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Financial Care for Special Needs Children

***Overview*:** Parents of a special needs child may have never-ending concerns about their child's care. For instance, where will the child live should something happen to the parents? Who will care for the child, and from where will the money come?

How much do you know about financial planning for a special needs child?
Test your knowledge with this short quiz.

1) True or False. The plan that is often most helpful for families needing to make provisions for a child with special needs is a **grantor retained annuity trust (GRAT)**. This device allows a **trustee**, typically a family member familiar with the child's needs, to use funds placed in a trust by the child's parents for the necessary care.

2) True or False. A **charitable remainder trust** can be a favorable planning mechanism for the parents of a special needs child.

3) True or False. If a charitable remainder trust is used and a minor child is the **income beneficiary**, any income tax deduction could be drastically reduced because of life expectancy differences.

Read here to learn more about financial planning for a special needs child.

Fortunately, help is available. Local, state, and federal programs can be of assistance in easing some of the monetary demands on the family. In addition, there are private groups that can help with **long-term care (LTC)**. However, if you wish to provide the highest level of care, you will need to *plan* for the best possible use of your funds.

Meeting Needs

The plan that is often most helpful for families needing to make provisions for a child with special needs is a **special needs trust**. This device allows a trustee, typically a family member familiar with the child's needs, to use funds placed in a trust by the child's parents for the necessary care. It offers sufficient flexibility to handle almost any situation, while providing privacy for the details of the arrangements made by parents, grandparents, or others who wish to make a gift to a special needs child.

Many people may assume that trusts are only for the very wealthy; however, the financial situation of a family with a special needs child demands prudent planning to prevent loss of agency funding after the parents are gone. For example, assets received as an **inheritance** might disqualify an adult child from receiving public funding for housing, medical care, and other government programs. Assets placed in a trust, however, and directed to uses other than those available through government sponsorship remain available for the individualized care a parent might want to provide.

While the special needs trust can establish a mechanism for maintaining financial care for a special needs child, some families have utilized the **charitable remainder trust (CRT)** as an additional mechanism to help secure future income for a special needs child. As its name implies, a CRT benefits a charity, as well as an individual. Here's how it works:

A couple starts by transferring liquid, highly appreciated assets, such as mutual funds or publicly traded stocks, into their CRT. The couple receives an annual income from the trust for a term of years or their joint life expectancies. The Internal Revenue Service (IRS) allows the couple to take a current income tax deduction for the present value of the property that ultimately passes to the charity they selected—generally one involved with the special needs of the child—when the CRT terminates. [*Note*: In the case where a minor child is the income beneficiary, this tax deduction could be drastically reduced because of life expectancy differences.] Any property put into the trust is out of the parents' estates, and when the trust terminates, a sizable legacy will be left to the charity of their choice. In addition, there is no **capital gains taxes** due for transfers of highly appreciated property to the CRT.

The use of a CRT to benefit a special needs child may be advantageous in many ways. The income stream is used for the benefit of the child, with either the child or the parents as the named income beneficiaries. If the child is the income beneficiary, the trust can pay income for the child's life and the parents, as financial guardians, will oversee the use of the income. Should the child outlive the parents, a named **guardian** will step into the parental role.

A Final Word

Certainly, planning for a special needs child can be emotionally challenging and financially demanding. However, with a solid plan in place, you can help ensure the best possible care for your child, both now and in the future.

Quiz Answers: 1) False; 2) True; and 3) True

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