
Ways to Fund Special Needs Trusts

Weekly Educational Update – March 4, 2020

If you have a child with special needs, a trust may be a financial priority. There are many crucial goods and services that Medicaid and Supplemental Security Income might not pay for, and a special needs trust may be used to address those financial challenges. Most importantly, a special needs trust may help provide for your disabled child in case you're no longer able to care for them.

Using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional who is familiar with these rules and regulations.

In planning a special needs trust, one of the most pressing questions is: when it comes to funding the trust, what are the choices?

There are four basic ways to build up a third-party special needs trust. One method is simply to pour in personal assets, perhaps from immediate or extended family members. Another possibility is to fund the trust with permanent life insurance. Proceeds from a settlement or lawsuit can also serve as the core of the trust assets. Lastly, an inheritance can provide the financial footing to start and fund this kind of trust.

Families choosing the personal asset route may put a few thousand dollars of cash or other assets into the trust to start, with the intention that the initial investment will be augmented by later contributions from grandparents, siblings, or other relatives. Those subsequent contributions can be willed to the trust, or the trust may be named as a beneficiary of a retirement or investment account.¹

When life insurance is used, the trustor makes the trust the beneficiary of the policy. When the trustor dies, the policy's death benefit is left to the trust.²

With a structure in place that guides the trust, there is less likelihood of mismanagement, and funds may come out of the trust to support the beneficiary in a measured way that does not risk threatening government benefits.

Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy

involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

The trust may also be funded with tangible, non-cash assets. Examples include real estate, securities, collections of cars or art or antiques, or even a business. These assets (and others like them) can be left to the trustee of the special needs trust via a revocable living trust or will. Just remember that the goal of the trust is to provide the trust beneficiary with cash. Those tangible assets will need to be sold or liquidated to meet that objective.¹

Currently, it costs about \$3,500 to design a basic special needs trust. Given that initial expense and ongoing administrative costs, most families aim to place at least \$100,000 inside these vehicles. The typical trustee is a bank – or more precisely, a bank’s trust division – and annual administration fees commonly range from 0.5% to 1.5%. If the trustee is a relative of the child or a close friend of the family, administration may be done for free or at minimal cost.³

Care must be taken not only in the setup of a special needs trust, but in the management of it as well. This should be a team effort. The family members involved should seek out legal and financial professionals who are well versed in this field, and the resulting trust should be a product of close collaboration.

Again, trusts are a complex financial construct. Have a conversation with a financial professional to understand your next steps.



“Life is like riding a bicycle. To keep your balance, you must keep moving.”

– Albert Einstein



Curry in a Hurry



Serves 2

Ingredients:

- 2 Tbsp. vegetable oil
- 2 large diced onions
- Salt and pepper
- 2 tsp. curry powder
- 1 can coconut milk, unsweetened
- 1½ pounds of your preferred meat (peeled shrimp or diced boneless chicken)
- 1 cup diced tomato, no peel or seeds

Directions:

1. Peel and dice onions.
2. Oil skillet and place over medium-high heat.
3. Add onions with a bit of salt and pepper. Stir until very soft, 15 minutes or more.
4. Mix in curry powder, stir for one minute.
5. Pour in coconut milk and cook for two minutes, stirring lightly.
6. Add meat of choice and cook for another 3 to 6 minutes.
7. Stir in tomato and cook for another minute.
8. Serve over rice.

Recipe adapted from cooking.nytimes.com⁴

Rules for Home Office Deductions

If you have a business and work out of your home, the IRS allows you to deduct certain expenses on your return. Here are a few key things to keep in mind:

- The IRS requires you to use your office (or a part of your home) for “regular and exclusive use.” The part of the house should be your principal place of business, a place where you meet customers, or a separate structure dedicated to the business, like a garage or studio.
- To calculate your deduction, you can use two methods:
 - The simplified option allows you to multiply the allowable square footage of your office by \$5 up to a maximum of 300 square feet.
 - The regular method allows you to specifically calculate the actual expenses like rent, mortgage interest, taxes, repairs, depreciation, and utilities you pay for the portion of your home used for the business. If you use only part of a space for your business, you’ll need to figure out the percentage devoted to business activities.

* This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax professional.

Tip adapted from IRS.gov⁵



This Grip – or That Grip?

Vardon. Interlocking. Baseball. These are the three common ways to grip a golf club, and of course, the Vardon has long been the leading choice. Your choice, however, may or may not correspond to that of the golfing mainstream.

The Vardon (overlap) grip allows the pinky finger of the hand that is lower on the club to overlap a bit of the upper hand. It works well for those who have long fingers and large or strong hands; less well, for others. The interlocking grip (used by Tiger Woods and Jack Nicklaus) locks the pinky finger of one hand into the other, where it would merely rest in a Vardon grip; golfers with smaller hands and fingers tend to favor it. The

baseball grip is an unanchored 10-finger grip used by a handful of pros, and some seniors with flexibility or pain issues. You can hit a great shot with any of these grips; in choosing one over another, your comfort and control of the club matter most.

Tip adapted from Golf Distillery⁶



Avoid Falling Back When Springing Forward

Getting used to the clocks shifting back and forth during the onset and conclusion of daylight saving time can throw many of us for a loop, not to mention that “springing forward” tends to be more difficult than “falling back.” It can take longer than we expect to adjust not only a one-hour time change, but also disruptions to our meal, fitness, work, social, and sleep routines. So, how can you combat this? Here are a few tips that may help.

- Gradually prepare for the time change the week before. Try to shift as much as your routine “forward” by 10 minutes each day.
- Manage your environmental lighting as much as possible. Try to get more light in the morning (to suppress your body’s natural sleep hormones) and as little in the evening as possible, especially approaching bedtime and during the night.
- Try to avoid napping, if possible. While it can be really tempting to “catch up” with your lost hour, until you’re adjusted, napping could slow your period of adapting to the new schedule.

Don’t let losing an hour slow you down. Taking some proactive measures may just help you ease into the transition better than you think.

Tip adapted from WebMD.com⁷



Choosing Sustainable Seafood

Eating fish is a great choice to stay healthy, but the type of fish you eat can also have a significant impact on the environment.

One of the most sustainable fish you can choose is catfish. Catfish is all produced on eco-friendly farms and provides some of the biggest health benefits. Because catfish are all farmed, there's no damage to the environment and their health is closely monitored.

Salmon can be a bit trickier, but there are still delicious and eco-friendly options out there. You should avoid farmed salmon because their living conditions aren't strictly regulated. When you're at the grocery store, wild-caught Alaskan salmon is the healthiest and most environmentally friendly option. Keep an eye out for these salmon species: Chinook, chum, coho, pink, and sockeye.

Tip adapted from HuffPost⁸

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¹ <https://specialneedsanswers.com/the-top-7-reasons-to-establish-a-special-needs-trust-13358>

² <https://specialneedsanswers.com/funding-a-special-needs-trust-with-life-insurance-the-basics-17359>

³ <https://www.barrons.com/articles/their-child-has-special-needs-heres-how-theyre-planning-for-assistance-51575032400>

⁴ <https://cooking.nytimes.com/recipes/6393-easy-chicken-curry>

⁵ <https://www.irs.gov/forms-pubs/about-publication-587>

⁶ <https://www.golfdistillery.com/tweaks/setup/grip/grip-type/>

⁷ <https://www.webmd.com/sleep-disorders/features/coping-with-time-changes>

⁸ https://www.huffpost.com/entry/how-to-choose-the-safest-healthiest-and-most-sustainable_b_59249c60e4b0ed5eed1322e2