

Planning for a Child With Special Needs

Strategies for Meeting Their Unique Financial Challenges

According to the National Organization on Disability, nearly 54 million Americans cope with some type of special needs issues. This creates unique challenges for their families, not the least of which are the financial ones. In the short term, kids with special needs can incur a great deal of extra but critical expenses, while in the longer term, their parents need to ensure the child's physical and financial needs will be met well after the parents are gone.

If your family includes someone dealing with disabilities, financial planning should be a key to handling these challenges. Your insurance needs take on a greater breadth, while estate planning documents, such as wills, trusts, and powers of attorney, are crucial for ensuring their needs are met when you can no longer be there for them. A trust can be designed to pass on assets for the individual with special needs that also considers such things as their eligibility

for government benefits. And a letter of intent can instruct future guardians on the best way to care for your child.

Seventy-eight percent of families that have a child with autism, for example, have not put together any type of comprehensive financial plan. If your family includes someone with special needs, here are a few things you should be thinking about.

FIRST STEPS

If your family has recently welcomed a child with special needs, you might want to start by creating a holistic life care plan, covering everything from their educational needs to what you'd like to leave for them in your estate. Obviously, this would require adjustments along the way, but it's never too early to think about the big picture.

You may wish to think about naming someone as the child's guardian or ►

Planning for a Child With Special Needs *continued*

conservator at this point as well; someone who would take care of them when you cannot. If your child is older and able to lead some semblance of an independent life, you may be able to safeguard their future with simply a power of attorney and healthcare directives, as well as financial support.

INSURANCE ISSUES

Don't assume that your health insurance will cover all of your child's medical and therapy expenses. Many insurance companies require referrals before your child can see a specialist and don't cover all types of necessary therapy. It's also important to know the out-of-pocket limit for your policy, since families with children who have extraordinary medical needs can reach an annual maximum very quickly.

You may be able to supplement your insurance if the child meets the Social Security Administration's definition of disability, making them eligible for Supplemental Security Income. The child's benefit may be adjusted based on the family's income, but once the child turns 18, only their income is considered. Those who have been able to work may also be eligible for Social Security Disability Income (SSDI).

SAVINGS AND FUTURE NEEDS

A relatively new savings vehicle, modeled after the 529 college savings plans, allows disabled individuals to save on a tax-preferred basis while still qualifying for other benefits. Similar to the tuition plans, these 529A ABLE (Achieving a Better Life Experience) accounts let families of children with disabilities save for things like education, job training, and health care costs.

Contributions are made with after-tax dollars, and money can be withdrawn tax-free for a wide variety of expenses. And like with 529 college plans, you can use any state's 529A ABLE plan; there are currently around 20 such active programs around the country.

One of the most valuable tools for any family with a person who has a physical or mental disability is a Special Needs Trust (SNT), which allows assets to be held for the benefit of the disabled person. There are two basic versions of SNTs: the self-settled trust, which is funded with the beneficiary's own assets (e.g. from a personal injury settlement), and the third-party trust, which is funded by others through lifetime

gifts or bequests. It's a complex process, so be sure you get help from an attorney with some expertise in this area.

The SNT is designed to provide assistance to the beneficiary while maximizing their eligibility for government benefits. The SNT typically contains provisions to protect assets from creditors or government agencies trying to obtain funds to pay for debts of the disabled person.

TAX DEDUCTIONS

Medical expenses incurred for the care of yourself, your spouse or any dependent may be tax deductible, subject to limitations. In order to provide a tax benefit, the total expenses paid during the year must exceed 10% of your adjusted gross income. Some of the more common items you can deduct include:

- Prescription drugs and other medical items such as syringes
- Psychological and psychiatric services
- Cost of guide animals
- Special food diets
- Tuition for certain special schools
- Medical conferences and seminars you attend

PREPARING FOR FUTURE CAREGIVERS

Finally, a complete plan would include a "letter of intent." The letter of intent is meant to provide a roadmap for anyone who cares for your child, including a list of all critical documents and records, financial information, and details about the child's behavior, such as daily routines, treasured items, and favorite foods. If done right, it should allow a new caregiver and/or guardian to step into your shoes in the event you're unavailable to care for your child.

Caring for a child with special needs can be a blessing, but it can also be the greatest challenge that any of us can face. The good news is that you don't have to do this alone. See your Baird advisor for help constructing a long-term financial plan that will help ensure that their needs are taken care of, long after you're no longer able to do so yourself. Nothing is more important to us than your family's future.

Please reach out if you or anyone you know would benefit from discussing this topic further.

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