FIDATO WEALTH®

COMPREHENSIVE FIDUCIARY ADVICE

FLASH REPORT

FINANCIAL PLANNING FOR A CHILD WITH SPECIAL NEEDS

Raising children and grandchildren is challenging in the best of circumstances. But when a child has special needs or a disability, the hurdles can look more like mountains and the potholes can feel more like bottomless pits.

That's especially true when it comes to paying for the many expenses that can accompany raising a special needs child as well as positioning assets for the child's future.

The good news: There are savvy financial moves that parents and grandparents of children with special needs can make that may potentially deliver big benefits to both themselves and their kids—today, tomorrow and down the road.

MULTIPLE FINANCIAL CHALLENGES

Parents of children with special needs can face some unique financial concerns. For example, a child's special needs often are identified when problems occur after the child is born—giving parents no advance warning or time to look into what it could take financially to address the issue. Also, while many health care needs require a one-time expense, special needs health care expenses are often ongoing—requiring monthly, weekly or even daily services that could be needed for years.

What's more, those ongoing costs might be highly inconsistent from year to year—making it even harder to plan.

NAVIGATING TODAY'S EXPENSES

Smart financial planning around special needs involves thinking about the foreseeable road ahead, along with the distant and more uncertain future.

Start with some basic wealth planning, such as budgeting. In addition, many families qualify for financial help from government agencies. One example: Monthly Supplemental Security Income (SSI) is available to some individuals who meet the SSI disability standard.

Important: Don't assume you earn too much or are too wealthy to get any benefits. The rules can vary from state to state, making it possible you'll qualify for some amount of assistance.

That said, it's important to look to more advanced solutions. One tool to consider: an ABLE account—essentially a 529-like savings plan to help families caring for children or adults with disabilities. ABLE account contributions grow tax-free and withdrawals are tax-free when used for qualified disability expenses. Anyone can contribute to an ABLE account, including grandparents.

Another key benefit of ABLE accounts is that the contributions are shielded from asset-based limits that could jeopardize an individual's ability to access government assistance. That means an ABLE account could be a good way to provide financially for a child with special needs without making a direct financial gift to him or her that could jeopardize access to other financial support.

However, there are some potential downsides. Example: If the ABLE account exceeds $100,000, the individual is no longer eligible for SSI.

WEALTH PLANNING FOR THE FUTURE

Special needs financial planning also has to address estate planning, in the event you die and are unable to care for your child.

Often, parents who want to help ensure their child with special needs will be taken care of after they're gone will set up a special needs trust that's designed to hold and safeguard assets to benefit the child. (That said, parents also set up these trusts while still alive to help supplement the cost of care.) The trust can be set up with terms and language for how and when the money should be used, although keep in mind that many specific terms must be met for the trust to be deemed acceptable. And as with many other types of trusts, a special needs trust can potentially protect assets if the child is sued or becomes divorced at some point.

In general, there are two main types of special needs trusts that most families with assets to invest tend to consider:

- A first-party trust is set up when the assets contributed to the trust belong to the beneficiary—that is, your special needs child or grandchild. This can happen if the child inherits wealth or gets money from a legal settlement. The beneficiary is considered to be the owner of the assets in this scenario. The good news is that when those assets are put into a special needs trust, they're excluded from government aid calculations determining eligibility for the types of benefits noted above. The bad news: As with the ABLE account, when the beneficiary dies, the government can claim assets still in the trust to reimburse it for payments it made.
- A third-party trust is used when the funding assets come from parents, grandparents or anyone other than the beneficiary (who in this case would not be considered the owner of the assets). A third-party trust also allows a beneficiary to retain his or her government assistance—but because the assets contributed belong to someone else, the government won't seek to collect remaining assets when the beneficiary dies. The upshot: A third-party trust gives you more flexibility to transfer remaining wealth to another beneficiary (such as another child or a charity).

(A third type of trust, a pooled trust, is aimed at families with relatively modest assets.)

As with other trusts, you must carefully consider who is the right person to name as trustee and how to best fund the special needs trust—two issues we'll explore in a future report that focuses on special needs trusts.

CONCLUSION

There are a number of steps that families with a child with special needs can take to help ease the financial burden of ensuring their children get the care they need, as well as set their children up for better and more stable financial lives as they grow up.

Of course, there is no one-size-fits-all answer given that one family's particular situation can be quite different from another's. But for families experiencing the confusion and uncertainty that accompany raising a child with special needs, knowing that there are options to consider can be a helpful foundation from which to create a plan for today and well into the future.

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