

# Ways to Fund a Special Needs Trust

While many parents of children with special needs have done some basic estate planning, few have done very comprehensive special needs planning. Some parents have wills or living trusts while others have special needs trusts. Legal documents alone will not guarantee that money will be available, or that there will be enough of it to meet the long-term care needs of a child or other dependent with special needs.

Although a simple will is better than no will at all, it is not the solution for most special needs planning situations. A living trust or a special needs trust, even when correctly drafted, may not be adequate. If not coordinated and integrated with other legal documents and with all the financial assets, a child or other dependent with special needs will not be provided for properly.

Parents never want their child to be a financial burden on a guardian or caretaker. A well designed estate plan, when coordinated with a properly funded special needs trust, can help parents plan for the financial future of a child with special needs. If structured by knowledgeable special needs professionals, assets can pass to a special needs trust and not count towards the \$2,000 SSI limits for an individual. This means that government benefit eligibility will be maintained and the trust assets can be used to supplement the lifestyle of the individual with special needs. The trustee needs to assure that the money is used for supplemental purposes only. An important part of special needs planning is to make certain that a mechanism is set up to provide sufficient assets to meet long-term needs and provide quality of life.

## **Different Ways to Finance:**

**Real estate-** Properties are not liquid assets and due to market fluctuations, there is no guarantee that the money will be available when needed. Real estate is frequently left to meet residential needs, however, up-keep, maintenance, and staffing issues often not addressed or planned for. Real estate is rarely the primary funding vehicle for a special needs trust.

Stocks, bonds, and mutual funds - Like real estate, they are also subject to market fluctuations, jeopardizing the assurance of providing cash when it is needed. While the stock market has historically enjoyed large returns, there are no guarantees that this trend will continue or that a market downturn will not occur when the money is required. Stocks, bonds, and mutual funds are often used when funding a special needs trust although they are rarely the primary funding vehicle.

**Pensions and retirement funds-** Plans such as IRAs, Roth IRAs, 401(K) Plans, and 403(b) tax deferred annuities are designed for retirement. Using these plans

to fund a special needs trust may compromise that retirement, unless death occurs beforehand. Therefore, this strategy is not generally recommended as a primary funding source. One other consideration associated with the use of retirement funds is that the proceeds cannot be deferred or rolled over into another qualified pension plan, resulting in fully taxable income and larger tax bills.

**Various forms of life insurance** - Life insurance is an excellent funding source for a special needs trust because it makes certain that the money will be there when it's needed the most. Premiums can be budgeted and insurance amounts can be selected to meet the needs of each specific situation. Death benefits are usually probate and income tax free. Various types of life insurance are used in different situations and for different purposes. The parent of the child with special needs will want to consider not only how much life insurance to buy but whether individual, joint (first to die) or second to die coverage will best meet the needs of the child as well as those of the other family members. How much insurance do you need? What kind of policy is best for you and your family? What additional needs arise if both parents were to die? Each family has unique needs, by working with a trained specialist we can help determine what's right for you and your family.

Due to the complexity of federal and state laws, you may require specially trained professionals to help you prepare for your child or other dependent with special needs. By adequately planning now, you will insure their future happiness. For more information about this and other related topics, visit the MetDESK website at [www.metlife.com/desk](http://www.metlife.com/desk). This article was provided by MetLife.