

DRAFTING SPECIAL NEEDS TRUSTS

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I. INTRODUCTION

Planning for individuals with disabilities is a multi-faceted endeavor comprising a wide range of issues and challenges. Proper planning involves much more than special needs trusts (a.k.a. “supplemental needs trusts”), which may or may not be necessary or appropriate for a particular disabled individual. However, in the appropriate circumstance, a special needs trust can dramatically increase a disabled person’s quality of life.

Special needs trusts come in many shapes and sizes, influenced by a variety of factors. To begin with, every disabled person faces a different set of health challenges and care needs. Added to that natural variation is the complexity and ever-changing nature of the law relevant to special needs trusts, which includes federal and state statutes and administrative rules, Social Security regulations, and local court rules. Although special needs trusts comprise only one part of a disability planning practice, they are a world unto themselves.

These materials are not intended as an exhaustive guide to the full array of special needs trust issues, but rather as an introductory primer on the appropriate use of special needs trusts (hereafter, “SNTs”); the primary types of SNTs; and on the basics of drafting SNTs. (Previous Elder Law Section CLE materials provide more comprehensive treatment of SNTs generally¹ and of SNT administration specifically.²)

II. WHEN TO USE A SPECIAL NEEDS TRUST

The primary purpose of a special needs trust is to provide a fund for a disabled person that will enhance his or her quality of life, while simultaneously protecting the individual’s entitlement to certain government benefits. SNTs frequently have other purposes as well, such as providing financial management and oversight for individuals whose disabilities preclude self-management. However, what sets SNTs apart from other trusts is their ability to protect assets from being considered *available* for purposes of means-tested public benefits.

Means-tested public benefits are government programs that limit the pool of eligible recipients by imposing financial eligibility rules. Eligibility for means-tested benefits is determined after a review of the assets and income of the person applying for help. If assets and income are *available* to the person for basic needs, such as food and shelter, then generally the person is expected to use the available funds for those basic needs, thus reducing his or her need for government benefits.

Originally, SNTs were developed by lawyers who realized that if a trust, by its terms, makes the trust estate *unavailable* for basic needs such as food and shelter, the existence of the trust should not affect an

¹For a more comprehensive treatment of special needs trusts generally, see the OSB Elder Law Section’s 2003 CLE materials entitled *Special Needs Trusts*.

²For a recent discussion of special needs trust administration, see Cinda Conroyd’s materials, “Administration of Supplemental Needs Trusts,” in the OSB Elder Law Section’s 2008 CLE materials entitled *Elder Law 2008: Advancing the Plan*.

individual's eligibility for needs-based public benefits. Today, as these materials will explain, federal and state laws contain specific provisions governing special needs trusts, setting out criteria under which SNT assets will be treated as *unavailable*.

Because a primary function of an SNT is to preserve means-tested public benefits, and because not all disabled individuals receive means-tested benefits, SNTs are not always necessary or appropriate. In order to properly plan for a disabled person, an attorney must have a basic understanding of the government benefit programs available, including the level of services provided and the eligibility rules applicable to each one. Only after determining that a particular disabled individual receives means-tested benefits, or is likely to receive them in the future, should a special needs trust be drafted.

A. The World of Government Benefits

The world of government benefits is vast, and a full description of the benefits available to disabled individuals is beyond the scope of these materials.³ Broadly speaking, however, government benefits for the disabled can be divided into two categories: "means-tested" or "needs-based" benefits, which impose strict financial eligibility limits, and "entitlement" benefits, which generally do not.

Following is an overview of some of the most common government benefits programs available to disabled individuals. Note that each of these programs has complex rules (well beyond what is included here) and that those rules should be closely analyzed in deciding whether and when to use an SNT. This overview is not intended to provide comprehensive details on eligibility rules for the various programs, but rather to identify their general characteristics for basic SNT planning purposes.

1. Means-Tested Benefits.

a. Supplemental Security Income ("SSI"). SSI is a federal program of cash assistance for aged, blind, or disabled individuals who have little income and few assets. Eligibility depends upon status (age, disability, etc.) and financial need but is not related to an individual's work history (i.e., an individual need not have "paid into the system" in order to qualify). The SSI program provides monthly checks from the federal government of up to \$674 for an individual and up to \$1,011 for a married couple (in 2010). Typically, a person who is eligible for SSI benefits automatically qualifies for Medicaid benefits as well.

SSI is administered by the Social Security Administration (SSA) through local Social Security branch offices. To be eligible for SSI, a single individual cannot have "countable resources" worth more than \$2,000, and a married couple cannot have countable resources worth more than \$3,000 (in 2010). Additionally, a single individual cannot have "countable income" in a month of more than the federal benefit rate ("FBR").

³For more information on Medicaid in Oregon, see the OSB Elder Law Section's 2005 CLE materials entitled *Tools of the Trade for the Elder Law Practitioner*.

The FBR for an individual is \$674 and for a married couple is \$1,011 (in 2010).

The legal authority for the Supplemental Security Income program is contained in Title XVI of the Social Security Act, 42 USC §1381 et seq. Regulations implementing the program are found at 20 CFR §416.101 et seq. Internal Social Security Administration policy guidelines are found in the Program Operations Manual System (POMS) SI 00500.000 et seq.

PRACTICE TIP: POMS provisions are written in plain English, making the POMS the easiest-to-understand source of legal authority on the SSI program. The POMS is available on SSA's website at <https://secure.ssa.gov/apps10/poms.nsf/chapterlist!openview&restricttocategory=05>. The SSI-specific provisions can be found at <https://secure.ssa.gov/apps10/poms.nsf/chapterlist!openview&restricttocategory=05>.

b. Medicaid. Medicaid is a joint federal-state program of medical assistance. Medicaid is not a single program, but rather a group of programs, each of which has unique benefits, rules, and eligibility requirements. As with SSI, eligibility for Medicaid is based upon financial need (low income and assets). Unlike SSI, however, Medicaid does not provide cash benefits to beneficiaries. Rather, Medicaid pays for a variety of health care and long-term care services through its different programs, all of which are administered in Oregon by the Oregon Department of Human Services (“DHS”).

