



BUILDING YOUR PRACTICE WITH SPECIAL NEEDS TRUSTS

A GUIDE FOR ADVISERS SERVING
CLIENTS WITH DISABLED LOVED ONES

A few months ago, an advisor we know lost a multi-million client relationship of 20 years standing. The client, a couple with three children, one of them severely disabled, met with a competing wealth planner, who explained the risks that they were taking by not making special provisions for their special needs child.

By inheriting his share of the parents' assets, this child would forever disqualify himself from government benefits like group housing, vocational training and Medicaid. Only by structuring the child's legacy as a special needs trust could the couple ensure that their son would have resources — and access to critical government support programs — for the remainder of his life. Because the original advisor couldn't provide this expertise, the couple moved all their assets to a planner who could.

Now ask yourself, how many of my client relationships could be at risk if I don't understand how to plan for special needs children?

It may be more than you think. Today nearly 57 million Americans have disabilities, about half of them severe enough to require costly care throughout their lifetimes, according to Census Bureau¹. The cost of raising a healthy child can top \$250,000 from birth to age 18; the cost of raising a special needs child may be ten times as much and can extend well past adulthood.

One of the best ways that financial planners can help clients who have special needs children or other family members is via Special Needs Trusts (also called Supplemental Needs Trusts). In the past five years, the number of special needs trusts have doubled. These trusts provide income for disabled beneficiaries' future medical expenses, while also allowing them to remain eligible for Supplemental Security Income (SSI), Medicaid, and other government

¹"Nearly 1 in 5 People Have a Disability in the U.S., Census Bureau Reports," U.S. Bureau of the Census, July 25, 2012. <https://www.census.gov/newsroom/releases/archives/miscellaneous/cb12-134.html>

²"The Torn Security Blanket: Children and Adults with Special Needs and the Planning Gap," MetLife, 2011. <https://www.metlife.com/assets/investments/services/special-needs-children/Torn-Security-Blanket-Report.pdf>



programs. They're a critical tool for ensuring the care necessary to enhance a disabled family member's quality of life.

Yet many families with disabled children do not take advantage of these trusts. A study from MetLife found that although 69% of families say they are very concerned about being able to provide lifetime care for their dependents with special needs, only around 12% of them had set up a special needs trust.²

Often clients do not want to think of what will happen when they are no longer there to care for their disabled loved one. As their trusted financial advisor, your advice and planning can ease the family's financial and emotional burden while growing your assets under management.

Providing security without jeopardizing government benefits

Caring for a loved one with special needs requires a great deal of planning, both to ensure that assets are managed appropriately for a beneficiary who cannot manage them him or herself and to avoid losing access to government assistance programs like Supplemental Security Income (SSI), Medicaid, vocational training and subsidized housing.

Government benefits phase out at very low levels. For instance SSI is available to individuals with less than \$2000 in assets (or couples with less than \$3000). Families who simply give their disabled relatives assets — either while they are alive or as part of their estates — can quite easily increase income and assets to levels where their loved ones are no longer eligible for benefits.

A special needs trust holds and manages assets in a way that allows beneficiaries to continue to receive benefits. A special needs trust allows disabled beneficiaries to enjoy the income stream from the trust without actually owning its assets — and triggering loss of government benefits.

Understanding the Directed Special Needs Trust

A directed SNT allows you, the financial advisor, to manage trust funds throughout the Beneficiary's lifetime and preserve the continuity of their investment plan. You don't have to be a Special Needs Trust expert. Partnering with a knowledgeable corporate trustee on a directed SNT allows you to focus on managing your client's assets while the complex trust administration is carried out by an expert fiduciary.



Planning for special needs children: where to start

Special needs financial planning is a complex process, and many parents, already overwhelmed with their caregiving responsibilities, don't know where to start. You can help by talking them through the steps that can protect their disabled child or children.

- **Name a guardian:** It's important to name a guardian for your child before they reach adulthood, so that this person can continue to make decisions about their health and well-being after they turn 21. Most families also name successor guardians — often a sibling — to take on these responsibilities after the parents pass away.
- **Write a will:** The will should name a successor guardian for the client's disabled child, in addition to providing for distribution of the estate.
- **Decide where your disabled child will live after you've gone:** Your client will need to make arrangements for the disabled child's housing and care, whether an assisted group home, a private home with hired caregiving staff or with relatives.
- **Identify a trustee:** The trustee will be in charge of managing and distributing assets held in trust for the client's disabled child.
- **Begin setting aside money:** The sooner your client starts saving money, the more likely the disabled child will be to achieve a comfortable life style.
- **Write a letter of intent:** A Letter of Intent (LOI) provides critical caregiving instructions to future guardians, trustees and advocates of a person with a disability, in the event of a death of a parent or caregiver.
- **Set up a special needs trust:** These specialized trust vehicles provide money for disabled beneficiaries' supplemental expenses. An experienced corporate trustee can help you craft the right structure to meet your clients' needs.

Reasons to add special needs trusts to your practice

Perhaps you've never worked with a corporate trustee or have had a bad experience in the past. Don't let the unknown hold your practice back. Here are some common reasons to add special needs trusts to your practice and reap the benefits of directed trusts, specifically, directed Special Needs Trusts:

REASON #1: Disabled children are more common than you think

You may have ruled out special needs planning because you think none of your clients need it, but statistically, that's highly unlikely. Whether your clients are talking about it or not, there are financial decisions that need to be made to ensure a special needs family member is provided for now and into the future.

