



## Coordinating Beneficiaries

Have you recently reviewed your insurance policies, IRAs, 401(k)s, annuities and other qualified plans to see who is named as the beneficiary and the contingent beneficiary(s)? You should, and if you have a child with special needs, it is even more imperative that you do so.

Many families found this out the hard way after the attack on the World Trade Center on September 11, 2001. It was not unusual for the widowed individual (often the wife of a firefighter) to find that the pension or insurance policies were in the name of the ex-wife or a former girlfriend, or the deceased person's parents.

No matter what the Will says, the person named as the designated beneficiary receives the asset. Outside of the home, the most significant assets are often retirement plans, insurance policies, and annuities. These assets are transferred outside of the Will through the use of the designated beneficiary.

Many parents set up Special Needs Trusts for their special needs child, some failing to realize that the majority of their assets will be transferred, upon their death, to the designated beneficiary. If they've failed to coordinate the beneficiaries, the trust could end up vastly underfunded.

In situations involving a special needs child, the use of a Supplemental or Special Needs Trust (SNT) is often the appropriate method of passing an inheritance to that child. It is the only way to do so while at the same time protecting government benefits as well as protecting the assets or funds from creditors, divorce situations, etc.

Once the Supplemental Needs Trust has been created, the Trust can now be the designated beneficiary. For example, let's assume that you have an insurance policy that will pay \$300,000 in benefits upon your death. Furthermore, assume that you have three children, one of whom has special needs, and that you want each child to receive an equal share of the death benefit. You would designate a one-third portion of the death benefit to each of your other two children, and one-third to the John Doe Special Needs Trust.

**Important Note:** When informed that the assets are to be shared equally, it is common for insurance agents and financial planners, when completing the designated beneficiary portion of the application for an insurance policy or a mutual fund within a qualified plan, to use the phrase, "all children in equal shares." This method will direct an equal portion to your special needs child, most likely making him or her ineligible for SSI and Medicaid, causing a spend-down situation. The result is that the Trust will not receive the funds, and all but approximately \$2,000 of the inheritance received by your special needs child will be lost to the government if your child is receiving SSI benefits (\$4,150 if receiving Medicaid only).

This leads us to another important consideration. It is vital that you be aware of any family member—grandparent, relative, sibling, etc.—who intends to gift money or leave an inheritance for your special needs child. First, the individual gifting the money needs to be aware of how to do so properly so that your child does not lose his or her government benefits. Second, if a family member or friend does intend to leave an inheritance, it may very well affect the type of Special Needs Trust that is created.

For all of the reasons above, it is essential that you constantly review your beneficiary designations and make sure that the assets are properly balanced so as to be coordinated with your estate plan. This is the only way that you can ensure that the funds will be there to provide the quality of life that you want for your special needs child when you may no longer be around to provide that care.