Among the most common of Oregon's Medicaid programs is the Oregon Health Plan (OHP), which provides basic health insurance to certain disabled and low-income individuals. Under the broad umbrella of “Oregon Health Plan” are several subprograms, including OHP Standard, OHP Plus, and the no-cost public assistance option of Oregon's new Healthy Kids Program (for children under age 19).

Another common Medicaid program is the Oregon Supplemental Income Program Medical (OSIPM), which provides both basic health insurance and, in some cases, assistance with long-term care costs. Disabled individuals who receive SSI are automatically eligible for OSIPM. OAR 461-135-0010(6)(a).

There are other Medicaid programs as well, all with varying eligibility rules. Income limits, in particular, vary dramatically from one Medicaid program to another. However, the asset limits applicable to OHP and OSIPM (the two Medicaid programs most often involved in SNT planning) are the same as in the SSI program. OAR 461-160-0015.

The legal authority for the Medicaid program is contained in Title XIX of the Social Security Act, 42 USC §1396 et seq. Oregon's applicable statutes and rules appear in ORS Chapter 411 and OAR Chapters 410, 411, and 461. As a practical matter, the Oregon Administrative Rules governing Medicaid are the most important source of law in the SNT

planning context, as they provide the specific income limits and other requirements for the various Medicaid programs.

PRACTICE TIP: The Oregon Administrative Rules governing Medicaid programs change frequently and should be reviewed often. Notices of changes to these rules can be obtained by visiting the DHS website (<http://www.dhs.state.or.us/policy/healthplan/rules/notices.html>) and requesting e-mail notifications in advance of proposed rule changes.

c. Housing Assistance Programs. Several different federal housing programs are available to help disabled individuals obtain affordable housing. The rules governing these programs are a complex web of statutes, regulations, and “program circulars” issued by the Department of Housing and Urban Development (“HUD”). A complete list of the various federal housing assistance programs can be found at <http://www.hud.gov/offices/lead/enforcement/1012housinglist.cfm>.

Federal housing assistance programs are administered by local Public Housing Authorities (“PHAs”), and the PHAs are empowered to set policies and procedures according to the needs of their specific communities. 24 CFR 982.1(a). Accordingly, the specific requirements for each program vary significantly from state to state, and even within a given state.

One of the most common housing programs for individuals with disabilities is the Section 8 voucher program. In general (and in contrast to both SSI and Medicaid), eligibility for the Section 8 voucher program is based on income, not on assets. General information on this program can be found at http://portal.hud.gov/portal/page/portal/HUD/topics/housing_choice_voucher_program_section_8.

d. Food Stamps/Supplemental Nutrition Assistance Program. The Supplemental Nutrition Assistance Program (“SNAP”), formerly referred to as the Food Stamp program, is a federal nutrition program intended to provide low-income individuals (including many disabled individuals) a means to meet their nutritional needs. In Oregon, the SNAP is administered by the Oregon Department of Human Services Children, Adults and Families Division. As with the federal housing programs, eligibility for the SNAP is based primarily on income, not on assets.

2. Entitlement Benefits.

a. Social Security Disability Insurance (“SSDI”). SSDI is a federal insurance program that pays cash benefits to disabled workers under the age of 65. The monthly payment amount depends on an individual’s work record and the amount he or she paid into the Social Security system while working. Disabled individuals who receive SSDI for at least 24 months automatically qualify for Medicare benefits (see below).

Like SSI, SSDI is administered by the Social Security Administration through local Social Security branch offices. Unlike SSI, however, eligibility for SSDI does not depend on an individual's assets or *unearned* income. Thus, a disabled individual can own any amount of resources without jeopardizing his or her eligibility for SSDI benefits.

PRACTICE TIP: Recipients of SSDI frequently also receive SSI (if a recipient's work record results in a monthly SSDI payment of less than the FBR discussed above, the individual often receives SSI to bring the total income up to the FBR). Attorneys should never assume that because an individual receives SSDI, he or she is not also receiving SSI (or other means-tested benefits).

The legal authority for the Social Security Disability Insurance program is contained in Title II of the Social Security Act, 42 USC §423. Regulations implementing the program are found in 20 CFR §404.1 et seq. Internal Social Security Administration policy guidelines are found in the Program Operations Manual System (POMS) DI 00100.000 et seq.

PRACTICE TIP: The SSDI-specific provisions of the POMS can be found at <https://secure.ssa.gov/apps10/poms.nsf/chapterlist!openview&restricttocategory=04>.

b. Medicare. Medicare is a federal health insurance program providing basic coverage to individuals over age 65, as well as certain disabled individuals under age 65 who have received SSDI benefits for at least 24 months. (The 24-month "waiting period" for SSDI-linked Medicare eligibility is waived for individuals with end-stage renal disease or ALS, a.k.a. Lou Gehrig's disease.)

Medicare consists four basic "parts," A through D, which provide hospital insurance, medical insurance, and prescription drug coverage. Medicare recipients must pay monthly premiums, copayments, and deductibles, which vary depending on the particular "parts" in which they are enrolled.

Medicare is administered federally by the Centers for Medicare and Medicaid Services ("CMS"). However, the Social Security Administration is responsible for determining Medicare eligibility and processing the monthly premium payments required of Medicare recipients.

Unlike Medicaid, Medicare is not means-tested. Accordingly, a disabled individual can qualify for (or retain) eligibility for Medicare regardless of asset and income levels. However, Medicare generally does not cover the full cost of a recipient's health care, and most Medicare recipients require additional coverage. Often, this additional coverage takes the form of a Medicare supplement policy—a private insurance plan intended to cover the gaps in Medicare's coverage. But in some cases, the gaps in coverage are filled by Medicaid. Medicare recipients who also receive Medicaid benefits are sometimes referred to as "dual-eligibles."

PRACTICE TIP: Attorneys should never assume that because an individual receives Medicare, he or she is not also receiving Medicaid (or other means-tested benefits).

