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Special needs financial planning

Parents of children with special needs often worry about who will take care of their child after they are no longer able to do so. With proper planning, parents can achieve peace of mind that the child will be taken care of physically and financially. A very common problem is when well-meaning parents leave assets directly to the child with special needs, which can affect eligibility for public benefits. Another issue arises if the parents leave all assets to an able sibling of the child with special needs,

thinking that is what's necessary to preserve eligibility for benefits. This second scenario could backfire if benefit qualifications change in the future or if the able sibling passes away before the child with special needs does. For many parents, a special needs trust is a helpful solution. As you prepare to consult with your financial professional and meet with attorney to set up a special needs trust, there are a few things to consider.

How will you fund a special needs trust?

Taxes on trust income are complicated, so you'll want to fund the trust in a way that minimizes taxes.

- A life insurance policy, with the death benefit payable to the trust, is often a good option largely because it's income tax free
- Another option would be to convert retirement assets to a tax-free Roth IRA and leave the Roth assets to the trust
- Or you can use life insurance to fund the trust and leave retirement assets to the other kids

Likewise, you'll want to put a plan in place to pay any potential estate taxes without tapping the assets of the special needs trust. Your tax professional can assist with planning for that.

A special needs trust serves two primary functions:

- 1** It manages funds for the person who may not be able to do so due to disability.
- 2** It preserves eligibility for public benefits, whether that be Medicaid, Supplemental Security Income (SSI), public housing or any other program.

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What is a trust?

A trust is a three-party fiduciary relationship in which the caregiver (the grantor) transfers property to a second party (the trustee) for the benefit of the individual with special needs (the beneficiary).



Do you have multiple children? Are the others able?

If there are no siblings, you'll want to appoint a guardian to take over when you pass away. If you do not choose a guardian, a court may appoint one for you. If there are multiple children, you'll want to consider which one should be the trustee. (Usually parents will serve as trustees until they can't due to incapacity or death and then a sibling will take over.) The trustee will have a fiduciary responsibility to act in the best interest of the beneficiary, so they need to understand that. They can't conserve assets so that there will be more left over

for themselves. You'll want to pick the most financially trustworthy and responsible child, one who will put the needs of the child with special needs ahead of their own.

Another consideration is how to divide your assets among your children. Care for the child with special needs may become more expensive over time, so it may be appropriate to give a larger share to the special needs trust than to the able siblings.

Some individuals with special needs will have a shorter life expectancy, so the able siblings can be named as remainder beneficiaries of the trust. Communicating this

to the able siblings can help them better understand and accept the arrangement.

Communicate your intentions

Thinking about the future for your child with special needs can be emotional, and some important family conversations might be necessary. Even if you don't discuss it with your other children before you set up the trust, it's important to let the rest of the family know about it once it exists. Your attorney will probably also encourage you to put your wishes in writing in a letter of intent that informs the trustee how you want the trust to be managed after you're gone.



If you have a child with special needs, take action sooner rather than later to make sure they are protected. Reach out to your financial professional to get started.



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