Financial Planning for Children With Special Needs

by David C. Ferrell

Families of children with special needs or disabilities routinely face complex issues and unique challenges when it comes to financial planning.

For them, wise investment for the future is not only critical but also much more complicated than for other families. The goal is to create an integrated financial and life strategy that allows a special needs child to maintain a sense of security, dignity and autonomy.

Planning carefully for the future will help alleviate some of the stress and anxiety parents of children with special needs may feel. Knowing their child will be cared for in the event of their demise is comforting.

Limited Conservatorship

It's essential for parents planning for a child with special needs preserve and protect public benefits such as disability, Supplemental Security Income (SSI) and Medicaid.

These government benefits are available to provide food, shelter, healthcare and other living expenses. A Limited Conservatorship, established at age 18, will help protect the child from possible fraud and embezzlement.

Trust Fund

A Special Needs Trust will fund a child's specific needs, including special therapies and interventions, educational programs, caregivers, equipment, and so on. Critically, a Special Needs Trust will ensure the child remains eligible for government benefits, federal as well as state. Its assets can be managed according to the parent's wishes. Like any trust, it can be funded with stock, real estate, or other assets but is generally most easily managed with cash or liquid assets. Life insurance is also a good way to fund the trust. A Special Needs Trust is protected from creditors and litigation. An estate planning attorney is required to set up a Special Needs Trust.

Write a Letter

A Letter of Intent will help clarify parental wishes for a child's future care and living arrangements.

This letter can detail characteristics of the child, including preferences for everything from food to environment. It is the vehicle through which parents can pass on their legacy. A Letter of Intent is typically not legally binding, but it can certainly help guide conservators or other types of guardians.

A Licensed Professional Fiduciary or Independent Trustee can be hired to ensure the provisions of any trust are carried out as intended. This person can also provide assistance with tax returns, court filings, trust distributions and other budgeting issues.

Parents can transfer life insurance policies to a Special Needs Trust and designate the trust as owner of the policy; thus, the death benefit of the policy is removed from the parents' estate. For the policy to be permanently removed from the estate, the parents have to outlive the transfer by three years.

A Succession Plan can be included in the Special Needs Trust for any assets remaining after death of the child.

Care & Comfort

A comprehensive financial plan will help ensure all the above points are met and fulfilled over time.

It will detail strategies that work together to provide all the heirs – not just the special-needs beneficiary – with the inheritance the parents intend.

Many people assume a direct gift bequest to their child is sufficient. While it's certainly a simple route, a child with special needs may be incapable of managing the gifted assets. Such a gift, because of income limitations, could also render the child ineligible for government benefits.

Similarly, a direct gift or bequest to the child's siblings has its drawbacks: It requires a long-term commitment by the sibling to provide for the child. And, such assets may be at risk if the sibling faces litigation or divorce or simply decides the money is best spent elsewhere.

While a Special Needs Trust may help avoid family conflicts, direct gifts and bequests may foster disagreements among the heirs.

Approached thoughtfully and comprehensively, financial planning for children with special needs can provide for a lifetime of care and comfort.

Knowing that the best intentions of the parents will be carried out – and the other siblings are not alienated – will leave parents more time to enjoy their children.

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