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The Special Needs Trust

The special needs trust can be your primary savings tool for your child's future. It allows you to properly transfer savings to your child without jeopardizing his or her ability to receive government benefits. Several ways to fund the trust are presented below.

Also referred to as a "supplemental care trust" the special needs trust provides a way for you to supplement government benefits such as Medicaid and Supplemental Security Income (SSI). The trust can be set up so it functions while you're alive, or begins to function after your death.

Here's the way it works. First you select a trustee—someone you completely trust and who can properly manage money. If the trust is to function while you are alive, the trustee distributes money from the trust to your child in ways that don't disqualify your child from government benefits. If the trust is to function after your death, the trustee facilitates the transfer of money from your estate into the trust, then helps manage and distribute the money according to your wishes.

The most important benefits of the trust are maintaining your child's financial well-being and his or her long-term eligibility for government assistance. It has another benefit, though. Through this trust, friends and family can make gifts of money, also contributing to the financial well-being of your child.

"I feel better knowing that my family will have enough money to take care of themselves in case something should happen to me. Saving for my retirement and for my family's future is just as important to me as budgeting for the mortgage, groceries, and medication. I contribute to an employee retirement plan and have an annuity for my own security. For my family, I have a term life insurance policy and a pre-paid college fund for both my children. Also, I take every opportunity I get to teach my daughter about spending within her means. I plan to continue that with my son as soon as he gets old enough to spend a dime."

—Chris Stevens, father of Ali and Jacob



How to Fund Your Special Needs Trust

The most important thing to remember in funding your special needs trust is this: *The special needs trust, not your child, must be the heir or beneficiary of any funds you or anyone else wants to transfer to your child.*

Remember, always, if your child ever accumulates more than \$2,000 in assets, he or she may become ineligible for receiving government benefits. Some states have stricter requirements, meaning that asset requirement may be below \$2,000 (see Social Security Online. "Understanding Supplemental Security Income: SSI Resources." 2010 Edition. Retrieved from <http://www.ssa.gov/ssi/text-resources-ussi.htm> on November 20, 2010).

Here are some ways to fund your special needs trust (see *News Digest—Estate Planning*. National Information Center for Children and Youth with Disabilities. Washington, D.C. Volume 2, Number 1, 1992. Pages 6–8):

- Life insurance; it is one of the few ways to arrange for future funds after your death. Life insurance will be more affordable if you purchase it while you are young and healthy.

- Standard government benefits, such as Social Security survivor benefits. • Savings and investments, including money in retirement funds (that can be distributed at an older age or transferred after death).
- Gifts, assistance, and inheritances from friends and family members.
- Property, such as the family home.
- Military benefits.

How Funds From a Special Needs Trust Can Be Used

Each state has a different set of limitations on how money in special needs trusts can or can't be used, but generally it can be used for supplemental needs—those needs not met by government benefits such as Medicaid and SSI. Typical uses of money in special needs trusts (see Insure.com. “Life insurance planning for parents of children with special needs.” May 19, 2009. Retrieved from <http://www.insure.com/articles/lifeinsurance/special-needs-children.html> on September 9, 2010):

- Transportation
- Home health aids
- Education
- Rehabilitation
- Computer equipment
- Medical and dental care not provided by government benefits

How Funds From a Special Needs Trust Cannot Be Used

Again, each state sets its own limitations on how funds can or cannot be used, but generally the trustee of your special needs trust cannot use funds for (see Insure.com. “Life insurance planning for parents of children with special needs.” May 19, 2009. Retrieved from <http://www.insure.com/articles/lifeinsurance/special-needs-children.html> on September 9, 2010):

- Food
- Housing
- Property taxes
- Home insurance
- Utilities
- Transferring cash to your child with special needs

How to Set Up Your Special Needs Trust

Select an attorney experienced in working with families of children with special needs to set up your trust. This is a must; the trust has to be properly set up. Your attorney will also properly establish the responsibilities of the trustee who can be a person or financial institution, such as a bank. The trustee's most important job is to make sure your child always stays eligible to receive government benefits. Your attorney will also determine, with your input, what limitations the trustee has in managing and distributing the trust's funds.

How Much it Costs to Set Up a Special Needs Trust

Your cost to set up this trust will vary, depending on your attorney's fees and the complexity of the trust. Set up fees generally run a few thousands of dollars. Also, the trustee of your special needs trust may charge a small percentage of funds in the trust to manage and distribute them.

“Sometimes, you just have to talk to friends and family members who want to help out financially. You have to be sure they understand how to contribute without endangering your child's eligibility for benefits. (Even birthday and holiday gifts of money, if saved over time, can add up and be counted as assets that belong to your child.) I've learned to suggest other ways for family and friends to carry out their kind intentions.”

—Donna Halcomb, mother of John and Patrick

Next Section: [Saving for Your Child's Future Needs: Part2](#)

Possibilities: A Financial Resource Guide for Parents of Children with Disabilities

This publication is intended to provide general financial information; it is not intended to substitute for, or supersede, professional or legal advice. The specific needs of every disability or life circumstance have not been covered in this publication. The best course of action must be based on individual circumstances. Note: The content areas in this material are believed to be current as of this publication's writing, but, over time, legislative and regulatory changes, as well as new developments, may date this material.

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