise in the number of deaths over the next 20 years, combined with the associated rise in funeral costs and stagnant household income growth means that total funeral debt in the UK is likely to continue rising. Indeed, even if we assume that the proportion of people getting into debt remains the same, and that the average amount of funeral debt simply rises in line with inflation, we would still see overall debt levels rise over the coming decades simply because of the increasing number of deaths. According to our calculations, total funeral debt in the UK could rise to over £250m by the mid-2030s³⁵.

An illustrative example of how funeral debts can mount for an individual...

Any given family is likely to include several baby boomers. This means a family may have to organise not just one funeral over the next couple of decades but a number of funerals. Organising multiple funerals, in instances where individuals have not set money aside, can place great financial strain on those left behind.

We know that the average cost of a simple funeral comes to just over £3,500. If a family were to take out an unsecured loan to cover this, they could be repaying the debt for a number of years. And if they had to take out multiple loans to cover the costs of multiple funerals, the monthly repayments would clearly escalate.

For example, if a family were to take an unsecured loan of £3,500 and spread the repayments over two years, it would cost them over £174 per month^{iv}. For many households this is a significant cost. According to official statistics, a quarter of UK households take home less £1,300 per month, with over half of this lower earnings group having no savings at all. Monthly debt repayments of £174 per month would equate to upwards of 10% of household income for a household with a monthly income of £1,300 or less. Consequently, for those families who are already sitting close to the breadline, such repayments costs could be unaffordable and may lead to financial distress.

ⁱⁱ £2,725 = average funeral payment + full budgeting loan

ⁱⁱⁱ Savings cap increases to £2,000 for pensioners

^{iv} This calculation assumes a typical APR of 18.9%

The situation would be made even worse if the family suffered more than one death in quick succession. The phenomenon sometimes termed “broken heart syndrome” – where older couples die shortly after one another – is the subject of robust academic research which does suggest that the death of a partner leads to an increased risk of death for person that remains³⁶. If this happened, and a family had to take out two similar sized loans for two funerals, the monthly repayment could rise to £348 per month or upwards of 20% of income for those households earning £1300 per month or less.

This simple example helps to highlight both the need to pre-plan and the need to ensure that there is better support for the family of those who have not pre-planned and are living on modest incomes. The financial impact of losing a loved one, or worse, two loved ones in quick succession could cause real and lasting damage to living standards of those left behind.

Case Study: Care costs eat in to funeral savings

After the death of her own father, Julie Edwards^v was left as the main carer for her Grandfather Robert, who suffered from Alzheimer’s. When Robert was in his 80s, his condition worsened and he had to go in to residential care.

When Robert passed away, Julie was left to organise the funeral on her own. Robert had said that he would like his organs to be donated but had not left any instructions regarding his funeral, so Julie had to speak to his close friends and family to piece together what kind of funeral she thought he would want.

But Julie also had the added pressure of Robert not having made any financial provision for his funeral. Robert had never owned his own house and care costs had used up most of his savings, so he had not been able to leave anything behind which meant family members were suddenly left to decide who should pay what towards the cost. Julie thinks that she was one of the “fortunate” ones because the costs of the funeral was split between family members who agreed to fork out a “few hundred pounds each”. Without the family coming together in this way, Julie admits that she would “not have known what to do”.

Some are not so fortunate, and are forced to dig further into their own savings or even go into debt if their relative has not made financial provision. Julie says that although she ultimately found the organisation of the funeral straight forward once she found an undertaker, she was certainly “surprised at how much everything cost”.

Julie’s story highlights how unexpected care costs in later life can eat away at savings set aside for funeral costs, revealing further benefits of more formal funeral arrangements, such as pre-paid funeral plans. Julie’s story also demonstrates the emotional as well as financial burden facing people. While there is a tendency to only think about funerals in terms of underlying cost, there is also significant emotional baggage attached with organising a funeral at a time of grief, especially for those doing it without the support of other family members like Julie. Financial concerns only serve to increase this emotional load, adding the strain for relatives of worrying about whether they are providing a fitting service for their loved one.

^v Names have been changed.

Conclusion

This research finds that 2015 is likely to mark a tipping point in the number of deaths in the UK and this is likely to have significant implications for the cost of funerals. Over future decades, the annual number of deaths in the UK will steadily increase. The rises in funeral costs seen over the past decade are likely to persist and funeral costs will represent a financial burden to a growing number of bereaved.

Funeral costs can create additional anxiety for families at an already emotional time. Extra planning on the part of individuals and increased support from government will be essential in the coming years if the growing number of funerals are to be arranged without causing financial hardship. Below we outline the three major areas for improvement.

Families who cannot afford the cost of a funeral are being forced into debt. Our report has shown how more than 100,000 UK adults incurred funeral debt in 2013, with the average funeral debt standing at £1,305 per person. In total, funeral debts incurred during the year equated to £142m. Our projections based on current trends, suggest that total UK funeral debt could reach a quarter of a billion by the mid-2030s.