B. The Benefits Direct the Process

1. Obtaining Current Benefits Information. Attorneys representing disabled individuals (or family members of disabled individuals) must always obtain a clear understanding of the individual's benefits *as a first step* in every disability planning case. Before discussing or preparing an SNT, it is critical to answer the following questions:

- Which public benefits (if any) is the disabled individual currently receiving?
- Which public benefits might the disabled individual qualify for in the future?
- Are any of the public benefits identified above “means-tested?”
- Are the public benefits identified above critical to the support and care of the disabled individual, or does the individual have *non*-means-tested alternatives to meet basic support and care needs?

The answers to the questions above are frequently difficult to obtain, for several reasons. Many public benefits programs have names that sound similar to each other (Medicare/Medicaid; SSDI/SSI), and clients routinely confuse them. Clients enrolled in the Oregon Health Plan may not realize that they are receiving Medicaid assistance. Finally, as mentioned above, many disabled individuals receive benefits from multiple programs simultaneously, and they may not be aware of the distinct sources of those benefits.

Because disabled individuals and their families are often confused about exactly which benefits they receive, attorneys must not rely solely on clients' statements in identifying benefits. Instead, this information should be obtained by asking the client questions that will elicit “clues” as to the nature of the benefits received. For example, an attorney can ask about the amount of income received by the disabled person. If a client reports income of more than \$674 (the maximum SSI payment in 2010), the attorney knows the person is not receiving SSI but likely receives SSDI. Alternately, an attorney can ask about the disabled person's resources. If the individual has assets (other than a home, a car, and certain other “exempt” assets) in excess of \$2,000, there is a strong possibility his or her benefits are not means-tested. The key point is that follow-up questions are required in every case, since clients are not always able to provide accurate information about the benefits being received.

After informally soliciting additional information about the benefits received by the disabled individual, an attorney should always follow up and verify the information by communicating directly with the agencies providing the benefits. This generally requires a release signed by the disabled individual or his or her legal representative. However,

obtaining a release and requesting confirmation of benefits from the relevant agencies is time well spent, as it can avoid costly errors.

PRACTICE TIP: Benefits information regarding SSDI, SSI, and/or Medicare can be obtained from the Social Security Administration using the official “Consent for Release of Information” form, available at <http://www.ssa.gov/online/ssa-3288.pdf> and reprinted in these materials as Appendix A. Benefits information regarding the various Medicaid programs administered by Oregon DHS can usually be obtained using a general release. One example of a general release, used regularly by the authors, is attached as Appendix B.

2. Thinking Ahead About Future Need for Benefits. Although obtaining accurate information about current public benefits is critical, it should not end an attorney’s analysis of whether an SNT is necessary or appropriate. In order to properly determine the advisability of an SNT, the disabled person’s future care needs must be considered, as those needs can change dramatically over the course of a disabled person’s life.

It is not uncommon to encounter disabled individuals who, though not currently receiving means-tested benefits, are likely to require them in the future. In those cases, preparation of an SNT may be advisable even though the most significant advantages of the trust may not be realized until later. For example, suppose an individual is receiving SSDI and Medicare (two entitlement benefits that are not means-tested) and is privately paying for a Medicare supplement policy using a combination of SSDI income and savings. Now suppose this individual has a progressive illness, such as primary progressive multiple sclerosis, and is expected to deteriorate to the point where independent living becomes impossible. An SNT might make sense for such an individual even if he or she is not currently receiving benefits, since there are foreseeable long-term care costs that could be financially devastating.

Thinking ahead can also be important in the case of minor children. Disabled children under the age of 18 often do not qualify for means-tested benefits because most public benefits programs “deem” the income and assets of the parents to be available to the children. However, upon reaching the age of 18, these children are often eligible for SSI, Medicaid, and/or other benefits. Parents, grandparents, or other relatives and friends of disabled minors may want to consider including an SNT in their estate plan even though the minor is not currently receiving means-tested benefits.

In some cases, planning needs to account for the possibility that a disabled individual may improve and no longer require public benefits. If significant improvement is a possibility, attorneys should factor this into their advice regarding SNTs, and if a decision is made to create an SNT, attorney should consider allowing for early termination (see dis-

cussion of early termination provisions in the “Drafting Tips” section, below).

III. PRIMARY TYPES OF SPECIAL NEEDS TRUSTS

There are two primary types of special needs trusts: “first-party” trusts and “third-party” trusts. They share many common features, but they differ in important ways, as this section will explain. The most important distinction between first-party and third-party SNTs is the source of the funds comprising the trust estate: first-party trusts are funded with money that belongs to the beneficiary (i.e., the disabled person), and third-party trusts are funded with money that belongs to someone else, such as a parent or family member of the beneficiary. There are several varieties of each type of trust, but broadly speaking, all SNTs fall into one of these two categories.

The distinction between first-party and third-party SNTs is critical, because they are treated quite differently for purposes of means-tested government benefits. This section will discuss both types of trusts, highlighting their similarities and their differences. In addition, this section will discuss alternatives to SNTs, which may be more appropriate in certain situations. Finally, this section will provide a general description of some common varieties of both first-party and third-party SNTs.

A. Third-Party Trusts

The most common of the two primary types of SNTs is the third-party trust. Parents, grandparents, and other family members often want to set money aside for the benefit of a disabled individual. However, as explained above, an SNT is not always required, and the determination of whether an SNT is appropriate depends on whether the disabled person is receiving, or is expected to receive, means-tested government benefits. In some situations, the individual may not be receiving means-tested benefits and may be physically disabled but otherwise able to manage his or her finances. In these cases, if the person’s health condition is stable and is not expected to worsen (thereby possibly triggering a need for needs-based public benefits such as assistance with long-term care), it may be appropriate to simply leave assets outright to the disabled person. More often, however, a trust—either an SNT or some other type of trust—is desirable.

