

## Protecting the financial security of children with special needs

“What will happen to my child when I am gone or no longer able to provide care?” This fear haunts many parents (as well as grandparents) of children with disabilities. There are no cookie-cutter answers. However, there are specific steps you can take to help assure the long-term financial security of a loved one with special needs.

**Concerns are legitimate.** If you do not plan, the result could be a financial, medical and emotional disaster for your child. Depending on individual

### The Government Benefits Maze

**SSI:** Supplemental Security Income is a Social Security benefit for individuals with disabilities who are at least 18 years old, with no more than \$2,000 in assets and no more than \$700 a month in income. When qualifying for SSI, your child automatically qualifies for Medicaid in most states.

**SSA:** Social Security Survivor Benefit is paid if your child is on SSI and you retire. Your child can receive 50% of the highest benefit paid to a parent, with no restriction on the amount of assets in his or her own name. At your death, your child's benefit can increase 25%. Under SSA, your child also qualifies for Medicare. However, there may be a waiting period of up to 25 months. This benefit will also count toward the \$700 SSI benefit limit, which could terminate Medicaid benefits...leaving a 25-month gap in medical coverage.

**SSDI:** Social Security Disability Income is based on your child's work history. Benefits are payable without regard to assets.

circumstances, any of the following could occur when you die:

- Your child could become a ward of the state, with assets administered by a court-appointed guardian.
- Your child could lose Medicaid benefits and even be forced to repay past benefits.
- Your child could lose future Social Security benefits.
- Your child could struggle to deal with an inheritance he or she was not prepared to manage, possibly being targeted by unscrupulous “advisors.”

**Two things you can do** to protect your child's financial security:

- 1. Provide the means** to fund a dignified standard of living.

Know what public resources are available. Be aware of differences in state laws. Medicaid, for instance, is a federal program regulated and managed by the

*...continued inside*



# Warranties: Are they worth the paper they're printed on?

## Addendum to Murphy's

**Law:** The part that's broken *isn't* covered under the warranty!

That's no coincidence.

Many warranties are more sales hype than substance...a carefully worded, official-looking piece of paper that promises the world in **BIG, BOLD** type...then takes it away in a long list of small-print exclusions.

Just as well. Most warranties aren't necessary. A reputable dealer will fix or replace defective items within 30 days (sometimes 60 or 90) of purchase...no questions asked.

### Many warranties are good.

No argument there. Still, to ensure you come out a winner in the warranty game:

1. *Buy from a reputable company.* Whether it's a car, appliance, furniture, carpeting, computer, the warranty is only as good as the manufacturer or retailer behind it. Look for reputation and price...not just price.
2. *Keep the receipt* for at least one year. Mailing in the warranty card is never a bad idea. Still, you're better off having that bill marked "paid" to wave in front of the manager's nose.
3. *Remember two important points about the warranty card:* First, it is generally a marketing tool that helps the company profile its customer base. All you really need to complete is your name and address. Second, if you forget to return the warranty card (and most people do), this in no way limits your rights under the warranty.
4. *Assume ALL defects are covered...* regardless of what the warranty says. Insist on your right to receive a quality product or service for the money you pay. Service is not a favor; it was included in the purchase price. In fact, many states require *implied*

warranties; these mean you have a legal right to expect that the product or service you purchase will do what it is supposed to do.

5. *Think twice before purchasing an extended service contract.* Most consumer groups agree that they're rarely worth the money. If the item comes with a one-year warranty, that's usually adequate; most defects will materialize within that time. On the other hand, extended service

agreements can cost you dearly. You are actually paying in advance for service you may never need.

6. *When it comes to car service plans, negotiate.* Most cars these days come with a more-than-adequate three-year or more service warranty. If you feel you must have the extended plan, haggle over the price. You should be able to get it for as little as half the original asking price.

**Are warranties worth the paper they're printed on?** Many are. But it's up to you to make sure the services they promise are delivered.

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states. Guardianship laws and asset ownership rules to qualify for benefits in one state may be quite different across the border.

At the federal level, your loved one may be eligible for a number of benefits. These programs can help assure a basic level of financial support. Learn about them and plan with them in mind.

- *Don't expect the government to do it all.* Federal and state programs will provide no more than a subsistence standard of living. Make sure your loved one also benefits from your personal assets. In addition to inheritances, two effective ways to assure financial security in these circumstances are through disability income insurance and life insurance on yourself.

**2. Protect your child's assets.** Many government benefits can be lost if the recipient exceeds income and asset limits. Therefore, it is generally a good idea to:

- *Keep assets out of your child's name.* Otherwise, your child might be disqualified from future financial aid. Worse, he or she might actually be required to repay past benefits. So, avoid outright gifts, and discourage helpful friends and family members from doing the same.

- *Avoid naming your child a direct beneficiary* in your will, life insurance policies and qualified pension plans.

- *Consider an "Irrevocable Special Needs Trust."* SNTs have become the planning tool of choice for many families of dependents with special needs. The SNT trust can keep assets out of the child's name and provide professional management of assets. Most of all, it can provide funds for the care of the individual without disqualifying him or her for government benefits.

**Bringing it all together.** A Special Needs Trust is worthless without money.

However, since assets cannot be removed from the trust, it is a common practice to do minimum funding during the parent's lifetime. Assets are directed into the trust at the parent's death. This is where life insurance comes into play, with the trust named as beneficiary. The trust is also made the beneficiary of wills, annuities and qualified plans.

