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A Deep Dive Into Planning For The Client With a Disability



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- Branch address: 910 Skokie Boulevard • Suite 102 • Northbrook, IL 60062 • 847-509-4300
- This is not intended to be a sales seminar. The purpose of this seminar is to provide you with general information on financial planning issues for individuals with special needs.
- There will be an opportunity to schedule an appointment for an individual consultation at the end of this seminar which may result in a recommendation of specific financial products that may help you achieve your financial goals.
- There is no obligation to schedule an appointment or purchase a product.

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PLANNING IS OFTEN DELAYED

69%

Of families say they are concerned about being able to provide lifetime care for their dependents with special needs

88%

Of parents who have children with special needs have not set up a trust to preserve eligibility for benefits such as Medicaid and Supplemental Security Income.

84%

Have not written a letter of intent outlining an agreement for the future care of the child

Source: MetLife's Survey "2005 The Torn Security Blanket: Children with Special Needs and the Planning Gap" and updated with 2011 Torn Security Blanket Study



DO NOT DELAY

MY FAMILY WAS NOT PREPARED!



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ESTATE PLANNING TOOLS THAT MAY IMPACT THE CLIENT'S PLAN

WILLS and POWER of ATTORNEY DOCUMENTS

Consult with an attorney who understands the intricacies of special needs law. A resource: www.specialneedsalliance.org.

SPECIAL NEEDS TRUSTS:

- AKA: “*Third Party Trust*” used to supplement government benefits
- “*Someone Else’s Money*” Parents/Grandparents/Aunts & Uncles
- Gifts, Inheritances, Investments, IRAs, Life Insurance

OBRA ‘93 TRUSTS

- AKA: “*Payback Trust*” or “First Party Trust
- Money *owned* by person with a disability

✓ **DO IT NOW – NOT TESTAMENTARY**

PLANNING & FUNDING

DOCUMENTS TO REVIEW:

- ☒ Life Insurance
- ☒ 401(k) / 403(b)
- ☒ IRAs
- ☒ Annuities
- ☒ Employee Benefits

PLANNING & FUNDING

THE ABLE ACCOUNT

(Achieving a Better Life Experience)

ABLE Act of 2014 created savings and investment accounts for individuals with disabilities.

- ABLE Accounts **do not affect** eligibility for benefits programs

SSI

Medicaid

- Withdrawals must be used on **Qualified Disability Expenses** *

* Must relate to the disability + Help maintain or improve health, independence, or quality of life.

- If balance exceeds \$100,000, SSI merely suspended, not terminated

PLANNING & FUNDING

Life Insurance

- **CASH VALUE** versus
TERM INSURANCE
- **SECOND-to-DIE** versus
INDIVIDUAL INSURANCE



Life Insurance: **CASH VALUE** versus **TERM INSURANCE**

Insured: John Q. Smith

Policy Number: xxxxxxxxxx

Insurance Age: 41

Date of Issue: 08/02/2018

Sex: Male

Premium Class: Preferred Plus Non-Tobacco

Face Amount:
\$2,000,000.00

Benefits	Benefit Amounts	Annual Premium	Level Premium Period
Life Insurance	\$2,000,000.00	\$1,984.00	25 Years
Policy Year	Current Annual Life Insurance Premium		Maximum Annual Life Insurance Premium
1	\$1,948.00		\$1,948.00
5	\$1,948.00		\$1,948.00
10	\$1,948.00		\$1,948.00
20	\$1,948.00		\$1,948.00
25	\$1,948.00		\$1,948.00
26	\$65,904.00		\$70,504.00
30	\$88,244.00		\$99,664.00
40	\$310,624.00		\$310,624.00

Life Insurance: SECOND TO DIE versus **INDIVIDUAL INSURANCE**

Insured 1: Sharon C. Smith

Insurance Age: 52

Sex: Female

Premium Class: Preferred Plus Non-Tobacco

Total Initial Death Benefit:
\$1,000,000.00

Insured 2: John Q. Smith

Insurance Age: 59

Sex: Male

Premium Class: No Rating Assigned

Benefits	Death Benefit	Annual Premium
Life Insurance	\$1,000,000	\$10,894

End of Policy Year	At Age	Annualized Premium Outlay	End of Year Accumulation Value	End of Year Surrender Value	End of Year Death Benefit
1	53/60	\$10,894	\$ -	\$ -	\$1,000,000
5	57/64	\$10,894	\$ -	\$ -	\$1,000,000
10	62/69	\$10,894	\$ -	\$ -	\$1,000,000
20	72/79	\$10,894	\$ -	\$ -	\$1,000,000
30	82/89	\$10,894	\$ -	\$ -	\$1,000,000
40	92/99	\$10,894	\$ -	\$ -	\$1,000,000

