



Morgan Stanley

Life Insurance Planning For Loved Ones with Special Needs

Utilize Life Insurance to Protect Those Who Need Care Most

As the parent or guardian of a special needs child, you are likely familiar with the careful attention that it takes to thoughtfully raise and nurture your child. It is important to make sure that your child will be able to receive the same level of considerate care and support during adulthood after you are no longer able to provide it yourself. It is therefore prudent to design a robust financial and estate plan for your special needs child—one that takes into account complex planning and crucial steps which you may be unaware of. Creating a comprehensive plan will likely impact your child's future care; when structured correctly, your child could reap the benefits.

The families of special needs individuals often spend hundreds of dollars each month on care and support services. Costly services that your special needs child may rely on include:

Therapeutic Recreation

Physical Therapy

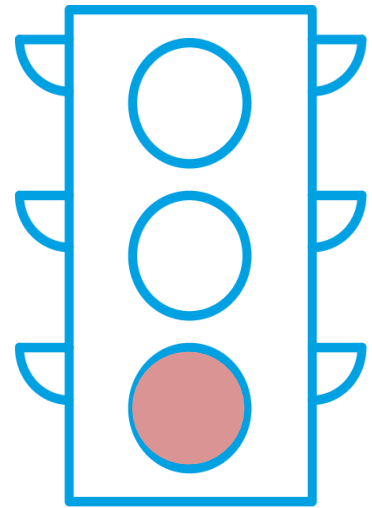
Mobility Services

Personal Caregiver

Occupational Therapy

Special Education Services

In order to help ensure that special needs children can maintain care throughout adulthood if needed, guardians often look for ways to create a reliable source of funds for the future. For many families, the greatest financial risk is not the child's needs changing overnight, but the possibility that a parent or guardian may no longer be able to provide care, coordination, or financial support. For that reason, life insurance is often purchased on the parent or guardian, with the intention that the death benefit can be used to support the child. However, guardians are often unaware that by listing their child as a policy beneficiary, it could prohibit the child from qualifying for key government benefits and services. When special needs children are under the age of eighteen, their government benefits and other basic expenses are established by their guardians' financial resources. When these children reach adulthood, however, government aid is based upon their own financial resources. Under federal law, inheritance of as little as \$2,000 may disqualify an individual from being a federal aid recipient, as well as a state aid recipient. By listing your special needs child as a direct beneficiary of your life insurance policy, you will likely disqualify them from basic government assistance upon your passing.¹



Thoughtful financial planning is a means of preparing for a comfortable future for your child.

Parents or guardians of special needs children may want to consider creating a "special needs trust" (SNT) for the benefit of the special needs child in order to address their child's needs. A properly structured SNT would be designed to eliminate or reduce any possible disqualification of the special needs child from receiving government benefits. With a SNT, a trustee has control over the assets for the benefit of your child. This may relieve loved ones from assuming a responsibility for which they do not have the skill set, as well as ensure that your funds are in the hands of someone well equipped for financial management. As long as your special needs child cannot control or access the SNT funds themselves, these assets will not be directly associated with the child and should not affect the special needs child's eligibility to receive government benefits.

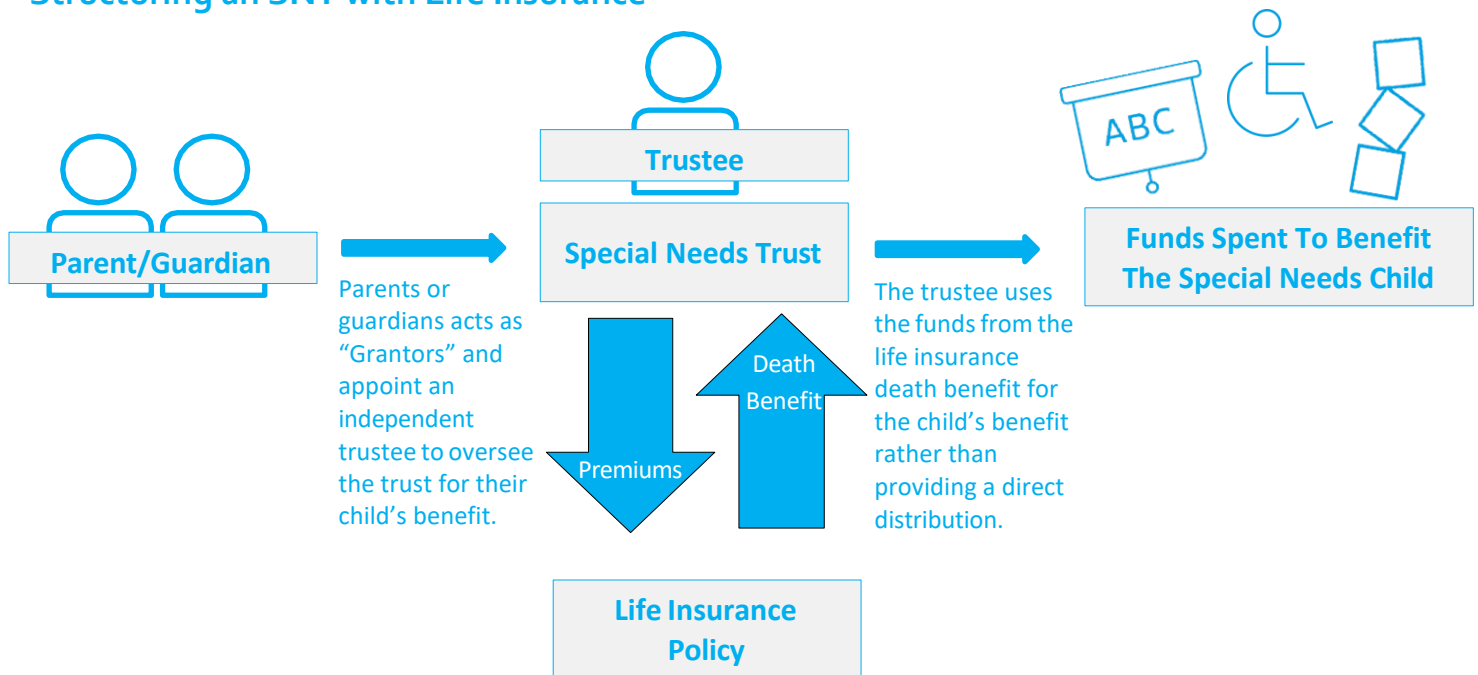
The SNT can be funded with life insurance, which is a financial product that pays out a sum of money to a beneficiary upon the passing of an insured individual. You can set up an SNT and contribute money to it to pay life insurance premiums (periodic payments to fund the policy). You can also transfer an existing policy to the SNT. You will name the SNT as the policy owner and policy beneficiary. Upon your passing, the SNT will receive funds to use on behalf of your special needs child.