1. Discretionary Support Trusts. Even in situations where a disabled individual is neither receiving nor expected to receive means-tested government benefits, a trust may be necessary to provide management of funds for his or her benefit.⁴ In these cases, the limitations of a special needs trust (discussed in more detail below) may be unnecessarily restrictive and may fail to meet the goals of the person creating the trust. If so, a discretionary support trust can sometimes be a good alternative to a traditional special needs trust.

⁴This is often the case when the disabled person is receiving SSDI and Medicare (entitlement benefits) and simply requires assistance managing financial affairs.

A discretionary support trust gives the trustee the authority to expend funds for the disabled person’s benefit in whatever manner the trustee deems appropriate. In short, the distribution standard for a discretionary support trust can be specifically tailored to the needs of the disabled person without worrying about the impact upon a disabled person’s (non–means-tested) benefits.

An unresolved question in the area of discretionary support trusts is whether assets in these trust should be considered *available* to a disabled person who *is* receiving (or who is planning to receive) means-tested public benefits. Arguably, if the beneficiary has no right to compel a distribution from the trust and the trustee exercises his discretion by choosing *not* to make distributions for food and/or shelter, the trust assets should not be considered to be available. However, the answer to this question is different among the state Medicaid agencies around the country.

Oregon’s Department of Human Services may⁵ take the position that a discretionary support trust is an available resource because the funds *can* be used to meet the beneficiary’s basic monthly needs.⁶ Accordingly, while discretionary support trusts have their place in the world of planning for disabled individuals, an attorney would be wise to implement the more restrictive terms of a special needs trust when the intended beneficiary is receiving, or is expected to receive, means-tested government benefits.

2. Third-Party Special Needs Trusts. Special needs trusts created and funded by a third party for a disabled individual are distinguished from first-party special needs trusts by the source of the assets comprising the trust estate. In a third-party special needs trust, the source of the funding is someone *other than the disabled person*. For this reason, the funds remaining in a third-party special needs trust are not subject to recovery under payback rules at the disabled person’s death.⁷

⁵DHS itself has had different responses to this issue throughout the years. However, as recently as two months ago, DHS treated the assets of a discretionary support trust as an available resource. Given the current budget constraints, this position may be the beginning of a trend.

⁶The general rule in Oregon is that income and resources are “available” to a Medicaid applicant only if he or she has a legal right to compel distribution (see paragraph A of this footnote). This Oregon rule is mandated by federal law (see paragraph B of this footnote). In addition, Oregon regulations specifically provide that assets of an irrevocable or restricted trust are not available if they cannot be used to meet the basic monthly needs of the child’s household (see paragraph C of this footnote).

A. See ORS 414.025; 414.038–414.042; ORS 413.005(3) and (4); OAR 461-140-0020(1) and (2); OAR 461-140-0040.

B. 42 USC §1396a(a)(17)(B) (state may take into account only income and resources that are “available” according to standards prescribed by federal regulations); see 20 CFR §416.1201(a)(1) (resource is unavailable for Social Security purposes if individual cannot liquidate it or convert it to cash); ORS 409.040 (federal Medicaid law supersedes contrary Oregon law).

C. OAR 461-140-0020(2)(3); OAR 461-145-540(2)(b).

⁷OAR 461-135-832(15); 20 CFR §416.1212.

(See discussion of first-party trusts, below). Instead, assets remaining in third-party SNTs may be distributed in whatever manner the settlor desires; e.g., to other family members.

A *testamentary* third-party special needs trust is a trust that is built into the settlor's (e.g., parents') estate planning documents (e.g., a will or a revocable living trust). An *inter vivos* special needs trust is a separate "stand-alone" trust that is usually funded during the settlor's lifetime but may also receive assets after the settlor's death. Regardless of the variety (testamentary or inter-vivos), attorneys creating third-party SNTs should carefully consider how to draft the distribution standard for these instruments, taking into account the beneficiary's benefits situation.

a. Distribution Standards for Third-Party Special Needs Trusts.

i. Special Needs Only—Strict Distribution Standard. A "special needs only" or "strict" distribution standard is the traditional standard for most SNTs (third-party and first-party). This standard restricts distributions to special needs and expressly prohibits distributions for basic needs (i.e., food and shelter). The term *special needs* suggests needs particular to the person and his or her disability, such as medical equipment or rehabilitative treatment, and indeed many SNTs include specifically tailored distribution guidelines. However, a trust limiting distributions to special needs can be drafted to allow distributions for *anything* other than food and shelter.

This "strict" distribution standard, despite the name, actually encompasses many things that are not related to a disability or medical treatment and which may not even be properly classified as a "need." For example, under a strict distribution standard, a trustee can make distributions for a cable television bill, internet services, or vacation expenses.⁸ In fact, when advising trustees on this distribution standard, it is generally more useful to focus on what is *not* considered a special need (i.e., what distributions are prohibited) than what is. In short, under the strict distribution standard, a special need is any distribution that is not cash and is not shelter⁹ or food.

A special needs trust with a strict distribution standard is the safest course of action to preserve public benefits now and in the future. The strict distribution standard provides clear guidelines that will not require significant analysis of public benefits law when distributions are made. Perhaps most importantly, since the strict distribution standard

⁸Further examples of special needs are as follows: clothing, telephone services and equipment, transportation (including automobile, auto maintenance and repair, gasoline, auto insurance, and/or bus pass), recreation, education, pet care, subscriptions, and computer equipment and services. For a recent discussion of special needs trust administration, see Cinda Conroyd's materials, "Administration of Supplemental Needs Trusts," in the OSB Elder Law Section's 2008 CLE materials entitled *Elder Law 2008: Advancing the Plan*.

