

Financial Planning for Families with Special Needs Children

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Parents of children with special needs have several choices available to them as they look to the future. The planning process needs to take account of the level of support, ongoing eligibility for government programs and the choice of caregivers as well as other decision makers.

HOW can you secure a sound financial future for a child with special needs? The answer to this question begins with realistic appraisals of needs and resources, an accurate and dispassionate assessment of competing financial objectives and a working knowledge of the potential benefits and drawbacks of different planning strategies.

See Yourself In The Big Picture

Approximately 6% of all children in the United States under age 18 had one or more special needs in 2011, according to that year's American Community Survey by the US Census Bureau. That's about three million children nationwide out of an age group population of 74 million.

Some three fourths of children aged 5 to 17 with a disability had cognitive disabilities. More than 350,000 children in that age group cannot move about normally, and more than half a million in that age group cannot perform one or more basic tasks of self-care. Conditions such as deafness, blindness, paralysis and mental impairment are generally permanent. These conditions often do not impact life expectancy, which means that many special needs children will probably outlive their parents and primary caregivers.

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Education, therapy and general life supervision services for significantly impaired children are so costly that few families can manage the entire burden themselves. Fortunately, parents and guardians of special needs children can make use of special education, day care programs, Medicaid and other elements of the social safety net to leverage their efforts.

At the same time, few would consider safety-net support to be entirely adequate by itself. As a result, many families also commit considerable resources to enhancing their disabled children's lives. That raises a new question: How can the parent of a special needs child create an estate plan that extends family support when the primary source of that support passes on? Any plan to provide such support needs to address a number of issues beyond the simple matter of creating adequate financial resources.

One consideration is eligibility restricted by income or assets. Most major elements of the safety net for disabled adults are means tested, even where parallel services for children might be accessible to all. For example, public school special education programs (which are available to all) typically include the development of skills needed to compensate for disabilities. However, unrestricted eligibility for special education typically ends at the completion of the school year during which the disabled student reaches age 21, even though the need for ongoing skill enhancement and support may last a lifetime. There are adult programs to facilitate ongoing education, but they are typically means tested to limit access.

Furthermore, many disabled children may be incapable of managing their affairs at all, requiring the use of trusteeship and guardianship for estate resource as well. These burdens cannot generally be handed off to people who might be unwilling or unable to perform the requisite duties.

Weighing The Estate Planning Alternatives

There are three general paths for parents looking to deal with special needs children in their estate plans:

- Direct bequests and gifts are the simplest to establish and administer, but the added resources may lead to disqualification for government programs. As an example, benefit eligibility may be severely restricted once the special needs individual's resources exceed \$2,000. In addition, the beneficiary may not be competent to manage the assets.
- Gifts to a family member who then manages the assets for the disabled child are also simple to establish. What's more, such indirect gifts may help preserve benefit eligibility. But the assets themselves would be considered part of the family member's estate, where they could

be claimed by the family member's creditors or lost in a divorce action. And, of course, the family member must be willing and able to take on the role.

- Creation of a special needs trust can address the risks and shortcomings of simple gifts. With a trust, you can determine the asset management and disbursement policies of the trust and then put the reins of the trust into hands that you designate. The trust can also help assure that benefit eligibility is maintained. But creating and implementing a trust is a complex task. Successful trusts require legal, financial and fiduciary advice as well as a willing donor.



Because every special needs child has unique needs and every family has unique financial considerations, every special needs trust is also unique. The decision to create a special needs trust of any kind cannot be taken lightly. The financial implications of each alternative are significant, both for you and for your disabled child.