Income planning for three lifetimes

A creative strategy for a child with disability

Caring for a child with disability has unique challenges and deserves a well thought out strategy on how to care for the child over their lifetime as it can be very expensive. How to qualify for government benefits and provide quality of life items can be addressed with a creative strategy.

Two common ways of paying for care

Third-party settled discretionary support trust

Almost any assets can go into the trust. Constructing a third-party settled discretionary support trust allows for several things, such as the trustee may withhold distributions if government benefits are payable. However, accumulation trusts, such as third-party discretionary support trusts, are taxed at compressed marginal income tax brackets. The trust pays income tax rates at the highest 37 percent at just $12,750 of taxable income (2019), much higher than income tax brackets for taxpayers as individual taxpayers. Of course, the child with disability would likely pay income tax at a lower rate, but if the distribution of taxable income causes loss of government benefits, that's a losing proposition. In addition, there will be an additional 3.8 percent surtax for Patient Protection and the Affordable Care Act plus possible State income taxes.

Life insurance paid into a trust

Life insurance creates an estate and the death benefit is usually greater than the accumulated premiums. The death proceeds are paid into a trust on a tax-free basis and are not subject to required minimum distributions. Life insurance also has better creditor protection when compared to other assets in most states. The assets are protected from liquidation by the trustee to qualify for needs-based government benefits which are very important to maintain.

Thinking of buying term life insurance with survivorship? While life insurance provides a cash amount when a parent passes, there is an additional amount needed to fund the trust at the death of the surviving parent. This strategy also only works well for married couples and certainly doesn't help when preparing for the parent's own retirement as the term premium can be quite expensive in the retirement years, which reduces the retirement income. The survivorship cash values aren't available for retirement income as that cash value is supporting the death benefit. The survivorship life insurance provides little to no value to either parent as neither will be able to collect the death benefit and is only valuable if the child with disability survives both parents.

A possible solution

Whole life insurance with a SPO rider can allow parents to prepare for retirement, provide cash at the first death, and provide a contingency that would allow life insurance into the Special Needs Trust. The SPO rider is flexible and affordable. The first exercised SPO can buy a policy from the death benefit of the first and the person on the SPO of the surviving spouse can be replaced with another individual (such as another adult child) if they are insurable. If both parents happen to pass at the same time, 50 percent of each SPO rider would pay, creating the wealth in the Special Needs Trust.

I-33114 07/29/19

SPO rider on whole life insurance allows for more than a single approach to income planning for three lives. See how this unique solution can fit your family's needs.

Primary Insured Whole Life Insurance Death Benefit

+

Survivor Purchase Option on Primary Insured

1. ______________________________

2. ______________________________

3. ______________________________

4. ______________________________

5. ______________________________

6. ______________________________

Beneficiary's Bank Account

Beneficiary's Bank Account

+

Whole Life Insurance Death Benefit

Note: Products issued and underwritten by American United Life Insurance Company® (AUL), Indianapolis, IN, a OneAmerica company. • Policy form numbers: L-59 and L-60 and Survivor Purchase Option Rider LR-219. Not available in all states or may vary by state. Provided content is for overview and informational purposes only and is not intended as tax, legal fiduciary, or investment advice. Life insurance should be purchased by individuals that have a need to provide a death benefit to protect others with insurable interests in their lives against financial loss. Life insurance is not a retirement plan, investment, or savings account.

I-33114 07/29/19