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WEALTH ADVISER

Insuring Uncle to Help a Niece with Special Needs

By ALEX COPPOLA

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The middle-aged couple had a daughter in her 20s who had special needs.

The young woman received state and federal for her housing and basic care, while her parents covered the rest of her expenses.

However, the couple worried about what would happen to their daughter in the event that both of them died: Not only would they need to replace the financial assistance they provided, they would need to distribute it in a way that didn't jeopardize her benefits.

Enlarge Image

They shared their concerns with adviser A.J. Sohn, manager at Antaeus Wealth Advisors in Boxborough, Mass. Mr. Sohn had worked with clients in similar circumstances and had a ready solution: A joint life insurance policy held for the daughter in a trust.

But the couple revealed a hitch in that plan: Neither parent was insurable because of health issues. It was an unexpected development, but Mr. Sohn believed his plan would work with some creative planning.

"If we couldn't take out a policy on the couple, we'd have to find another healthy, willing adult to take one out on," says Mr. Sohn, whose firm manages $250 million for 600 families. "Of course, not just any healthy adult would do."

The amended strategy was contingent on the couple finding someone they trusted who had the means and inclination to accept financial responsibility for their daughter. What's more, in order to insure a third party, the person paying for the policy has to establish insurable interest--proof of financial dependence on the person they're insuring.

That meant whoever the couple chose to insure would have to sign a contract promising to provide for the couple's daughter in the event of their deaths. Fortunately, the wife was close with her older brother, who was healthy enough to be insured and willing to take on that responsibility.

After asking the family's attorney to vet the plan, Mr. Sohn and his clients put the pieces into place. First, the attorney prepared a simple letter establishing insurable intent, which the wife's brother signed.

"The letter was no more than 10 sentences," says Mr. Sohn. "It was an uncle's promise to step in and look after his niece if her parents were gone."

Next, the couple took out a $500,000 policy on the brother and placed it in an irrevocable life insurance trust set up by the attorney, who is also the trustee. Each year, the couple will gift money to the trust to pay the policy's premiums.

The trust not only owns the policy, it's also the beneficiary: When the brother dies, the policy will pay the $500,000 into the trust, and the trustee will distribute that money to the daughter as needed, based on the terms of the trust document. Holding the assets in trust, rather than distributing them directly to the daughter, will preserve her state and federal aid.

The parents are thrilled with the solution--and with Mr. Sohn's willingness to work a little harder to overcome their lack of insurability.

"If something were to happen to them they know their daughter is going to be provided for," he says. "These cases are the reason I got into this business in the first place--to offer people some relief over an issue that's critical to them."

Corrections & Amplifications
An earlier version of this story misstated the amount of assets under management. It's $250 million, not $1.4 billion.

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