Ten Financial Steps for Families With Special Needs

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Guest Post by Michael Stern

"What will happen to my family member with special needs when I am gone or no longer able to provide care?" This question haunts many families. Fortunately, there are steps you can take to help assure the long-term financial security of a loved one with special needs:

1. Start Planning Now

Whether your loved one is four or forty, you never know how long you will be here. Of the more than 10 million people with developmental disabilities in the United States, fewer than 20 percent of their families have made any financial preparations whatsoever.

2. Discuss who will provide care

Who is available to help? Don't assume that other family members will take responsibility. Discuss the topic openly, so that each member can decide what role, if any, he or she will assume. Remember, these decisions often involve a lifelong commitment.

3. Don't put assets in the name of the family member with special needs

It may disqualify your loved one from future financial aid and could also trigger reclaiming of past benefits, especially by Medicaid. This is why it's often recommended to avoid outright gifts or naming the individual with special needs as a direct beneficiary in your will and life insurance policies.

4. Consider establishing a Special Needs Trust

If properly drafted and irrevocable, a Special Needs Trust can help maintain eligibility for public programs. These assets are considered separate from those of the family member with special needs. The trust also provides professional money management of assets and funds for your loved one's care.

5. Select guardianship carefully

Your family member's future guardian will be selected for a number of qualities — financial discretion, knowledge of care, likes and dislikes, as well as a genuine interest in the person's future. The guardian should be able to make decisions as needed and according to the Letter of Intent.

6. Arrange funding

A Special Needs Trust is of no value without funding. Since assets cannot be removed from the trust, it is often recommended that minimal funding take place during the parent's lifetime. Instead, many people purchase life insurance on the parent, naming the trust as beneficiary. It's also possible to make the trust the beneficiary of wills, annuities and qualified plan assets. Other family members and friends who want to help out can be encouraged to put money directly into the trust.

7. Draft detailed written instructions in a Letter of Intent

A letter of intent should include general information and background about your loved one, medical history, present and future housing arrangements, daily living skills, favorite leisure activities, rights and values you want to preserve, legal papers and their location, circle of friends and professionals, final arrangements and whatever else will help caregivers enable your loved one.

8. Don’t forget other family members, such as other heirs, especially other children

Provide for them in your will and with life insurance. This is vital because assets in a Special Needs Trust cannot be removed except for the benefit of the special needs individual.

9. Be aware of differences in state laws

Medicaid, for instance, is a federal program regulated and managed by the states. Guardianship laws and eligibility guidelines used to qualify for benefits differ across states’ borders.

10. Seek professional advice

Many people will want to help, but few are qualified in this complex field. Find specialists with an expertise in special needs planning, including attorneys who specialize in special needs situations.

The bottom line:

Creating a financial strategy for a family member with special needs can be demanding, time-consuming and frustrating. But your effort will be worth it down the road, both for you and other family members. Above all, the preparations you make now can help assure your loved one with special needs will be financially secure when you are no longer able to provide for them.

Life insurance products usually assist you in coordinating all the work that has to be done with your attorney and CPA. There are specialists that can assist you with the creation of trusts and estates. One of the advantages of life insurance is that a cash surrender value builds up that can be used for any expense approved by the trustee.

An annuity is a long-term, tax deferred investment vehicle designed for retirement. Earnings are taxable as ordinary income when distributed, and if withdrawn before age 59½, may be subject to a 10% federal tax penalty. If the annuity will fund an IRA or other tax qualified plan, the tax-deferral feature offers no additional value. Not FDIC/NCUA insured. Not bank guaranteed. Not insured by any Federal Government Agency. There are charges and expenses associated with annuities, such as deferred sales charges for early withdrawals.