- Roughly two in every 7 American families report having at least one family member with a disability.³
- One in every 26 American families are raising a child with a disability.⁴
- One out of every 68 children born in the United States has autism.⁵

REASON #2: Planning now can pay big dividends later

"Don't put off until tomorrow, what you can do today." Some clients fear that singling out one child or grandchild by allocating funds for them now will create disharmony within the family. As a trusted financial advisor, it's in your

client's best interest to explain that an effort to be "fair" may result in tragic results for the disabled. A serious problem or loss could affect any family at any time. The sooner the SNT is created, the sooner money is safely set aside for an individual and the more options there are to fund the trust. Investments will have time to grow and other family members can contribute (if applicable). A life insurance policy on the life of the parent or caregiver can also be used to fund the trust and the proceeds would continue to care for the special needs individual. Purchasing the policy early, while parents are still young, can significantly reduce premium costs.

REASON #3: Even if there's plenty of money in the estate, special needs trusts take care of disabled relatives better

Some clients probably think that they can take care of their disabled children simply by making sure that there's enough money in the estate to cover their needs. Yet without a special needs trust, even a very large inheritance can fall short. Remember, we are talking about heirs who are not fully able to care for themselves – who may never be able to hold a job, for instance, and who may require expensive care and medical treatment for their entire lives.

At a very minimum, your client should set up some kind of a trust to make sure that the money he bequeaths to a disabled child is managed appropriately, preferably by an experienced financial expert, so that it will last as long as the child needs it.



ARE YOU PUTTING CLIENT RELATIONSHIPS AT RISK BY NOT OFFERING SPECIAL NEEDS PLANNING? EVEN IF YOU'RE NOT AN EXPERT, YOUR PARTNERS AT CAPITAL FIRST CAN HELP YOU MEET YOUR CLIENTS' NEEDS.

³Disability and American Families: 2000, Census 2000 Special Reports, Issue July 2005, Qi Wang. <https://www.census.gov/prod/2005pubs/censr-23.pdf>

⁴Same

⁵CDC, 2014 <https://www.cdc.gov/ncbddd/autism/data.html>

But beyond that, it's important to make sure that your clients' disabled heirs are able to take advantage of very useful government programs – SSI, which provides them with income for life, food and shelter, Medicaid that covers their health costs, vocational training that may enable them to work and find some sort of purpose in their lives and subsidized housing that can allow them to live in supportive group homes after their parents have passed away. If your client simply bequeaths enough money to support their children for the rest of their lives, these children will likely be considered too wealthy to benefit from these programs.

A special needs trust can provide supplemental income for expenditures that enhance the beneficiary's life — like a home, a car, furniture, travel, additional caregiving help and medical treatments not covered by Medicaid—without jeopardizing government benefits. In general, these funds should not be used for absolute necessities like groceries or rent, because this will reduce the amount of SSI the beneficiary is allowed to receive.

REASON #4: Even moderately wealthy clients can benefit

Special Needs Trusts are not just for ultra-high net worth clients. Virtually anyone can fund a third-party SNT, and funding can come from a variety of sources. Are there siblings, aunts, uncles, and close friends who might help fund the SNT? Even IRA and Life Insurance policies may be set up to fund an SNT when appropriate.

REASON #5: Preserving government benefits is essential for most special needs children and adults

Even if a disabled individual is not currently utilizing government assistance programs, there are a variety of other features and advantages that a SNT offers. Notably, the SNT protects and shelters trust funds from the control of the Beneficiary and/or family members. It allows for fiduciary oversight and appropriate management of funds over the investment time horizon by a financial advisor. Additionally, a SNT offers flexibility to react to the Affordable Care Act. When properly drafted, the SNT author tailors the trust toward the Beneficiary's needs and changing circumstances. Don't leave

anything up to chance. Changes in medical condition, insurance, and family relationships can put a beneficiary's money and future at risk.

REASON #6: Special needs trusts provide flexibility to meet your clients' needs

Take it from an expert: "With all the rules that accompany SNTs and government benefits, a common misconception is that the Beneficiary is severely limited in what is available to them, regardless of what is outlined in the trust document. This could not be further from the truth." -Chris Foregger, President of Capital First Trust Company.

Corporate trustees that appropriately administer SNTs must ensure that distributions cannot be considered income to the Beneficiary and adhere to the latest public benefit programs and laws. Regardless, solutions like direct bill pay, credit cards, True Link debit cards, and budgets exist to ensure that the Beneficiary has exactly what they need. A good trustee will provide creative solutions that give the Beneficiary the goods or services they want in such a way that benefits are not jeopardized.

AS PART OF YOUR TEAM, WE CAN HELP SUPPORT YOU AND YOUR CLIENTS

Capital First Trust Company is one of the most well respected trust companies in the Special Needs Trust and settlement trust community. The independent South Dakota-chartered trust company specializes in Special Needs, Settlement Preservation, and Advisor Directed trust administration. With 20 years of experience and over 250 Special Needs Trusts in-house, we fully understand the complex and ever-changing statutes and regulations involved in responsible SNT trust administration. Families and individuals nationwide depend on Capital First for highly personalized and attentive care in the administration of their trusts.

If you're just getting started working with special needs families, we can provide you with the tools and resources to get started.

- Confused about the language surrounding special needs? You can request a copy of our glossary of terms, too.
- And remember, you don't have to be an expert on special needs trusts yourself, when our specialists are ready to assist you.
- For more information contact us any time at: Capital First Trust Company TEL: (800) 521-2359 FAX: (800) 494-2429 www.capitalfirsttrust.com