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WEALTH ADVISER

Voices: Providing for a Child or Grandchild with Special Needs

A supplemental-needs trust can be the best way to transfer funds

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To parents and grandparents who come to you for estate planning, a child's special-needs diagnosis can pose a complex challenge. If the child is expected to require special care and financial help through adulthood, this will likely impact how guardians plan to divide up their assets among descendants. In walking various clients through this process, I have learned how important it is to educate them on their options, so that they can avoid missteps and lay a foundation for their family's future.

When taking on new clients, advisers should make it a best practice to inquire early on about their family tree. By determining if any of a client's children or grandchildren has a permanent disability or health issue, you can better help the client prepare for the broader financial implications of the diagnosis.

If you are helping parents or grandparents draft a will, have them consider creating a supplemental-needs trust that will hold inheritance money for the child. This is one of the most useful investment vehicles for people seeking to pass on funds to a person who will need lifelong support for a disability.

Although the trust earmarks assets as for the benefit of an inheritor, it also keeps them under the management and control of assigned trustees (typically parents or other family members who will care for the child after the client passes away). This arrangement can be crucial if the child currently receives Medicaid or other government benefits related to the disability. Since these benefits often depend on a person's income level, the individual may suddenly not qualify for benefits if one year he or she receives a large inheritance. Your client can prevent this negative outcome by using a supplemental-needs trust as opposed to transferring assets to the child outright.

Life insurance can also help simplify estate planning for clients who struggle to find the fairest way to divide up assets when one descendant is expected to need greater financial support. For instance, the client may decide to give an equal portion of the estate to each of his or her children, but then assign a life-insurance award to the supplemental-needs trust of the child with a disability. This can alleviate the client's anxiety about fairness by casting the financial outlook of the child with special needs as a separate matter that is addressed by a separate means. It keeps the spirit of equity in dividing up an estate, but also helps lay a foundation for the child who will require additional support down the road.

It is the duty of financial advisers to understand and present solutions such as these to clients who have a family member with a disability. By discussing and accounting for a child or grandchild's special-needs diagnosis, you can help alleviate your clients' anxieties and lead them to a more viable long-term financial plan for their family.