In order to limit the potential burden of funeral costs in future years, this report recommends the following:

1. Financial planning

Individuals need to include funeral costs in their financial plans for the future. This can be done through designated savings, over 50s life insurance or via a funeral pre-payment scheme. Not only does pre-planning help protect relatives from large funeral bills, it ensures that the deceased's wishes for their funeral are followed.

2. Improved state support

Funeral Payments should be increased to take in to account recent increases in funeral prices. The cost of a simple funeral rose 80% between 2004 and 2014 while the average funeral payment awarded rose by just 36%. Payments should be reviewed each year to ensure they accurately reflect funeral costs.

3. New approaches to burials

New approaches to burials could help relieve the pressure on Church of England and Local Authority burial grounds. Burial grounds could be managed differently and alternative burials could be promoted.

- *Woodland burials*

Increasingly popular in recent years, woodland burials offer a more environmentally friendly option and provide the bereaved with a soothing environment in which to mourn. They also provide extra space for graves, and protect wildlife habitats.

- *Grave re-use*

Grave space is managed differently in many other European countries. In France and Italy plots are rented for between 10 and 50 years, after this time the family is given the option to re-new the lease or the plot is reused for another burial. In Sweden use of a grave is granted for 25 years, after which the original coffin is buried deeper in the ground and a new coffin is placed on top. The UK would do well to move towards a continental system where graves are leased for a limited period of time before they are reused.

Increasing funeral costs already affect a large number of people every year. As we start to see the annual number of deaths in the UK grow, and as we expect funeral costs to continue rising, it is an issue that will require action.³⁷

¹ ONS population projections and mortality rates and author's calculations

² Sun Life Cost of Dying Survey 2014

³ Funeral Costing Research, Report prepared for Engage Mutual by Brass Insight May 2014

⁴ YouGov poll of 1,988 people who had arranged a funeral in the past five years for Royal London

⁵ Family Resources Survey (2013) Department for Work and Pensions

⁶ Social Fund Report data (2012) and author's calculations

⁷ Royal London (2014) National Funeral Cost Index

⁸ Royal London (2014) National Funeral Cost Index

⁹ ONS, Birth Summary Tables

¹⁰ ONS (2012) Population Projections

¹¹ ONS cohort life expectancy for an individual aged 65 in 2012 was 21.2 years for a man and 23.9 years for a woman. Historic and Projected Mortality Data from the Period and Cohort Life Tables, 2012-based, UK.

¹² Cost of Dying 2014

¹³ Cost of Dying 2014

¹⁴ £5,434 = cost of simple funeral in 2014 + average discretionary funeral spending in 2014, Sun Life cost of Dying Survey 2014

¹⁵ Cost of Dying data, ONS mortality and population projections and author's calculations.

¹⁶ Sun Life Cost of Dying 2013

¹⁷ Dept. Environment, Food, and Rural Affairs press release (2006) Halving Mercury Emissions From Crematoria – Novel 'Burden Sharing' Approach To Continue

¹⁸ L. Hickman (2005) Should I ... be buried or cremated?, The Guardian, Tuesday 18 October 2005

¹⁹ Energy Prices (2014) House of Commons Library, Fuel price components of the RPI

²⁰ Cost of Dying (2013)

²¹ Ministry of Justice (2006) Burial Grounds - The results of a survey of burial grounds in England and Wales

²² Cost of Dying (2013)

²³ Cost of Dying (2013)

²⁴ The Cremation Society of Great Britain and author's calculations

²⁵ The Cremation Society of Great Britain and author's calculations

²⁶ A. Strangways-Booth (2013) Burial space in England 'could run out in 20 years, BBC News 27 September 2013

²⁷ Department of Energy and Climate Change (2014) Central oil and gas price projections, DECC Fossil Fuel Price Projections

²⁸ LGiU (2015) Nine out of ten councils say local government finance is not fit for purpose, <http://www.lgiu.org.uk/news/nine-out-of-ten-councils-say-local-government-finance-is-not-fit-for-purpose/>

²⁹ Author's calculations using data from the Sun Life Costs of Dying Survey 2014

³⁰ Royal London (2014) National Funeral Cost Index: <http://www.royallondon.com/about/media/news/2014/october/new-study-reveals-scale-of-funeral-poverty-uk-funeral-debt-reaches-142m/>

³¹ Which? What is a Funeral plan? - <http://www.which.co.uk/money/insurance/reviews-ns/funeral-plans/what-is-a-pre-paid-funeral-plan/>

³² Family Resources Survey (2013) Department for Work and Pensions

³³ Scale of Funeral Poverty (2014)

³⁴ Ibid

³⁵ ILC-UK calculations derived from ONS and Royal London analysis. We assume average funeral debt per person rises in line with CPI inflation of 2%.

³⁶ For example see Carey et al (2014) Increased Risk of Acute Cardiovascular Events After Partner Bereavement. *JAMA Intern Med.* 2014;174(4):598-605.



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