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Funding a Special Needs Trust: How Much Is Enough?

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As a parent or guardian, you want to ensure that your child with special needs will remain financially secure even when you are no longer there to provide support. Given the significant, ongoing expenses involved in your child's care and uncertainty about what needs may arise after you are gone or what public benefits may be available, determining how much a special needs trust (SNT) should hold is no small feat.

Fortunately, help in calculating your "special needs goal" is available from attorneys and financial planners with expertise in disability issues, as well as from special needs calculators, which are accessible free of charge on the Internet. Here are two such calculators:

- MetDesk Special Needs Calculator: <http://www.metlifeiseasier.com/metdesk> (Available on the Special Needs Answers site at: <http://www.specialneedsanswers.com/resources/calculators.asp>)
- Merrill Lynch Special Needs Calculator: www.totalmerrill.com/specialneeds. (Click Special Needs Calculator under "Tools and Resources".)

Using one of these calculators, either on your own or with the help of an advisor, is an excellent way to begin making concrete plans for your child's future. Based on information you provide about anticipated income and expenses, the calculators offer a realistic estimate of how much your child will need in lifetime financial support. Financial planners suggest re-running this type of calculation periodically, particularly as your child nears adulthood, to ensure the estimate reflects the most accurate, up-to-date information about needs and circumstances.

Getting Started

The first step in determining the amount you must set aside in an SNT is considering your goals and expectations for your child's future. If you haven't yet created a [Memorandum of Intent](#), also called a Letter of Intent or a Life Plan, this is the time to draft such a document. It should address factors such as your child's medical condition, guardianship needs, ability to work and desired living arrangements, all of which will drive your special needs calculation.

Once you've considered the "big picture," you'll need to identify your child's future income sources and living expenses. The online calculators identify relevant categories for you (e.g., public benefits income, transportation costs). For additional perspectives, take a look at the income-and-expense worksheet at

nichcy.org (<http://www.nichcy.org/pubs/outprint/nd18txt.htm>) or ask your attorney or financial advisor if he or she has one available.

Next, you'll need to tackle the most arduous part of the process, placing a dollar value on each category. You can start by listing any current income or expenses likely to continue into your child's adult years. You'll need to consider income from sources such as life insurance proceeds, gifts, inheritances, and legal settlements, as well as from employment and public benefits such as Supplemental Security Income and Social Security Disability Income.

On the expenses side of the column, broad categories include, but are not necessarily limited to:

- Housing: rent, a mortgage, utilities, insurance, taxes, maintenance.
- Transportation: car payments, auto insurance, fuel, repairs, public transportation costs.
- Medical care: doctor visits, therapy, prescription drugs.
- Care assistance: respite, custodial, nursing home care.
- Special equipment: wheelchairs, assistive technologies, durable medical equipment, computers, service animals.
- Personal needs: grooming, hobbies, entertainment, vacations.
- Education and employment costs: tuition, books, supplies, tutoring.
- Future asset replacement costs: for a car, major appliances, electronics, furnishings.

Running the Calculation

Prior to running the calculation, you may need to indicate your child's life expectancy and the number of years remaining until your retirement. Once you've input all required data, the calculator automatically will run an analysis of your funding needs based on preset assumptions about the rate of inflation and your after-tax investment returns. Both calculators indicate the amount of annual savings required to meet your goal. The Merrill Lynch calculation includes a lump-sum savings goal that must be met by retirement, as well as a year-by-year cash-flow analysis indicating any shortfalls or surpluses for a given year.

Considering 'What ifs'

Financial planners advise that running alternative calculations can help you plan adequately for worst- and best-case scenarios. One variable to consider is your child's ability to earn income. For example, if he or she is able to work more than expected, earned income may cover more expenses, but SSI payments will likely be reduced. As your child's disability advances, he or she may need to leave the workforce, potentially increasing SSI payments but also adding new expenses.

Another critical factor is the impact of higher or lower investment returns on the amount you must set aside. If your child is very young, you may plan to invest aggressively, pursuing a higher rate of return than if he were nearing adulthood. The reason – an investment rule of thumb – is that you generally can take somewhat greater

risks with a longer-term investment because you have more time to recover from dips in the market. If you anticipate a lower rate of return for any reason, you will need to compensate by setting aside more in savings.

As you can see, to some extent this is more of an art than a science. You can make your best guess or work with a financial planner who specializes in this field and who can bring to bear her experience with many families in similar situations.

Finding the Funds

Once you have a realistic estimate in hand, you'll need to consider how to fund this need without sacrificing such financial goals as college and retirement. You may also need to balance the needs of your child with special needs with your wish to benefit other children as well as covering your current needs. You may not be able to completely fund the dollar amount resulting from the above calculations, but having a target can assist your planning.

Many families find that a second-to-die life insurance policy is the most realistic option to fund an SNT because the premiums are often lower and the trust is funded when it is most needed, after both parents have passed away. In short, how much you fund your SNT and how large an insurance policy to purchase will be a question of balance among your current needs, your retirement funding, the needs of your other children, if any, and the anticipated needs of your child with special needs.

Finally, be sure to create or update an estate plan and determine which of your assets you'll leave to the SNT. Also advise relatives of the need to direct gifts and bequests to the SNT, rather than the child, to avoid the risk of disqualifying the child from eligibility for public benefits.

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