

CASE STUDY – THIS IS FAMILY

Caring for children with special needs



Estate planning is critical for families with children with special needs – and parents face unique challenges.

They need to make sure sufficient funds are available to care for their child, find the right caregivers and guardians, help them apply for and receive government benefits they may be entitled to, and select a trustee capable of managing and distributing special needs trust inheritances.

A financial professional can be an invaluable ally for parents with a child with special needs.

Case study 1

Adam, age 38, and Sarah, age 37

Three children: Stella, age 12, Sam, age 10, and Maggie, age 4

Sam was born with Down syndrome.

Background

Adam and Sarah want their children's future to be secure if they die or become incapacitated. Adam is the sole wage earner. Sarah serves as the children's primary caregiver. She spends a lot of time helping Sam with his disability and working to improve his skills. The family does not have an estate plan.

Adam and Sarah's estate has a value of \$725,000. This includes their home, retirement accounts, liquid assets and a modest amount of life insurance (\$375,000) on Adam through his employer. Adam earns \$125,000 per year.

When the children's maternal grandparents die, their estate will distribute \$50,000 each to Sam, Stella and Maggie.

Adam and Sarah's main goals are to:

- Name guardians for their children if Adam and Sarah were to die or become incapacitated before their children are able to care for themselves.
- Ensure that, until completing college, each child will be able to maintain their lifestyle and receive proper care.

Sam's care is a big concern. He may not be able to live independently once he reaches the age of majority. Adam and Sarah plan that Sam will live with them as long as they are alive. They know he may qualify for government assistance in the future.

Challenges

- Adam is the sole income earner. If he dies, the family will not have sufficient assets for their support, let alone provide for Sam's care.
- If Sarah dies, Adam will need to hire someone to care for the children, particularly Sam.
- Without a will, they haven't legally specified who will become the guardian of their children if both are deceased.
- It is uncertain where Sam would live or who would manage his affairs if both his parents died. This issue will become especially important when Sam reaches the age of majority.
- An outright inheritance (from either his parents' or grandparents' estate) could make Sam ineligible for future Supplemental Security Income (SSI) or Medicaid benefits.

Solution

- Meet with an estate planning attorney to help them establish and execute their estate planning documents.
- Discuss how a special needs trust may be important and to relay this knowledge to outside family member who may want to give directly to Sam.
- Increase life insurance coverage for both parents to provide income if they die, and fund a special needs trust to address Sam's long-term financial dependence.
- Recommendation: Adam and Sarah should each purchase life insurance.
 - A term-perm combo for Adam that provides a "first-death" benefit sufficient for the family's budget.
 - A survivorship product can be used for Adam and Sarah.
 - This insurance combination can help Adam and Sarah reach their goals of income replacement, death benefit payments and modest cash value accumulation.

Outcome

By creating a sufficient estate plan and obtaining appropriate amounts of life insurance, Adam and Sarah help ensure that all of their children will be cared for until completing college. They can also help ensure that adequate assets supplement any government assistance Sam receives.

Features of a term-perm combo

- Total amount of premium paid will be lower than purchasing a permanent policy with the same death benefit.
- In the short-term, this combo provides less expensive coverage for limited period liabilities, such as a mortgage, short-term debt, etc.
- Long-term coverage with cash value accumulation can help provide for future college expenses, supplemental retirement income or wealth transfer.

This is a hypothetical example for illustrative purposes only.

Glossary

Trustee

An individual, company or group assigned to manage and distribute a trust's assets in the interest and for the benefit of a specified beneficiary.

Special needs trusts

Also referred to as Supplemental Needs or Third Party Trusts. These are special trusts created to hold title to assets specifically designated to benefit of a child or adult with a mental or physical disability.

Age of majority

The age at which a person is legally considered an adult.

Will

A legal document that outlines how a person's assets should be handled upon his or her death.

Case study 2

Jeff, age 58, and Nancy, age 63, have two adult children. Their daughter, Suzy, is 28, and their son, Jacob, age 33, is autistic.

Background

Jacob lives with his parents. He receives SSI and Medicaid, and is eligible to live in a group home. Jeff and Nancy's estate plan consists of a simple will that leaves two-thirds of their \$500,000 estate to Jacob. While they assume that if they died Jacob would live with Suzy, they have never discussed it with Suzy.

Challenges

- Jeff and Nancy realize leaving a large portion of their estate directly to Jacob could disqualify him from the government benefits he receives. Also, they know Jacob would not be capable of managing assets left to him.
- Jeff and Nancy worry about the quality of Jacob's care and lifestyle.
- Jacob is attached to his parents. His autism makes it difficult for him to adapt to change.
- Suzy may not be willing or able to care for Jacob.

Solution

Recommendation: purchase two cross-owned policies to provide a "first-death" benefit. Jeff and Nancy are both in the Preferred Non-Tobacco underwriting class. They should also engage in an estate planning discussion with an attorney and other trusted advisors.

Outcome

By working with a team of professionals and specialists, Jeff and Nancy feel confident that after they die, a solid plan is in place for Jacob. Because they bought cross-owned policies, a death benefit will be paid when either of them dies. The assets would then be paid to the named beneficiary. This most likely would be a trust set up for Jacob's benefit.

This is a hypothetical example for illustrative purposes only.

Glossary

Revocable trust

A legal document directing the management and distribution of assets placed in the trust. A revocable trust can be changed while the grantor is alive, and assets are only transferred upon the grantor's death.

Power of attorney

Gives someone the legal right to handle some or all a person's financial affairs if that person is unable to do so.

Medical directives

A general term for several different legal documents that provide instructions for the treatment and care of someone who cannot provide those instructions because of mental or physical disability.

Suggestions for both families

- Establish a team of professionals you are part of that helps with estate planning and to assist with planning for the care through adulthood of children with special needs.
- Meet with a qualified special needs estate planning attorney to prepare or update various documents, including a will naming guardians, and a special needs trust to hold assets. A revocable trust, powers of attorney and medical directives may also be necessary.
- Review the titling of assets to ensure they are held in trust for children with special needs. Outright distributions could disqualify a child for government assistance.
- Talk to siblings and parents about guardianship. Discuss the responsibilities they would take on.
- Work with a trustee or trust company to create an independent trust, and fund it with life insurance.
- Set the special needs trust up to be able to accept gifts.
- Prepare a Letter of Intent outlining the parents' desires and hopes for their children with special needs. It should include critical information about care.



Learn more

Find out how you can help families create an estate plan that provides for their loved one(s) with special needs today:

1-877-696-6654 (Securian Financial and broker-dealer)

1-888-413-7860, option 1 (Independent brokerage)

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