

## Special Needs Trusts: Preserving Wealth While Protecting Benefits

### *A Strategic Approach to Caring for Loved Ones with Disabilities*

#### Understanding Special Needs Trusts: The Foundation of Inclusive Wealth Planning

A Special Needs Trust, also sometimes referred to as a “supplemental needs trust”, is a sophisticated planning tool that allows families to provide financial support for loved ones with disabilities while preserving access to essential government benefits like Supplemental Security Income (SSI) and Medicaid. The trust is specifically structured so the beneficiary cannot directly access or control trust assets, preventing these resources from disqualifying them from means-tested government programs.

There are two primary types of Special Needs Trusts, each serving different planning scenarios:

**Third-Party Special Needs Trusts** are funded with assets belonging to someone other than the beneficiary—typically parents, grandparents, or other family members. These trusts offer maximum flexibility and control, with no payback requirements to the government upon the beneficiary’s death. Remaining assets can pass to other family members or charities as designated by the trust creator.

**First-Party Special Needs Trusts** are funded with assets that legally belong to the person with disabilities, such as personal injury settlements, inheritances received directly, or accumulated income. While these trusts preserve benefit eligibility during the beneficiary’s lifetime, they require a “payback provision”—meaning any remaining trust assets upon the beneficiary’s death must first reimburse Medicaid for benefits received before passing to other beneficiaries.

Both trust types must comply with federal disability benefit regulations, ensuring distributions supplement rather than replace government assistance by funding quality-of-life enhancements that go beyond basic necessities covered by public benefits.

#### The Strategic Benefits of Special Needs Trust Implementation

Special Needs Trusts deliver compelling advantages that extend far beyond asset preservation:

##### Benefit Protection

- » Preserves eligibility for SSI, Medicaid, and other means-tested programs
- » Maintains access to healthcare coverage worth thousands annually
- » Protects housing assistance and disability support services

## Enhanced Quality of Life

- » Funds specialized therapies and medical treatments
- » Enables educational programs and vocational training
- » Provides recreational activities and social engagement opportunities
- » Covers assistive technology and adaptive equipment

## Wealth Preservation & Management

- » Professional oversight for beneficiaries who cannot manage assets independently
- » Creditor protection and asset security
- » Tax planning advantages and flexible distribution strategies
- » Lifetime continuation with adaptability to changing circumstances

## When Special Needs Trusts Make Strategic Sense

**Third-party Special Needs Trusts** are ideal when parents or grandparents are actively planning their estates and can direct their inheritance into trusts from the outset. This proactive approach offers maximum flexibility and avoids complicated legal challenges while preserving all government benefits.

**First-party Special Needs Trusts** become necessary when individuals with disabilities receive assets directly—through personal injury settlements, inheritances that weren't properly planned, or accumulated income. While these trusts preserve benefit eligibility during the beneficiary's lifetime, families should understand the payback requirements and plan accordingly.

Both trust types are particularly valuable for families where the beneficiary receives Medicaid, as this program covers essential residential services like group homes and community living arrangements that can cost \$100,000 or more annually—expenses most families cannot afford privately. High-net-worth families also benefit significantly, as trusts allow substantial resources for enhanced care and quality of life while maintaining crucial benefit eligibility.

## Case Study: The Morrison Family's Proactive Planning Approach

**The Situation:** Margaret Morrison, age 78, wants to leave \$750,000 to her granddaughter Sarah, who has autism spectrum disorder. Sarah, age 30, receives annual SSI benefits of \$10,000. Her basic expenses include both medical care and residential services at a specialized group home costing \$140,000 annually, which are currently being paid by Medicaid. Sarah has various hobbies, loves dining out, seeing movies at the theater, and going on vacation with her family. These supplemental costs are \$25,000 per year, increasing 3% annually until Sarah is age 80. Margaret's beneficiary designations and/or estate planning documents left the inheritance directly to Sarah, which would disqualify her from these crucial benefits.

**The Strategic Solution:** Margaret amended her estate plan to establish a third-party special needs trust that would receive Sarah's inheritance upon Margaret's death. This proactive approach ensures the inheritance enhances rather than replaces Sarah's government support.

### Special Needs Trust Advantages

Aspect	Scenario 1: Direct Inheritance	Scenario 2: Third-Party Special Needs Trust
Initial/Trust Assets	\$750,000	\$750,000
SSI Benefits (10k/yr)	Lost for 5 years until inheritance is spent	Retained
Medicaid Benefits (\$140k/yr)	Lost for 5 years until inheritance is spent	Retained
Trust Distributions for basic expenses	\$750,000	\$0
Trust distributions for supplemental expenses	\$0	\$2,819,922*

\*\$25,000 distribution each year, increased 3% annually, until Sarah is age 80.

**The Results:** Scenario 1 above caused Sarah to be ineligible for public benefits, thereby causing the entire inheritance to be spent on Sarah's basic needs over the next five years. None of the inheritance would be left to pay for her supplemental expenses, and she would likely have to give up her hobbies, dining out, movies, and vacations. Scenario 2 preserves the entire inheritance solely for Sarah's supplemental expenses, allowing her to enjoy these activities for the rest of her life.

### Moving Forward: Your Next Steps in Special Needs Planning

Special Needs Trust planning is intricate and subject to complex regulations. It will require the assistance of an attorney with specialized expertise to navigate these regulations to optimize outcomes. At Calamos Wealth Management, we work with specialized attorneys, tax professionals, and benefit specialists to create comprehensive strategies that protect your loved ones while preserving family wealth.

Contact Calamos Wealth Management to schedule a confidential consultation about special needs planning strategies. Our team will review your family's specific situation and demonstrate how special needs trusts can provide security, flexibility, and peace of mind for generations to come.

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