⁹Shelter includes rent, mortgage payments, property taxes, heating, gas and electric power, garbage, sewer, water, and hazard insurance (if required by the lender).

is the most common standard, government agency workers reviewing the trust are more likely to recognize that the trust meets the criteria to qualify as a special needs trust. Thus, the strict distribution standard is the surest way to achieve the primary goal of an SNT—protecting means-tested public benefits.

ii. Hybrid Distribution Standard. In some situations, preserving the ability to make distributions for a beneficiary’s shelter and/or food may be a priority to the client. Although SNT distribution standards historically have prohibited such distributions, there are cases in which a more flexible standard is appropriate. For example, suppose a disabled person has lived with her parents all her life and will lack the wherewithal to pay her shelter costs after her parents’ deaths. If this person receives the maximum SSI payment of \$674 per month and, upon losing her parents, is faced with living independently for the first time, she is highly unlikely to have sufficient SSI income to pay for a security deposit or for the first and last month’s rent under the terms of a lease. Even if her parents have planned ahead and included an SNT in their estate plan, this individual may lack the means to pay for adequate housing if that SNT contains a strict distribution standard. In cases like this, something more flexible than the strict distribution standard might be appropriate.

Depending on the benefits received, it may be possible in some cases to allow a trustee of an SNT to make distributions for a beneficiary’s food and shelter without terminating the beneficiary’s eligibility for means-tested government benefits. This is due to a Social Security rule regarding “in-kind support and maintenance,” which essentially provides that if any third party (e.g., any friend, relative, or even a special needs trust) pays for the food and/or shelter of an SSI recipient, that individual’s SSI benefit will be *reduced* up to a maximum amount of value.¹⁰ If the only impact of such a distribution is a *reduction* in benefits, and not a termination of benefits, it may be worthwhile to allow it in the SNT. In the example above, if the beneficiary’s SNT had contained a flexible or “hybrid” distribution standard, the trustee could have paid for a security deposit, the first and last month’s rent, etc., and the only impact would have been a temporary reduction in the beneficiary’s SSI payment. The temporary reduction would have been worth it, assuming the cost of the security deposit and rent payments exceed the reduction.

Use of a hybrid distribution standard requires very careful planning, because it implicates multiple, highly technical public benefits rules that are beyond the scope of these materials.¹¹ It is not always appropriate and, in fact, can be dangerous in certain situations. Depending on the amount of SSI a disabled person receives, use of a hybrid distri-

¹⁰The technical mechanics of the in-kind support maintenance rules are beyond the scope of this presentation; see 42 USC §1382a(a)(2)(A); 20 CFR §416.1102; 20 CFR §416.1130; 20 CFR §416.1131; 20 CFR §416.1140.

¹¹See Cinda Conroyd’s materials, “Administration of Supplemental Needs Trusts,” in the OSB Elder Law Section’s 2008 CLE materials entitled *Elder Law 2008: Advancing the Plan* for an example of the use of the hybrid standard.

bution standard can put the beneficiary at risk of having his or her SSI benefits terminated. Because SSI and Medicaid benefits are often tied together, a loss of SSI can entail a loss of Medicaid as well. Accordingly, the hybrid distribution standard should only be used after very careful analysis of the beneficiary’s benefits situation. In the appropriate situation, however, the hybrid standard can provide valuable flexibility for distributions of food and shelter while causing only temporary reductions in means-tested public benefits.

b. Testamentary Special Needs Trusts. The most common type of third-party SNT is a testamentary SNT, which is generally incorporated into the will or trust of someone with a disabled child, relative, or friend. These types of SNTs are funded upon the death of the testator or settlor.

c. Inter Vivos (Lifetime) Special Needs Trusts. In some cases, clients may want to fund a special needs trust for a disabled child, relative, or friend immediately, rather than waiting to fund an SNT on their death. For example, it may be that a number of relatives and friends want to leave money to benefit a disabled child. In anticipation of this, a “stand-alone” special needs trust may be established to collect and receive the gifts from the friends and family and eliminate the need for each donee to establish (and pay for) a separate SNT in his or her estate planning documents. Or it may be that a wealthy client would prefer to make lifetime gifts to a disabled person for estate planning purposes or fund an SNT with a life insurance policy with the intention that the proceeds will provide enough funds to care for the disabled child in the event of the client’s death. In these situations, an inter vivos special needs trust may be established to accomplish these goals.

A complete discussion of the income and transfer tax consequences that may be triggered by making gifts to an inter vivos SNT is beyond the scope of these materials. Attorneys should consult with practitioners familiar with estate and gift tax issues prior to drafting and funding an inter vivos SNT.

B. First-Party Trusts (a.k.a. “Payback Trusts”)

1. Background and General Requirements. As discussed above, SNTs were originally developed informally, by lawyers, based on principles of general trust law. In the Omnibus Reconciliation Act of 1993 (“OBRA ’93”), however, Congress enacted new provisions specifically addressing the use of trusts designed to preserve (or establish) eligibility for certain means-tested public benefits (specifically, Medicaid). OBRA ’93 restricted the use of many types of trusts created by (or on behalf of) a Medicaid recipient using the recipient’s own funds—namely, first-party trusts.

However, in that same act, Congress specifically created a new type of trust that *can* be funded with a Medicaid recipient’s own funds and in which the assets are *not* considered available for purposes of Medicaid eligibility. Under the provisions of OBRA ’93, in order for the assets in a first-party trusts to be considered *unavailable*, the trust must:

- Be created for the benefit of a disabled person as defined by the Social Security Administration;
- Be created for the benefit of an individual under the age of 65;
- Contain the disabled person’s own assets;
- Be established by a parent, grandparent, legal guardian (or conservator in Oregon), or a court; and
- Provide that any state that has provided Medicaid assistance to the disabled person will receive all amounts remaining in the trust upon the disabled person’s death, up to the total amount of Medicaid assistance provided.

These requirements are codified in the Medicaid Act at 42 USC §1396p(d)(4)(a), and many people now refer to first-party trusts as “(d)(4)(a) trusts,” referring to this provision.

In the Foster Care Independence Act of 1999 (“FCIA ’99”), Congress enacted provisions similar to those of OBRA ’93, this time applying them to trusts intended to qualify an individual for SSI. With certain limited exceptions, neither OBRA ’93 nor FCIA ’99 affected trusts created and funded by third parties. Today, as a result of OBRA ’93 and FCIA ’99, federal law specifically allows the creation of first-party trusts by (or on behalf of) individuals receiving means-tested benefits such as SSI and Medicaid, provided they meet the criteria cited above. These trusts have many names, but the most common of them are first-party special needs trusts, payback trusts, and (d)(4)(a) trusts.