Life Insurance: **SECOND TO DIE** versus **INDIVIDUAL INSURANCE**

Insured 1: Sharon C. Smith

Policy: Universal Life

Insurance Age: 52

Sex: Female

Premium Class: Preferred Plus Non-Tobacco

Fixed Death Benefit:
\$1,000,000

Benefits	Death Benefit	Annual Premium
Guarantee Universal Life Insurance	\$1,000,000	\$9,630

End of Policy Year	At Age	Annualized Premium Outlay	Cash Value	End of Year Death Benefit
1	53	\$ 9,630.00	\$ 0	\$1,000,000
5	57	\$ 9,630.00	\$ 0	\$1,000,000
10	62	\$ 9,630.00	\$ 0	\$1,000,000
20	72	\$ 9,630.00	\$ 0	\$1,000,000
30	82	\$ 9,630.00	\$ 0	\$1,000,000
40	92	\$ 9,630.00	\$ 0	\$1,000,000

PLANNING & FUNDING

Social Security and Government Benefits

➤ **SSI, etc.**

➤ **BEWARE THE FAMILY MAX**

(Three people / one record could reduce benefits)



Government Benefit Programs Are Available To Assist Individuals With Special Needs.

Medicaid

Which provides basic medical care to low-income individuals. Most states also have “waiver” Medicaid programs covering residential, day care, career, and other services.

Social Security Disability Insurance (SSDI)

Which requires that participants have been unable to work for at least a year due to their disability. Benefits are based on the individual’s income history and the number of quarters they have worked and contributed to the program.

Supplemental Security Income (SSI)

Which provides funds for food and shelter to individuals with disabilities. To qualify, a person must have less than \$2,000 in “countable assets.”

Disabled Adult Child (DAC)

Which requires a determination that the onset of the participant’s disability occurred before age 22, that the person is unmarried, and that the participant has a parent who has a disability, is retired or deceased and who qualifies for Social Security him/herself.

The Family Max

Social Security's family maximum rules limit the total benefits payable to a beneficiary's family. Different family maximum rules apply to retirement and survivor benefits than to disability benefits. The rules for calculating family maximum benefits are complicated.

Let me tell you how the
Family Max applied to
Jim, Sarah, and Michael...



You Can't Simply Add Up Potential Benefits to Know How Much Will Be Coming In

Individual Benefits

JIM is the breadwinner who has reached full retirement age. He has earned enough credits for Social Security Benefits and his payment would be \$3,000 a month.

\$2,231

SARAH is his wife and has also reached full retirement age. She intended to claimed a 50% spousal benefit of \$1,115.50 a month.

\$1,115

MICHAEL is a DAC (Disabled Adult Child). He receives SSI (Supplemental Security Income) of \$900 per month.

\$ 900

The Family Max for Jim is calculated as **\$3,936.42**

Jim was a well-paid architect who retired after 35 years of covered employment. His full retirement benefit, based on earnings of \$80,000, would come to \$2,231. Sarah, his wife, does not have a record of covered employment; and Michael is a Disabled Adult Child (DAC) who has been receiving SSI (Supplemental Security Income) of \$900 per month.

The Family Maximum calculation is based upon Jim's PIA (Primary Insurance Amount) of

\$2,231

\$3,318.68 plus 134% of excess of 1,770

The Social Security Family Maximum Chart details the "Calculations of Maximum" based on that PIA

\$2,231

- 1,770

= 461

461 x 134%

= 617.74

The Family Maximum is calculated as

$\$3,318.68 + \$617.74 = \$3,936.42$

Adjusted Benefit After Applying The Family Max

JIM is the breadwinner who has reached full retirement age. He has earned enough credits for Social Security Benefits and his payment would be \$3,000 a month.

Individual
Benefits

\$2,231

Actual Max
Benefits

\$2,231

SARAH is his wife and has also reached full retirement age. She intended to claimed a 50% spousal benefit of \$1,115.50 a month.

\$1,115

\$ 852

MICHAEL is a DAC (Disabled Adult Child). He receives SSI (Supplemental Security Income) of \$900 per month.

\$ 900

\$ 852

The Family Max for Jim is calculated as

\$3,936.42

Hypothetical figures provided for informational purposes only. Your results may vary.

Did the SECURE Act Kill the Stretch IRA ?

The SECURE Act did away with the stretch for most people who inherit in 2020 or later and replaced it with a 10-year payout provision for most non-spouse beneficiaries.

People with Disabilities may be exempt from the 10-year payout provision

The IRS Definition of Disability may be different from that of Social Security

PLANNING OPTION

Consider converting an IRA to a ROTH
(over several years to avoid a higher tax rate)

Child cannot be the beneficiary of the IRA – it must be the special needs trust



QUESTIONS?

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