

# Planning for a loved one with special needs

As our clients' families grow and assets accumulate, it is imperative that we address planning for the future to provide for both the needs of the parents and their children. Whether it is making sure that grandchildren have enough money for college, ensuring an ongoing legacy to charity, or providing for additional income and inheritance for children.

In some circumstances, financial planning for the future can be complex due to varying family dynamics or unique circumstances. When families have dependents who may be considered to have special needs, planning for a secure financial future for this dependent can become extremely complex and often daunting.

The reality is that the cost of lifetime care for someone with special needs can be exorbitant. In addition to planning for the cost of care, parents also want to make sure their child has access to funds to lead a productive life. A parent with a child who has special needs often wants to make sure their child is cared for even after they are no longer able to do so. Working with an estate planning attorney and your wealth advisor is key to making sure the child is provided for and their assets are protected.

Here are two planning techniques that can help solve for these objectives.

## Establish a special needs trust

Individuals with disabilities may be qualified to receive aid from both Supplemental Security Income (SSI) and Medicaid. However, both financial benefits are subject to "means testing," which oftentimes disqualifies individuals from receiving aid if they are able to earn a certain level of income or have assets of their own exceeding \$2,000 (some assets are exempt).

Funding a special needs trust (also known as a supplemental needs trust) is one way parents can provide for additional financial support to their children without reducing other benefits that they may be able to qualify for at some time.

A special needs trust is created for an individual with disabilities and funded with assets that are not owned by that individual. Typically, these trusts are funded upon the parent(s)' passing, while during their lives the parent maintains control of the funds to provide for the child's day-to-day needs. By making sure that the individual with disabilities does not own these assets, the individual can still pass the means testing and receive the full SSI and Medicaid benefits.

A special needs trust is typically the center of an estate plan when a family is looking for a way to provide for an individual with special needs.

Another option can be the establishment of an "ABLE account," which can be utilized for income supplementation.

## Supplement income with an ABLE account

An ABLE account is a tax-deferred savings vehicle to benefit individuals with disabilities. To qualify for one of these accounts, the individual must have been diagnosed with their disability prior to the age of 26. Similar to a 529 College Savings Plan, assets within the ABLE account grow tax-deferred and are non-taxable upon distribution as long as they are used for qualified expenses.

The maximum contribution per year is \$18,000. ABLE account assets are exempt from being considered as an asset of the beneficiary (the individual with a disability) up to \$100,000. Anything over \$100,000 will be considered an asset of the individual and could therefore affect their SSI or Medicaid.<sup>1</sup>

A qualified expense may include education, job training, health care, and many others. Recent tax reform allows for any existing 529 College Savings Plan assets held for the child to be rolled over into an ABLE account.

Unlike a special needs trust, upon the individual's passing, remaining assets will be used to reimburse Medicaid expenses.

Each family will have different resources and needs to consider when planning for their child with special needs. Some find that the ABLE account option is a great secondary tool in addition to the special needs trust.

## Other important considerations

Providing adequate financial support is only a part of the planning that concern parents of children with special needs. Parents want to make sure that their child is cared for and living with the highest quality of life. We recommend that parents should consult with an attorney who is specialized in this field and with their wealth advisor in order to fully integrate their overall estate and financial plan.

Published January 2024

1. [https://www.finra.org/investors/learn-to-invest/types-investments/saving-for-education/able-accounts-529-savings-](https://www.finra.org/investors/learn-to-invest/types-investments/saving-for-education/able-accounts-529-savings-plans#:~:text=The%20annual%20contribution%20limit%20for,)%20using%20post%2Dtaxed%20dollars.)

[plans#:~:text=The%20annual%20contribution%20limit%20for,\)%20using%20post%2Dtaxed%20dollars.](https://www.finra.org/investors/learn-to-invest/types-investments/saving-for-education/able-accounts-529-savings-plans#:~:text=The%20annual%20contribution%20limit%20for,)%20using%20post%2Dtaxed%20dollars.)

Additional sources: <https://www.specialneedsalliance.org/the-voice/your-special-needs-trust-snt-defined-2/>

**Mesirow does not provide legal or tax advice.** Past performance is not indicative of future results. The views expressed above are as of the date given, may change as market or other conditions change, and may differ from views express by other Mesirow associates. This is not a solicitation to buy or sell the securities mentioned. Do not use this information as the sole basis for investment decisions, it is not intended as advice designed to meet the particular needs of an individual investor. Information herein has been obtained from sources which Mesirow believes to be reliable, we do not guarantee its accuracy and such information may be incomplete and/or condensed. All opinions and estimates included herein are subject to change without notice. This communication may contain privileged and/or confidential information. It is intended solely for the use of the addressee. If you are not the intended recipient, you are strictly prohibited from disclosing, copying, distributing or using any of the information. If you receive this communication in error, please contact the sender immediately and destroy the material in its entirety, whether electronic or hard copy. This material is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security.

Mesirow refers to Mesirow Financial Holdings, Inc. and its divisions, subsidiaries and affiliates. The Mesirow name and logo are registered service marks of Mesirow Financial Holdings, Inc. ©2024, Mesirow Financial Holdings, Inc. All rights reserved. Any opinions expressed are subject to change without notice. Past performance is not indicative of future results. Advisory Fees are described in Mesirow Financial Investment Management, Inc.'s Form ADV Part 2A. Advisory services offered through Mesirow Financial Investment Management, Inc. an SEC registered investment advisor. Securities offered by Mesirow Financial, Inc. member FINRA and SIPC.