2. Applying the (d)(4)(A) Criteria. First-party SNTs are best understood by separately examining each of the statutory criteria listed above.

a. Disability Requirement. First-party SNTs must be established for an individual who is disabled as defined in the Social Security Act. If the beneficiary is receiving either SSDI or SSI benefits, this requirement is met. Sometimes, however, disabled individuals receive (or want to apply for) only Medicaid. In these cases, the state Medicaid caseworker must make an independent determination of disability.

b. Under Age 65. The beneficiary of a first-party SNT must be under 65 when the trust is created and funded. Public benefits agencies have made clear that first-party SNTs remain “exempted” for individuals over the age of 65 (i.e., a payback trust created for an individual at age 60 does not suddenly become *available* to that individual when he or she reaches the age of 65). However, in order to be treated as unavailable, a first-party SNT must be initially created and funded prior to the beneficiary’s 65th birthday. Once the beneficiary reaches the age of 65, he or she can no longer transfer assets into the SNT without jeopardizing means-tested benefits.

c. Beneficiary’s Assets. The purpose of a first-party SNT is to protect assets belonging initially to the beneficiary. Most recipients of means-tested assistance do not have significant assets, given the strict financial eligibility rules applicable to means-tested government pro-

grams. However, the need for first-party SNTs commonly arises when a recipient of means-tested benefits comes into a sum of money, perhaps through an inheritance or the receipt of a personal injury settlement or judgment.

Receipt of inheritance or personal injury funds can result in termination of means-tested benefits if the disabled individual retains funds in excess of \$2,000. However, if a payback trust is created, the individual can retain his or her benefits and enjoy the benefit of the SNT funds (subject to the strictures of the trust). In many cases, funds received via inheritance or personal injury settlement by recipients of public benefits are not sufficient to replace the benefits, so simply retaining the funds is not a viable option. There are alternatives to creation of a first-party SNT, such as purchasing “exempt assets” (a home, for instance) or creation of a first-party pooled trust (see below). However, in many cases, a first-party SNT provides an ideal vehicle for holding a disabled individual’s own assets, when those assets might otherwise cause a loss of benefits.

d. Created by Parent, Grandparent, Guardian/Conservator, or Court. Although the disabled individual is the party contributing the trust assets in first-party SNT cases, he or she is not permitted to act as the settlor or trustor. The trust must be created by a parent, grandparent, legal guardian, or court. The term “legal guardian” is presumably intended to include a conservator in states like Oregon. ORS 125.440 specifically allows a conservator to create a trust but only with prior court approval.

This aspect of the (d)(4)(a) criteria for first-party SNTs creates a number of planning issues. Since the disabled person cannot create the trust him or herself, attorneys need to determine the most appropriate, cost-effective way to create the trust. If the disabled individual has a living parent or grandparent who is willing and able to act as the settlor, this is often a first choice because it avoids the need to seek probate court approval for creation of the trust, thereby reducing attorney fees, court costs, and complications.

PRACTICE TIP: Even in cases where a parent or grandparent is available, court involvement is sometimes required. If the beneficiary is a minor or lacks capacity and cannot consent to the transfer of his or her funds into the SNT, the probate court will have to authorize the transfer.

If there is no parent or grandparent available to create a first-party SNT, a petition or motion must be filed with the probate court to establish, or authorize the establishment of, the trust. Such petitions can take several forms, depending on a number of factors. In some cases, a disabled person will already have a guardian or conservator, and that fiduciary may be able to file a motion under ORS 125.440 for authority to create the trust. In cases where there is no existing guardian or conservator, a petition can be filed, seeking both the appointment of the fiduciary and the authority to create the SNT.

Under the (d)(4)(a) criteria, it is possible to ask a court to create a first-party SNT directly and to appoint a trustee without the separate appointment of a guardian or conservator. Oregon law provides a mechanism for this in ORS 125.650, which authorizes the court to issue a protective order conferring any of the *powers* of a guardian and conservator without actually appointing one. This practice is not commonly allowed by Oregon courts, however (under ORS 125.650, courts have *discretion* on whether to issue such protective orders).

In cases where court approval must be obtained for the creation of a payback SNT, local court rules and practices must be considered. In some Oregon counties, the probate courts will appoint a conservator on a temporary basis, for the limited purpose of establishing and funding a payback SNT. This *can* be very advantageous to a client, as it avoids the costs and complications of an ongoing conservatorship, such as annual court accountings, etc. Alternatively, if the disabled person is in need of a guardian, some counties will appoint the proposed guardian and authorize him or her to create the payback SNT, also avoiding the complications of ongoing conservatorship.

Of course, in some cases, ongoing conservatorship is desirable (for example, in cases involving larger sums of money or involving a professional fiduciary who wants the protection of court-approved annual accountings). Even if an ongoing conservatorship is not desired, however, it may be required in some counties and in some situations. Several Oregon courts have long interpreted ORS 125.440 as requiring ongoing conservatorships in cases where approval of a payback SNT is sought, because of language in the statute barring court approval of a trust that “has the effect of terminating a conservatorship.” *Id.*

The 2007 amendments to ORS 125.440(2) now specifically lay out circumstances under which a court *may* approve a trust that “has the effect of terminating a conservatorship” (or, as applied here, which has the effect of *avoiding* an ongoing conservatorship). The amended statute provides that a court may approve such a trust if:

- i. The trust is created for the purpose of qualifying the protected person for needs-based government benefits or maintaining the eligibility of the protected person for needs-based government benefits;
- ii. The value of the conservatorship estate, including the amount to be transferred to the trust, does not exceed \$50,000;
- iii. The purpose of establishing the conservatorship was to create the trust; *or*
- iv. The conservator shows other good cause to the court.

