

DATE: September 1, 2018 (updated)
FROM: Barbara Isenhour and Sean Bleck¹

Pooled-Asset Special-Needs Trusts for Medicaid & SSI Beneficiaries

Pooled-asset trusts can give recipients of Supplemental Security Income (SSI) or Medicaid the benefits of “special needs trusts” with less cost and procedural complexity than other alternatives. This bulletin will explain the benefits of special needs trusts and the role of pooled-asset trusts – special needs trusts in which the assets of many individuals are pooled for certain purposes.

Benefits of special needs trusts

“Special needs trusts” hold assets for the benefit of persons who would be disqualified from Medicaid or Supplemental Security Income (SSI) if they personally held the assets. Assets in a special needs trust can be used to supplement the governmental benefits received by the trust beneficiary in specifically limited ways. For instance, a special needs trust can pay for travel, clothes and furniture.

Usually distributions from special needs trusts are made in the form of direct payments to vendors who provide goods or services to the beneficiary. (If cash were given to the beneficiary it would normally be considered income to the beneficiary.) Generally, the goods and services purchased from vendors paid by the trust are not treated as income and do not reduce the governmental benefits the trust beneficiary is receiving. However, if the goods or services purchased by the trust are food or shelter for an SSI recipient that will cause a reduction in the amount of SSI received.

Creating and funding special needs trusts

If the assets in a special needs trust came from a source other than the trust beneficiary, there are very few requirements. As long as the trust beneficiary cannot directly access the trust assets and the trustee is not required to make distributions to the beneficiary, the assets in the trust will not affect the beneficiary’s eligibility for SSI or Medicaid.

But if a trust holds assets that were contributed by the beneficiary, including assets the beneficiary would have otherwise received directly (e.g., from a lawsuit settlement), many requirements apply.

The most common approach to creating a special needs trust is authorized by 42 U.S.C. § 1396p(d)(4)(A) (which is why these are often referred to as “D4A” trusts) and WAC 182-516-0120. It is available only for beneficiaries who are disabled and under age 65 when the trust is created and funded. This approach used to require that the trust be established by a parent, grandparent, guardian or court, which meant the beneficiary could not directly create the trust. But, since December 13, 2016, a competent beneficiary can also establish the trust. This kind of trust must provide that the state will be paid back upon the death of the beneficiary for everything Medicaid covered for the beneficiary during the beneficiary’s life, but only to the extent of any funds remaining in the trust when the beneficiary dies.

Once a D4A trust is established, funds of the beneficiary can be transferred to the trust until the beneficiary attains age 65 without the imposition of an SSI or a Medicaid transfer-of-asset penalty. (Uncompensated transfers typically cause the imposition of a period of ineligibility for SSI and Medicaid long-term care coverage.)

A friend or relative of the beneficiary may serve as the trustee of a D4A trust, and the document creating the trust may authorize the trustee to charge a limited fee for this service.

Because a separate trust document must be drafted for each D4A trust and a court proceeding is often required, it can be an expensive, complex and time consuming process to establish this kind of trust.

The pooled-asset trust alternative

A different kind of special needs trust is authorized by 42 U.S.C. § 1396p(d)(4)(C) (and often referred to as a “D4C” trust) and WAC 182-516-0125. This kind of trust must be administered by a nonprofit organization that holds the assets of multiple beneficiaries. While the account of each beneficiary is distinguished for distributions purposes, i.e., only the beneficiary who created an account can receive a distribution from the funds attributable to the account, usually the funds from multiple accounts are invested as a common fund. (Thus, the investments are made from the “pool” of all of the funds.)

Upon the death of an account holder, there are two possible dispositions of any funds remaining in an account. One is repayment to Medicaid for funds it expended. Alternatively, if explicit authorization has been given by the beneficiary, the nonprofit organization may hold the remaining funds to benefit other account holders.

The assets of persons 65 and older can be placed in a pooled-asset trust and will not be deemed available for SSI or Medicaid eligibility purposes. However, the **transfer** of the assets to the trust by persons over 64 **will** be subject to the transfer penalties imposed for SSI and Medicaid long-term care coverage.

Pooled-asset trusts are typically governed by a single trust document (called a “master” trust) developed by the nonprofit organization that administers the trust. Individual account holders sign a “subscription agreement” to have their contribution governed by the terms of the master trust. Thus, beneficiaries do not have to pay for the drafting of a trust document. The nonprofit organization that set up the pooled trust must be used as the trustee for each account, and fees are charged for the ongoing administration of each account.

Examples of pooled-asset trusts

The two largest pooled asset trusts in Washington are the Developmental Disabilities Life Opportunities Trust, discussed below, and the pooled trust administered by Lifetime Advocacy Plus, a nonprofit organization based in Seattle (contact: Allan Baird, Lifetime Advocacy Plus, Suite 208, 444 NE Ravenna Blvd., Seattle, WA 98115, 206-367-8055, www.laplus.org).

Other such trusts have been set up by Exceptional Foresters (P.O. Box 669, 2009 W. Railroad Avenue, Shelton, WA 98584, 360-426-0077) and Beagle & Associates (1409 Franklin Street, Suite 200, Vancouver, WA 98660, 360-694-5177).

The Developmental Disabilities Life Opportunities Trust is available only to individuals who, at the time of enrollment, are Washington residents under 65 and meet the state definition of developmental disability (confirmed by the Division of Developmental Disability). State funds are available to match part or all of the fees charged by the DDLOT. The match is earned by maintaining an account for three years and depositing the equivalent of \$25 a month (which could be, for example, one initial deposit of \$900). An explanatory booklet can be downloaded from the DDLOT web site: www.ddlot.org. The DDLOT is administered by The Arc of Washington State (2638 State Ave NE, Olympia, WA 98506, 888-754-8798).

Endnote:

¹ Prepared for Columbia Legal Services by Barbara Isenhour and Sean Bleck, Somers Tamblin King Isenhour Bleck P.L.L.C., 1200 Fifth Avenue, Suite 2020, Seattle, WA 98101, (206) 232-4050.