ESTATE PLANNING

# Special needs planning

As a parent or caretaker of an individual who has special needs, you want to make sure your loved one is taken care of after you are gone. Establishing a special needs trust on behalf of the individual and funding it with a life insurance policy may be the answer.

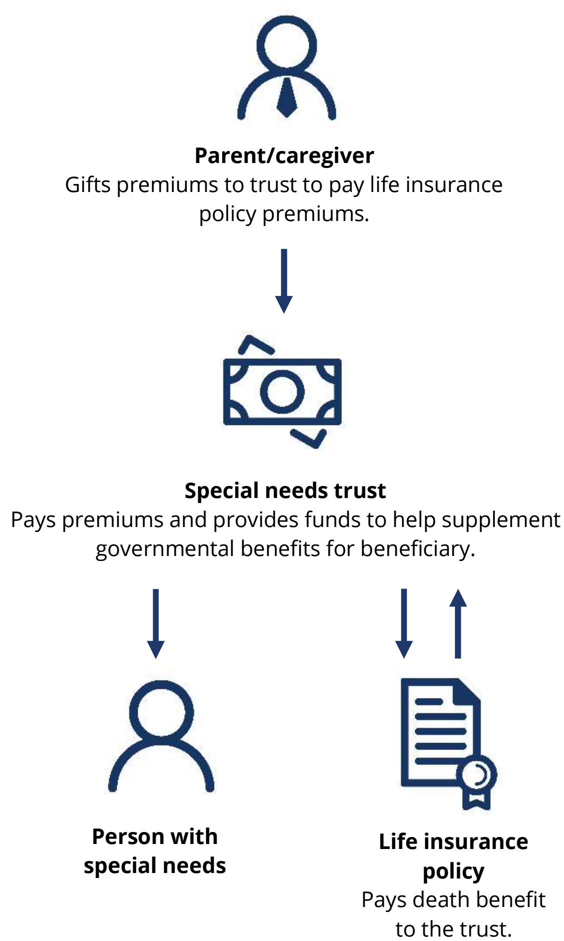
## What is a special needs trust?

A special needs trust is designed to help you leave behind assets with the assurance they will be used to support an individual with special needs. The trust is created to take care of any supplementary needs the individual may have that are not covered by government benefits. Once the basics of food, shelter, medical care, and education are met by the government, the trust can provide additional funds to enhance the quality of life of the person with special needs. Using a special needs trust allows you to provide for a loved one without jeopardizing his or her eligibility for need-based benefits.

## How does it work?

A special needs trust is typically funded with a permanent life insurance policy on the life of the caretaker(s) of the person with special needs. The cash value in the life insurance policy accumulates on a tax-deferred basis and can be accessed by the trustee on a tax-favored basis, via policy loans. At the insured's death, the death benefit is paid to the trust and the trust coordinates the funds with government benefits to provide financial resources for the care and support of the person with special needs. The death benefit of the life insurance policy passes to the trust on an income-tax free basis.

## Special needs trust



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## The benefits

- The special needs trust is designed to coordinate with other programs, thereby helping the individual to remain eligible for state and federal government benefits.
- Through a special needs trust, the caregiver can feel more confident regarding the future financial security of his or her loved one with special needs.
- Cash value from the life insurance grows tax deferred and can be accessible during the life of the caregiver via loans.
- Proper planning can provide for the individual's continued support, quality of life, and dignity.

## Additional considerations

- The strategy will require the assistance of an attorney who specializes in special needs planning, along with your financial professional.
- The individual with special needs generally should not be a designated beneficiary of any retirement accounts, life insurance, annuity contracts or brokerage accounts. These financial assets could jeopardize eligibility for government benefits.
- When a special needs trust is used, the trust beneficiary cannot have direct access to assets – trust distributions should be at the trustee's sole discretion.
- Life insurance may be needed on the lives of the primary caregiver AND the primary breadwinner, if not the same person.
- Although the special needs trust is usually the owner and beneficiary of each life insurance policy used to fund the trust, an alternative arrangement is for the insured to be the policy owner, naming the trust as the policy beneficiary. This ownership may have different considerations that you may wish to discuss with your financial professional.

**AuguStar's Advanced Planning team offers a wealth of information on planning for individuals with special needs, including a special needs calculator and an informative brochure (Taking Care of Those Who Can't Take Care of Themselves, Form 2460FMP). Contact your financial professional to learn how you can protect your loved ones through special needs planning.**



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