



## FINANCIAL PLANNING FOR A CHILD WITH DISABILITIES

Parents who have a child with a physical or mental disability or a child with a potentially chronic illness must financially plan not only for immediate needs, but perhaps for the child's entire life. Here are several financial planning issues you may need to consider.

**Overall planning.** Designing a viable budget is critical because of the often extraordinary medical expenses. It also is vital that you manage your money and create financial strategies that balance your own needs with those of your child's. Saving for your own retirement, for example, should not be ignored.

**Medical coverage.** Try to have your health plan cover the child for as long as possible. Eventually, usually when the child turns 18, federal supplemental security income and Medicaid may cover most—though not all—medical expenses.

**Life insurance.** You may want life insurance benefits to help support your child after your death. However, keep two issues in mind. First, large amounts of life insurance could make your estate vulnerable to estate taxes, so a life insurance trust might be appropriate. Second, you'll want to be careful about naming the child as beneficiary if the child needs government assistance to meet daily living needs. Insurance benefits would probably make the child ineligible.

**Guardianship.** All families should name a guardian for their minor children in the event the parents die prematurely. However, a child with a disability probably will need a guardian for life (including a successive guardian should the original guardian not be able to carry out his or her duties). Even if the child is institutionalized, it's generally advisable to have a relative or friend legally able to act on their behalf.

**Letter of intent.** This document details your child's medical history and your wishes and expectations for the child's future. Experts consider this to be invaluable for caregivers once the child's parents die.

**Government assistance.** The two most common programs for such assistance are Medicaid and supplemental security income. However, unless you have very low income, a disabled child living at

home probably won't be eligible for these programs until he or she turns 18. At that point only the child's assets and income are counted toward eligibility.

**Special needs trust.** Also called a supplemental needs trust, this is a way to provide extra income to a child receiving government assistance without making the child ineligible for assistance. Money that's put into the trust by family or friends and relatives can only be used to pay for extras not covered by the government, such as a vacation, dental care, special equipment, education or a CD player. It cannot be used to pay for basics such as food, clothing and shelter, unless they are not adequately provided by government assistance. There is no dollar limit to the amount that can be contributed or earned by the trust. Parents can be trustees.

A variation of this strategy is for a charitable organization to set up a single trust for the benefit of several disabled children.

**Irrevocable living trust.** For children not receiving government assistance, an irrevocable living trust can be set up. Parents fund the trust while they're alive for the benefit of the child. Gifts to the trust reduce the value of their estate and minimize estate taxes. Financial institutions can serve as trustee, as well as friends or a financial planner or attorney, but you'll want successive trustees so you can be sure the child is cared for throughout his or her lifetime.

**Estate planning.** A will is essential, because if you die without one the disabled child will inherit. That may disqualify the child for government assistance. Some parents leave all their assets to a sibling of the child, with the understanding the sibling will use the money to benefit the disabled child. However, you can't legally require the sibling to do that, and the assets will then become vulnerable to the sibling's creditors or the sibling's spouse. Generally, a trust is considered a more secure option. Also, plan for where any assets are to go once the child dies.

Because of the complicated nature of special needs trusts, government benefits and estate planning, you'll want to work closely with a knowledgeable attorney and your Certified Financial Planner professional.

November 1998—This column is produced by the Institute of Certified Financial Planners, a national association representing the top financial planners in the country, and is provided by Joseph Hoffman, a local member in good standing of the Institute.