**The bottom line:** The planning process for a loved one with special needs can be demanding, time-consuming and frustrating. Still, there is no alternative. The plans you make now can provide peace of mind for you, as well as your other family members. Most of all, they can help assure that your loved one with special needs will be financially taken care of when you are no longer able to do so. ■

# Why I won't buy disability income insurance!

Disability can be a “window of vulnerability” in an otherwise solid financial game plan. One serious accident or illness can stop your income cold, drain away years of savings in a few short months, and jeopardize your family’s entire standard of living.

## Fortunately, there is an easy fix.

Disability income insurance is a financial tool designed to step in and replace lost income if you become disabled and can no longer earn a living.

Oddly enough, many people ignore the problem. They insure their lives against premature death and their health to pay medical bills associated with accidents and illnesses. They insure their cars and they insure their homes. However, many people overlook the possibility of disability. As a result, they do not insure their most important asset — their income-earning ability.



*“My employer provides my coverage.”*

Since this benefit may be taxable as income, it may be less than you think. (Individually owned disability insurance is generally not taxable as income.) Also, this leaves your fate in the hands of your employer, who can change or cancel your coverage at any time. Finally, what will happen if you change jobs or go into solo practice? You run the risk of not being able to obtain coverage if your health has declined.

*“I don’t need to spend more money on insurance.”* Insurance meets a specific need. Nobody buys it for fun. If your income is needed to support your family, you need disability insurance. Otherwise, if you do become disabled, everything you have worked for may be threatened.

*“You don’t need it if you’re young and healthy.”* That’s like saying you should only buy the life vest *after* you’ve fallen

overboard...or insure your home after a fire starts. Once you become disabled or your health deteriorates, it’s too late. You won’t be able to get coverage.

*“I’ll just take my chances.”* They’re not as good as you may think. According to figures taken from the National Association of Insurance Commissioners’ Disability Tables, the likelihood that you will suffer a long-term disability between now and retirement can run as high as 46%, depending on your age.

*“Social Security will take care of me if I become disabled.”* Sure, but not very well. According to the Social Security Administration’s own figures, average benefits for a disabled worker in 2000 are \$754 a month. If you have a spouse and children, the average is \$1,255 a month. Plus, there is no guarantee that your claim will be approved. Typically, the 50% lucky enough to receive benefits get their first check six months after their total disability began.

*“The cost is too high.”* That’s something only you can decide. Besides, premiums can vary widely depending on the type of policy, provisions, benefit amount and your age. Coverage can be customized to meet your needs and work within your budget.

**Recommendation:** Find out more about how a quality disability income policy can help provide peace of mind for you and financial security for your family. ■

## Probability that an individual of a given age will suffer a long-term disability (90 days or longer) prior to age 65

AGE	PROBABILITY
30	46.7 %
35	45.1 %
40	43.0 %
45	40.1 %
50	36.0 %

Source: National Association of Insurance Commissioners Disability Income Tables.

Here are some comments we’ve heard over the years why some people choose not to insure against the financial loss that can result from a disability:

Would you like information about your Academy’s Group Disability Income Insurance? Call toll-free: (800) 325-8166. There is no cost or obligation. No sales person will call.

The material and ideas presented in *Your Financial Health* are offered to provide accurate, timely and authoritative information with respect to subjects covered. However, obviously, only generalized comments can be offered, designed to bring relevant topics to your attention but not necessarily applicable to any given individual’s circumstances. Neither AAFP Insurance Services, Inc. nor the Academy is engaged in rendering

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## Use care when selecting your executor



**Before you ask a close friend,** associate or relative to be the executor of your will, make sure you both know what is involved.

**The job of executor can be a thankless one.** Emotions can run close to the surface when it comes to the reading of a will and distributing an estate. If there is any ill will among family members, it will show up, and the executor will be blamed if things don't go as expected.

**The job carries legal liability.** Your executor is bound to carry out the terms of your will and abide by the laws of the state. He or she can be held legally and financially responsible for decisions made.

*The job involves a lot of work. At your death, your executor must:*

- ✓ hire an attorney and start the probate process;
- ✓ locate, take charge of and value all assets;
- ✓ pay debts out of estate assets and, if there is insufficient cash, liquidate other assets;
- ✓ prepare and file estate and income tax returns, and pay all taxes;
- ✓ notify creditors and business associates;
- ✓ distribute assets according to the terms of your will.

**The right executor for your estate** should incorporate a balance of personal interest in your family and affairs, as well as the legal and professional competence to do the job well. Most of all, that person should be able and willing to represent your interests as dictated by your will. The ideal choice is someone who is familiar with your affairs, has prior experience in estate settlement, and possesses maturity of judgment, as well as personal integrity. ■

**Ask your prospective executor to review – and honestly respond to – the following questions:**

### **Should I take on the job of executor?**

Consider saying “No” if:

- You're older and/or in poorer health than the person asking you to be his or her executor.
- You're not sure you can work with the heirs.
- There may be a conflict of interest (i.e. you're a business partner who would like to purchase the decedent's share).
- You're not sure you have the time or organizational skills.
- You can recommend someone better equipped to do the job.