When Your Heirs Have Special Needs

About one in six children between ages three and 17 has a developmental disability, according to the Centers for Disease Control and Prevention. But a University of Illinois study found that fewer than half of parents of disabled children are actively planning for their children's future.

For these special needs individuals, it's critical that parents engage in some detailed financial planning.

Maintain eligibility for government assistance

One important principle is to provide enough money to meet the disabled individual's needs throughout their lives, without accidentally endangering their eligibility for Medicaid, Supplemental Security Income (SSI) and other means-tested government assistance programs.

Medicaid and SSI have strict eligibility caps on assets and income. If the disabled individual's income or assets rise over a certain threshold (which, for Medicaid, varies by state), they may lose access to paid health insurance, job coaching, supported employment programs, group housing, vocational assistance, transportation assistance, and personal care services.

Medicaid rules will force them to spend down their own assets to poverty levels before they become eligible again.

Fortunately, parents and guardians of disabled people have some financial tools and techniques available that may help preserve their eligibility for needed government assistance throughout their lives, while still providing for their basic and human needs and maintaining their quality of life.

ABLE accounts

Section 529 ABLE Accounts are tax-advantaged savings programs designed specifically to allow disabled people to receive money from family members and charities, while still maintaining their eligibility for public assistance.

Assets in an ABLE account up to $100,000 are not counted against the supported individual's eligibility for Medicaid or SSI. Contributions are limited to $15,000 unless the beneficiary is employed.

ABLE account funds that are spent on qualifying disability expenses are tax-free. Non-qualified withdrawals are subject to a 10% penalty.

Special needs trusts

A special needs trust (SNT) allows families set aside much larger amounts of money than they can with an ABLE account, while still maintaining the beneficiary's eligibility for need-based aid.

SNT assets are never held in the disabled person's name directly, and the individual is not allowed to control the funds. Instead, parents appoint a trustee to control funds in the trust on the beneficiary's behalf.

Unlike ABLE accounts, SNTs have no limits on assets or contributions.

Medicaid-qualified annuities

These financial products are designed to convert assets into an income stream that does not exceed either your state's asset or income cap on Medicaid eligibility.

Inherited IRAs

Parents of disabled individuals should take care that required minimum distributions from inherited IRAs don't generate too much income for the disabled individual and put them over the Medicaid income cap for their state.

To avoid this, consider establishing an SNT and naming the trust as the beneficiary for retirement accounts.

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