UNDERSTANDING

3rd Party

Special Needs Trusts

A third-party special needs trust allows family members to provide financial support for a loved one with disabilities while helping preserve eligibility for needs-based public benefits, such as Supplemental Security Income (SSI) and Medicaid.

When properly established and administered, the trust can protect an inheritance and provide resources to enhance the beneficiary's quality of life.

IMPORTANT TERMS

GRANTOR

The person who creates the trust and establishes its terms. A third-party special needs trust is funded with assets belonging to someone other than the beneficiary, often a parent or grandparent.

TRUSTEE

The person or institution responsible for managing trust assets, making distributions, maintaining records, and following the terms of the trust. A successor trustee can be named to serve when the original trustee is no longer able or willing to act.

BENEFICIARIES

The person with disabilities for whose benefit the trust is established. Trust assets may be used to supplement the beneficiary's needs and improve their quality of life, subject to the trust terms and applicable public benefit rules.

WHAT ARE THE BENEFITS OF A THIRD-PARTY SPECIAL NEEDS TRUST?

A properly structured third-party special needs trust allows families to provide financial support without placing assets directly in the beneficiary's name.

This is particularly important when leaving an inheritance to someone receiving SSI or certain Medicaid benefits, as receiving assets outright may affect eligibility.

The trust can also provide funds for goods, services, and experiences that enhance the beneficiary's quality of life, while establishing a plan for managing those resources over time.

WHO CONTROLS THE ASSETS IN THE TRUST?

The trustee manages trust assets and makes distributions according to the trust document and applicable public benefit rules.

The beneficiary generally does not directly control the assets. Choosing a responsible trustee who understands these requirements is an important part of the planning process.

FUNDING YOUR
Special Needs Trust

Creating a third-party special needs trust is only the first step. Families must also determine how assets will be transferred into the trust, a process known as trust funding.

The trust may receive assets during the grantor's lifetime or after death through an estate plan or beneficiary designation.

Proper funding helps ensure that an intended inheritance does not pass directly to the beneficiary and potentially affect public benefits.

How can a Third-Party Special Needs Trust be Funded?

A third-party special needs trust can be funded in several ways, depending on the family's estate plan.

FUNDING DURING LIFE

The grantor may transfer assets into the trust during their lifetime for the trustee to manage.

FUNDING THROUGH AN ESTATE PLAN

A Will or another trust may direct an inheritance into the special needs trust instead of directly to the beneficiary.

FUNDING THROUGH BENEFICIARY DESIGNATIONS

Certain accounts or insurance policies may name the special needs trust as a beneficiary.

Funding methods should be coordinated with the overall estate plan and reviewed with appropriate legal, financial, or tax professionals.

WHO IS RESPONSIBLE FOR FUNDING THE TRUST?

The grantor is generally responsible for completing funding arrangements, including asset transfers and beneficiary designations.

An attorney can provide guidance, but families should follow through and review their arrangements when circumstances change.

HOW ARE DISTRIBUTIONS MADE FROM THE TRUST?

The trustee makes distributions according to the trust document and applicable public benefit rules.

Certain distributions, including direct cash payments or payments for shelter, may affect SSI benefits. Trustees should understand these rules and maintain accurate records.

The goal is to supplement the beneficiary's resources while helping preserve important public benefits.

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