

Special Needs Trust Could Ease Families' Stress

If you have a family member with special needs, you might face emotional and physical issues, but you also may be concerned about maximizing the financial support your loved one requires. Consequently, you may want to consider establishing a *special needs trust*.

This type of trust can help maintain the financial security and lifestyle of an individual with special needs. Furthermore, a special needs trust can allow the trust's beneficiary to receive financial support for supplemental needs without losing public benefits, such as Supplemental Security Income (SSI) and Medicaid.

Here's how it works: You, as the trust's grantor, establish the trust and name a trustee who is responsible for managing the trust. You can fund the trust with gifts throughout your lifetime or from other sources, such as inheritances or court settlements. But another popular funding mechanism is life insurance, which the trust can purchase on the life of one or both parents of a special-needs child. And as long as the trust is also named the beneficiary of the policy, government benefits will be protected.

In a special needs trust, the role of trustee is important. A trustee must manage the funds within the trust and ensure those funds are used only to supplement SSI and Medicaid, the government programs that typically pay for food, housing and medicine. Instead, a special needs trust can be used for most other expenses, including transportation and travel, education, entertainment, professional services and personal items.

You could serve as trustee yourself or choose a relative or a trusted friend. Ideally, you want someone who's familiar with your wishes and the needs of your family member with disabilities and who is also competent at managing finances and staying current on SSI and Medicaid regulations.

As an alternative, you could hire a professional trust company to manage your special needs trust. This type of company has expertise in asset management and government regulations and can provide you with strict recordkeeping of all the financial transactions associated with your trust. If you go this route, you'll want to compare different trust companies' costs and services. For such a personal matter as administering a trust for your special-needs family member, you'll want to be sure you're comfortable with whatever company you select.

Also, you'll want to be familiar with some of the possible areas of concern regarding special needs trusts. For one thing, because the trustee totally controls when and how funds are distributed, beneficiaries can get frustrated if their requests for money are denied. Additionally, while third-party special needs trusts are funded by someone other than the beneficiary, first-party special needs trusts are funded by the beneficiary's own assets — and for these first-party special needs trusts, the trust must typically pay back Medicaid for money it has spent on the beneficiary's behalf after the death of the beneficiary. This repayment could deplete the trust, depriving secondary beneficiaries of any assets they might otherwise receive. Third-party special needs trusts do not require Medicaid repayment.

Consult with a legal professional before establishing a special needs trust to ensure this arrangement is appropriate for your family's situation. But if it is, and if it's managed properly, it can relieve you of some of the stress you may feel over the future of your loved one with special needs.

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