The amended statute authorizes approval of payback trusts without an ongoing conservatorship, but only in the court’s discretion. Because of this discretion, the statute is not interpreted or applied the same way in every county. Attorneys should obtain a clear understanding of a given county’s procedure before requesting the creation of a payback SNT. However, if local court rules and practices allow the above-mentioned alternatives to ongoing conservatorship, and if the alternatives represent a benefit to the disabled individual, they should be considered.

e. **Payback.** The most salient feature of a first-party SNT is the payback requirement. All first-party SNTs must provide that upon the death of the beneficiary, any remaining trust assets will be distributed to the state(s) that have provided Medicaid assistance to the disabled person, up to the total amount of Medicaid assistance provided. When the individual has received Medicaid benefits in more than one state, the trust must provide that the funds remaining in the trust are distributed to each state in which the individual received Medicaid, based on the state's proportionate share of the total amount of Medicaid benefits paid by all of the states on the individual's behalf. FCIA '99 does not require payback of SSI, but it does require the payback of Medicaid.

3. Distribution Standards for First-Party Special Needs Trusts. In general, distribution standards for first-party trusts are quite similar to those discussed above in the context of third-party trusts. A majority of first-party trusts contain the "strict" special needs standard, which prohibits distributions for food and shelter. However, as with some third-party trusts, there are occasions in which a flexible hybrid standard is appropriate for the disabled person.

Historically, hybrid distribution standards have been employed successfully in first-party trusts in Oregon, in those cases where the standard has made sense from a benefits standpoint. Recently, however, Oregon DHS has begun to object to the use of the hybrid standard in first-party trusts. As of this writing, the question of whether hybrid standards will be accepted by Oregon DHS is unresolved.

From a legal standpoint, it seems clear that the hybrid distribution standard is acceptable in first-party trusts. Indeed, a recent (2009) Social Security POMS provision states as much. POMS SI 01120.203, "Exceptions to Counting Trusts Established on or after 1/1/00," outlines the exceptions to the general rule that trusts created with an individual's own funds are considered resources. Subsection (B)(1)(a), which deals specifically with special needs trusts, states: "Although this exception is commonly referred to as the special needs trust exception, the exception applies to any trust meeting [the (d)(4)(a) requirements] *and does not have to be a strict special needs trust.*" (Emphasis added.)

The above-referenced POMS provision has been brought to the attention of Oregon DHS and its counsel. (Attached as Appendix C is a recent letter sent to counsel for DHS, which lays out the case for the hybrid standard.) However, to date, the issue is unresolved. Accordingly, attorneys using the hybrid distribution standard in first-party trusts should be prepared to defend it to Oregon DHS.

4. Pooled Trusts. One alternative to a special needs trust is a "pooled trust." Pooled trusts, like payback trusts, are creatures of statute. OBRA '93 created pooled trusts and set out the criteria under which assets can be transferred into them without affecting means-tested government benefits. Pooled trusts, as their name implies, provide a vehicle for multiple disabled beneficiaries to pool their funds for purposes of investment and management, while offering the same primary benefits

as standard SNTs (namely, preservation of means-tested government benefits). The statute defining pooled trusts requires that they:

- Be established and managed by a non-profit association;
- Maintain separate accounts for each beneficiary of the trust;
- Provide that each account in the trust be established for the sole benefit of a disabled person as defined by the SSI program;
- Provide that each account in the trust be established by a parent, grandparent, legal guardian (or conservator in Oregon), or a court; and
- Provide that, to the extent amounts remaining in the beneficiary's account upon death are not retained by the trust, the state(s) will receive the remaining assets, up to the amount of Medicaid assistance provided to the beneficiary. 42 USC §1396p(d)(4)(C).

There are several pooled trusts available to Oregon residents that meet all of these statutory criteria:

- The ARC of Oregon: <http://www.arcoregon.org/osnt.htm>;
- The Good Shepherd Fund: <http://www.goodshepherdfund.org/index.html>; and
- Secured Futures: <http://www.securedfutures-snt.org/>.

Pooled trusts can be a good option for public benefits recipients who receive modest amounts of assets from inheritances, personal injury settlements, and the like. Although pooled trusts charge management fees, those fees are often less than the cost of establishing an individual SNT, especially if the individual SNT would require ongoing conservatorship. Pooled trusts are also sometimes a good choice in situations where the disabled person does not have a suitable family member or trusted friend to serve as trustee of an SNT and does not want to incur the expense of a professional trustee.

Although pooled trust subaccounts are most often created by (or on behalf of) disabled individuals using first-party funds, pooled trusts routinely accept and manage third-party funds as well. If a family member of a disabled person wants to leave an inheritance without interrupting benefits but cannot identify suitable trustee candidates and does not want to use a professional trustee, a pooled trust is a viable alternative. Unlike with traditional third-party SNTs, however, the testator cannot direct what happens to the funds remaining in the beneficiary's subaccount upon the beneficiary's death. Clients should be made aware of this distinction when deciding whether to use a pooled trust as a vehicle for third-party funds.

IV. DRAFTING TIPS

Attached as Appendix D is a sample form for a basic testamentary special needs trust with a strict distribution standard. Attached as Appendix E is a basic first-party special needs trust created by a parent for an adult child who has capacity.

PRACTICE TIP: If a first-party special needs trust will be established by a court or conservator, the sample trust should not be used. The drafting attorney will need to consider how the involvement of the court and/or conservator will impact certain provisions of the trust, including but not limited to bond, payment of attorney fees, and annual accountings.

As with all trusts, certain provisions may be tailored to more closely meet the client’s needs and desires; however, the following provisions are unique to special needs trusts and their inclusion may either be required or strongly suggested.

A. Drafting Third-Party Special Needs Trusts

Third-party special needs trusts provide more flexibility to the drafter because there are no specific statutory requirements that must be incorporated as there are with first-party SNTs. The overriding goal of the drafter of a third-party special needs trust is to ensure that the assets of the trust are not considered an available resource to the disabled beneficiary. The availability of trust assets will be determined based on the trust distribution standard.

