



Planning for Financial Needs

Savings

You want the best for your child's/dependent's lifetime care, but sometimes sufficient financial resources to meet those needs may not be available. The death of one or both parents or other caretaker can easily disrupt the continuation of your child's financial safety net.

Figuring out what your dependent is likely to need is tricky. Ask yourself: What type of life do you envision for the individual with special needs? How much money will he/she need for quality lifetime care?

Start answering the question by estimating your child's current monthly expenses (whether the costs are paid by you, private insurance, etc.). Annualize these costs. Then, assuming a modest interest rate, determine the lump sum amount you will need to produce that much income on an annual basis without depleting principal. Of course, this does not take inflation or other factors into consideration.

If you are just beginning to accumulate assets to fund a special needs trust, there are a variety of funding options. Discuss these options and which ones might be best for you with an insurance agent, financial planner or other financial professional who specializes in special needs trusts.

A special needs trust can contain personal property, such as artwork. Keep in mind, these assets may not be readily converted into cash. A value of a home also is susceptible to market fluctuation. Moreover, you may want the family home to stay in the family and not have to be sold to provide necessary care.

Investments

Investments, like mutual funds and stock, are another funding option. These types of options provide an opportunity for growth, however, they do not generally provide a guaranteed amount of income due to market fluctuation and other factors. Retirement plans may offer another option. You may be able to name the trust as beneficiary for any death benefit provided by the plan.

Life Insurance

Many special needs trusts are funded, at least in part, with some type of life insurance. Life insurance provides an alternative that can create an asset. Insurance proceeds are generally paid free of income tax and, as long as the estate is not named as beneficiary, usually outside of probate. It also can be free of federal estate tax when properly structured, and it allows you to provide the cash needed to provide for your child with special needs, while keeping the rest of your estate intact for your other family members.

Here are descriptions of the basic types of life insurance.

- **Term life insurance** offers protection that insures your family for a specified period of time—usually anywhere from one to 20 years. A term policy pays a benefit if you die during the period covered by the policy. If you stop paying premiums, the insurance stops. These policies do not build a cash value.
- **Whole life insurance** or permanent insurance provides protection, as well as a cash value. Additionally, many companies pay policyholders an annual dividend. Dividends provide both flexibility and increased value to your life insurance policy. They can add more coverage to your overall insurance benefits and can build a sizable cash value. They are not, however, guaranteed. Of course, life insurance should not be purchased solely for accumulation. Its primary purpose is protection.
- **Universal life insurance** is flexible. These policies are interest-sensitive and permit the owner to adjust the death benefit and/or premium payments, within limits, to fit the individual's situation. Your premiums are credited to an accumulation fund, from which costs are deducted and to which interest is then credited. As with whole life insurance, the cash value is yours. You may withdraw it or borrow against it at any time. Read your policy carefully to understand how loans and withdrawals affect the death benefit.
- **Variable life insurance** is for those who want to tie the cash value of their life insurance policy to the performance of the financial markets. You decide among several investment options how your net premiums are to be invested. While monies invested in the investment options have potential for growth, such funds are subject to market risks including the loss of principal. In other words, some may make or lose money depending upon the performance of the market and the investment options you select.
- **Survivorship life insurance** is a joint insurance policy taken out on the lives of two people that provides death benefits on the second death when the money is needed the most. Since the policy premium pays one death benefit, the premium can be substantially less than separate stand-alone policies. There are many types of survivorship life insurance policies. Check with your attorney and insurance agent to determine the policy that will best meet your needs.

Your individual needs and the needs of your child will help determine which type of insurance is best for you. Insurance policies often contain limitations, exclusions, reductions of benefits and terms for keeping them in force. Be sure to ask for full details regarding the policy and its costs.

The potential long-term care for the caregiver should be taken into consideration and planned for. There are steps that can be taken now in the event that a caregiver can no longer care for his or her dependent. Many people think of "long-term care" as something for older people; however an accident or illness can strike at any age. It is especially important for caregivers to prepare for their own care while arranging for the continued care of their dependents.