Not only will this method provide funds for your child without disqualifying them from Government benefits, but because the life insurance policy is owned by a trust, these assets are not considered as part of your taxable estate².

¹ Benefits For Children With Disabilities, <https://www.ssa.gov/pubs/EN-05-10026.pdf>

² If you transfer ownership of an existing policy to an SNT, the death benefit will still be considered as part of your estate until three years have passed. If you die before this, proceeds will still be taxed with your estate.

Structuring an SNT with Life Insurance



Types of Life Insurance

Term versus Permanent

There are different types of life insurance on the market; when funding an SNT with life insurance, it is important that you choose an appropriate policy. Term insurance is a type of life insurance that provides coverage for a predetermined time period. If the insured individual(s) passes away during this specified period, the policy's beneficiary would receive a death benefit. Contrarily, permanent life insurance lasts for a lifetime (assuming all required premiums are paid). The policy's beneficiary would receive a payment upon the insured individual(s) passing.

Permanent insurance is commonly used within an SNT as it will last for the lifetime of the insured rather than only covering a finite period of time. You will likely find it appealing that your child would receive a benefit regardless of when you pass away. Premiums for permanent life insurance policies can also be fixed¹, unlike term insurance policy premiums which can increase overtime as the insured ages. Therefore, permanent premiums are generally higher than term initially, but are on average lower than term. Permanent life insurance thus may be more affordable overtime.

Single Life versus Survivorship

Single life insurance policies insure one individual, whereas survivorship policies can insure two lives. As such, survivorship policies are often favored by dual guardians with special needs children. These policies will pay the death benefit upon the second insured individual's passing; due to this, policy premiums are generally lower than policies that only insure a single life.

You should consult your Financial Advisor for further details regarding the different types of life insurance on the market, and which may be appropriate for you.

¹"Fixed" premiums apply to whole life policies. Universal life, indexed universal life, and variable universal life policies have premiums that may vary. Consult your Financial Advisor for more information.

Special Needs Planning Worksheet: Discuss your Answers with your Financial Advisor

What type and level of care does your child need in order to live a comfortable life?	
What amount of money do you annually spend on your child's care? Do you foresee this changing in the future?	
Will you be able to leave enough money to cover your child's future care expenses?	
Do you foresee your child being employed during adulthood? If so, what financial resources do you expect your child to be able to provide?	
Do you have family members or loved ones who are willing to help care for your child upon your passing?	
Do you have someone trustworthy in mind to become the trustee of a financial asset on behalf of your child? Have you spoken to them about a potential role as a trustee?	
Do you have an existing insurance policy? If so, who is a beneficiary of your current insurance policy?	
Have you looked into your state's government aid policy, as well as the federal aid policy?	



Morgan Stanley Is Here to Help

Reach out to your Financial Advisor to discuss whether setting up an SNT is appropriate for you and your loved ones.

Morgan Stanley Smith Barney LLC, its affiliates and Financial Advisors and Private Wealth Advisors do not provide tax or legal advice. Clients should consult their tax advisor for matters involving taxation and tax planning and their attorney for matters involving trust and estate planning and other legal matters.

Since life insurance is medically underwritten, you should not cancel your current policy until your new policy is in force. A change to your current policy may incur charges, fees and costs. A new policy will require a medical exam. Surrender charges may be imposed and the period of time for which the surrender charges apply may increase with a new policy. You should consult with your own tax advisors regarding your potential tax liability on surrenders.

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