

A guide to special needs financial planning

Raising or caring for a loved one with special needs comes with unique challenges, including financial planning. This guide explores the essential aspects of financial planning for individuals with disabilities. We delve into navigating public benefits, legal tools like Special Needs Trusts, investment strategies and insurance planning. By understanding these areas, you can ensure your loved one receives the necessary support throughout their life while preserving their eligibility for vital government programs.

Special needs planning defined

Special needs planning refers to the process of preparing for the financial and care needs of individuals with disabilities or special needs. This planning ensures that these individuals receive the necessary support throughout their lives without jeopardizing their eligibility for government benefits.

A comprehensive plan for an individual with special needs will include consideration for things such as:

- Eligibility for public benefits
- Legal needs
- ABLE accounts and investment planning
- Insurance needs

Special needs planning is planning for the individual's entire life.

Eligibility for public benefits

Public benefits are a resource that may be available to the individual with special needs. These benefits are either “means-tested” or “non-means-tested.”

Means-tested benefits include benefits such as Supplemental Social Security (SSI), Medicaid, VA Aid and Attendance, and Subsidized Housing. As means-tested benefits, these are subject to asset limits, income limits or both.

Non-means-tested benefits include benefits such as Social Security Disability Insurance (SSDI), Medicare, and VA Compensation. With these benefits, there are no asset or income limits.

Here's the catch with the means-tested benefits — if you have over \$2,000 in assets as a single individual with disabilities or \$3,000 in assets as a couple, you are ineligible to receive SSI. Assets can include income of a spouse in the household and the parents of a child under 18 with disabilities. This is where some planning techniques highlighted below should be considered.

Legal needs: Setting up a Special Needs Trust

A Special Needs Trust (SNT) allows money and other assets to be held in trust for the benefit of a person who is receiving (or may in the future receive) assistance from a means-tested public assistance program without having those assets counted toward the program's asset limits (and thus disqualifying the beneficiary). The hallmark of a SNT is that distributions can only be made if they supplement the benefits from the means-tested program but don't replace them.

If the person creating the trust is the same as the person receiving the benefits of the trust, then this is considered a "first-party" Special Needs Trust (sometimes called a "D4a trust," a reference to the US Code section which authorizes such trusts). To be valid, a first-party SNT must provide that the remaining trust assets after the death of the special needs beneficiary will be paid back to the means-tested program, up to the amount of benefits received from that program.

If the SNT is created by someone other than the beneficiary (parent, grandparent, sibling, etc.), this is called a "third party" Special Needs Trust. These SNTs do not require the remaining trust assets after the death of the beneficiary to be paid back to the means-tested program.

A Special Needs Trust only works to create eligibility for means-tested public benefits if all of a beneficiary's assets from any source are funneled into the trust. If any asset is left to the beneficiary outright or in a trust that doesn't qualify as a SNT, the beneficiary may become ineligible for needed benefits. For example, you should ensure that any asset that passes by means of a beneficiary designation (life insurance, annuities, IRAs, qualified retirement plans, etc.) do not name the disabled person as a beneficiary or name a defined group as beneficiary if such group includes the disabled person (my descendants, my children, etc.). Instead, the disabled person's share should be directed to his/her SNT. Special attention should be given to employer-provided benefits as well, such as group life insurance, accidental death insurance and pension plans. In addition, you should work with your family members to ensure that their estate plans also direct any share of assets that may pass to the disabled person instead pass to the SNT.

ABLE accounts and investment planning

In addition to Special Needs Trusts, Achieving a Better Life Experience (ABLE) accounts are another useful planning tool that can help provide assets for a special needs individual. ABLE accounts are tax-advantaged accounts that can be used to save for qualifying disability-related expenses.

The first \$100,000 of contributions into an ABLE account will not count against the means-based benefits such as SSI and Medicaid. Like College Savings 529 accounts, assets in ABLE accounts can grow tax-free and be withdrawn tax-free if use for qualifying expenses. Expenses may include things such as:

- Housing
- Personal support services
- Education
- Assistive technology
- Transportation
- Training and support for employment

The owner of the ABLE account can either be the individual with disabilities or an Authorized Individual (i.e. parent, guardian). Annual contributions to the account are subject to the IRS Gift Tax limit (\$18,000 in 2024 and 19,000 in 2025). If the disabled individual is the account owner and earns income, they can make additional contributions beyond the gift limit. This excess contribution has varying qualifications between states and whether the individual is eligible for any employer-provided retirement benefits. In Illinois, an account owner who is a disabled individual earning income and not participating in an employer-provided retirement account can contribute up to \$14,580 in additional contributions.

Example 1: John is an ABLE account owner and works for a company that does not provide a retirement plan. His income in 2025 is \$50,000. Since he does not participate in an employer-plan, his account can exceed the Annual Contribution limit of \$19,000 by \$14,580.

Example 2: Angela is an ABLE account owner and works for a company that does not provide a retirement plan. Her income in 2025 is \$10,000. Since she does not participate in an employer-plan, her account can exceed the Annual Contribution limit of \$19,000 to \$10,000.

Investment planning

Investment goals, as part of the overall financial plan, may be different for individuals with special needs than those without special needs. Things to consider include:

- The individual's age
- Level of need and how that may change over time

- Time horizon for when the individual may need to begin accessing the funds

Those with longer time horizons and with greater opportunities to make income will not need to maintain as conservative of a portfolio relative to those with more limiting disabilities. This may allow for more growth in the portfolio and a higher risk tolerance.

Since each circumstance is different, it is essential to consider the individual's needs and future goals when determining the investment strategy.

Insurance needs

A comprehensive special needs plan looks beyond when the parent or guardian will no longer be around. Life insurance can provide that peace of mind knowing that the individual will have access to assets even after the parent passes away and funds from the parent's employment are no longer available.

Policies will often be used to fund a Special Needs Trust upon the policyholder's passing. This can help cover future medical expenses and other needs without disrupting the individual's eligibility to public benefits. It is important to work with your Wealth Advisor and Attorney to make sure the policies are set up properly.

Putting it all together

Holistic, comprehensive planning is essential for individuals with special needs. Building a trusted team of advisors can provide a peace of mind that the individual will be taken care of even after the parents are no longer around to help. If you have a family member with special needs, your Mesirow Wealth Advisor will be happy to help you create a plan that meets your needs.

Published November 2024

<https://www.forbes.com/sites/sergeiklebnikov/2023/04/30/special-needs-financial-planning-smart-advice-for-families-coping-with-disabilities/>

https://www.americanbar.org/content/dam/aba/publications/probate_property_magazine/v23/2009-aba-rpte-pp-v23-4-july-august-issue.pdf

<https://www.ablenrc.org/what-is-able/what-are-able-accounts/>

<https://www.illinoisable.com/>

<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.