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FUNDING A SPECIAL NEEDS TRUST

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All too often, particularly when planning for the future of a special needs child, parents find themselves juggling several issues:

1. Plan and save for their retirement
2. Provide for a college education for other children.
3. Ensure the financial security of their special needs child after the parents have died.

Most parents do not have enough financial resources to meet all three needs completely. Often, it is a matter of rationing assets. For families without a special needs individual, the parents typically save a little for retirement while allocating a larger portion of resources toward college funding. Once their children have graduated from college, then the parents are done, and they can redirect "college funds" toward retirement.

For those families with a special needs child, they are in a different situation. They have a lifelong expense and need to fund for care, even after the parents are retired and then die. This is overwhelming to a parent. How much do I save for retirement? How much do I set aside to fund the care and living expenses for my special needs child after I die?

At some point, most parents of a special needs child will need to establish and fund a special needs trust. This type of trust can be used to provide for the child after the parent's death, without jeopardizing the child's eligibility for government benefits. Once the trust is created, parents need a qualified financial planner who is experienced in working with special needs issues. This planner can help parents determine the future, inflated need and suggest ways to fund the trust.

There are three ways to fund a special needs trust – either separately, or in combination.

1. Save/invest the money during parents' lifetime.

2. Leave assets at death, such as investment portfolios, IRA's etc.

3. Provide the necessary funds through a life insurance policy

1) SAVE/INVEST THE MONEY

Consider two parents, both age 40, start investing $300 per month for 30 years. Assuming an average annual rate of return of 4% for investment – the resulting amount available to provide for the surviving special needs child is **$208,215.** This is without considering market volatility and uneven returns. (This is for illustrative purposes and may not be indicative of your situation.)

2) LEAVE ASSETS AT DEATH

If parents intend to leave other assets, such as IRAs, taxable investments, etc. to the special needs trust, there is the problem that the parents may deplete a portion, or all, of the assets in order to provide for their retirement. Their retirement needs are somewhat uncertain because of inflation, rising health care costs etc. Additionally, taxable investment portfolios are not protected from creditors if the parents are sued.

3) PROVIDE FUNDS THROUGH LIFE INSURANCE

Using the same amount of money as Option 1 ($300 per month) the parents can buy one life insurance policy which will cover both of them with one death benefit, commonly known as a "second to die" policy. With a second to die life insurance policy, one of the parents could actually be considered uninsurable. The policy pays at the death of the second parent. This is when the most money needs to be available to provide for the care and expenses of the special needs child. The $300 monthly premium, for a 40-year-old husband and wife, would provide **$1,060,508** in *immediate* death benefit.

There are several advantages to using life insurance.

1. The life insurance may be a more cost efficient way to provide funds for the surviving special needs child. The parents would need to save $1528 per month ($18,336 per year), just to reach $1,060,508.
2. Further, the parents would not reach the $1million+ level of funds until they had saved for 30 years. The life insurance provides that amount immediately. Thus, if the parents were to die prematurely, say at age 50, using the saving and investing method, the special needs trust would be severely under funded.
3. Using fixed life insurance as a funding vehicle requires no investment decisions and the funding source, i.e. fixed life insurance vs. an investment, is NOT subject to the volatility of the stock market. Thus the future goal is more predictable.

Since you have a permanent need, it may be prudent to purchase a permanent policy, with cash value. Keeping in mind that the cost of care and cost of living today will only keep increasing over the years, parents need and plan to obtain that much insurance coverage. However, if the parents cannot afford the premium required today, then they should purchase as much as they can afford.

In conclusion, parents who have a special needs child have several complicated financial issues during their lifetimes. Working with an experienced person, preferably a CERTIFIED FINANCIAL PLANNER™, practitioner can help them allocate resources and develop a funding plan for the special needs trust that, preferably includes a second to die life insurance policy.

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