B. Special Needs Only/Strict Distribution Standard

As discussed in more detail above, the safest course of action is to draft a special needs trust that uses a “special needs only” or strict distribution standard that prohibits the trustee from making distributions for the disabled beneficiary’s basic needs of food and/or shelter. The sample third-party SNT provided with these materials exemplifies a strict special needs standard.

C. Hybrid Distribution Standard

Courts typically interpret trusts in light of their express purpose. With the hybrid approach, the stated purpose is to preserve the beneficiary’s ongoing eligibility for public benefits, but flexibility is incorporated. DHS currently accepts the hybrid distribution standard in a third-party SNT but has recently expressed its opposition to such a standard in payback special needs trusts. Here is a sample of a hybrid distribution standard:

Additional Discretionary Distributions. Notwithstanding any other limitations in this Trust Agreement on the trustee’s discretion to make distribution to or for the beneficiary’s benefit, the trustee shall have the discretion to make distributions to the beneficiary that will reduce or only temporarily terminate the beneficiary’s government assistance if the trustee, in the trustee’s sole discretion, determines that it would be in the beneficiary’s best interest to do so, as long as such disbursements will not compromise the intent that this Trust provide for the beneficiary’s special needs for the beneficiary’s lifetime. Specifically, the trustee may, in the trustee’s sole discretion, provide

for the beneficiary's food and shelter from the trust estate, with the understanding that such a distribution will reduce but not terminate any government benefits paid to the beneficiary. The trustee may also make one-time or short-term distributions to the beneficiary, even though such distributions will result in disqualifying the beneficiary from government assistance in the month or months of distribution, if the trustee determines, in the trustee's sole discretion, that the benefits of the temporary or one-time distribution outweigh the temporary loss of government assistance.

PRACTICE TIP: When using this standard, it is advisable to include a provision allowing the trustee to amend the trust if necessary to accomplish the stated purpose of preserving the beneficiary's eligibility for means-tested government benefits.

D. **Fiduciary Chooses to Fund Discretionary Support Trust or Special Needs Trust**

Sometimes, it is just too difficult to predict what the disabled beneficiary's future holds or what types of government benefits he/she may be entitled to receive. Consider, for example, the case of young parents with a highly functioning autistic child. Like many parents, they want the least restrictive distribution standard that will match the needs of their child *and* preserve their child's eligibility for government benefits, if necessary. For these "looking into the crystal ball" cases, clients may decide that they would like to defer the decision of whether to establish a discretionary support trust or a special needs trust until such time as a trust must be funded. The following is sample language that may be inserted into a client's operable estate planning document:

Distribution of Share for [Disabled Beneficiary]. A share established for [Disabled Beneficiary] shall be held in a separate trust for [his/her] benefit. At the time the separate share trust is to be established, the [personal representative/trustee] shall determine whether the trust shall be administered as a discretionary support trust as set forth in section ___ below or as a special needs trust as set forth in section ___ below. The determination about which type of separate share trust should be funded shall be made in the sole and absolute discretion of the [personal representative/trustee], and the beneficiary may not participate in such decision.

Criteria for Determining Trust to Be Funded. The [personal representative/trustee] shall determine whether the trust shall be administered as a discretionary support trust or as a special needs trust based on the circumstances existing in the beneficiary's life at the time the separate share

trust is to be established, taking into account the following criteria: (i) whether the beneficiary is then, or, will in the future, be receiving means-tested government benefits; (ii) the value of the benefits received or expected to be received; (iii) the value of the beneficiary's separate share trust; and (iv) which type of trust is most likely to provide the beneficiary with the better quality of life.

E. Purchase of Exempt Assets

A common provision in special needs trusts allows distributions for purchase of exempt resources, such as a home or car. A provision allowing transfer of the exempt asset to the individual outright, free of trust, can be included with a trust funded with third-party assets.

Purchase of Exempt Assets. The trustee may purchase items for the use of the beneficiary that would be considered "exempt" assets for purposes of public benefits law, such as personal household items, transportation devices, medical equipment, or a residence. Furthermore, the trustee may, in the trustee's sole discretion, distribute such items to the beneficiary to be held in the beneficiary's sole name or, if the beneficiary has a court-appointed conservator, in the name of the conservator. Any distribution to the beneficiary of an exempt asset shall not be construed to be a breach of fiduciary duty to the remainder beneficiaries.

F. Drafting First-Party Special Needs Trusts

Unlike third-party SNTs, first-party SNTs are a specific statutory exception to the Social Security Administration's clear prohibition against a disabled individual transferring his or her own assets into a trust in order to qualify for means-tested government benefits.¹² As such, the language of the statutes, as well as the interpretative administrative guidelines and rules,¹³ provide a "safe harbor" framework for drafting a first-party SNT. Because every first-party SNT must satisfy the elements stated below (and addressed in detail earlier in these materials), the goal of the drafter should be to make these elements readily identifiable to the caseworker who will be reviewing the trust document. The first three of these are straightforward and can be highlighted to the reader by simply stating them in the initial provisions of the trust document.

- Identify the settlor as the parent, grandparent, guardian or conservator,¹⁴ or a court;
- State the age of the disabled beneficiary as being under 65 and provide his/her date of birth;

¹²42 USC §1396p(d)(4)(A); 42 USC §1382(b)(e)(5).

¹³The Social Security Administration has issued detailed guidelines for first-party trusts in its Program Operations Manual System (POMS) handbooks. While the POMS is technically not "law," it is heavily relied upon by SSA benefits workers.

¹⁴The federal statute refers to a "guardian," but presumably this term is intended to include a conservator in states like Oregon.

- Declare that the trust is for the “sole benefit” of the disabled beneficiary;
- Direct that, upon the death of the disabled beneficiary, any remaining trust property will be distributed to the applicable state Medicaid agency, up to the amount paid in Medicaid benefits on behalf of the individual. When the individual has received Medicaid benefits in more than one state, the trust “must provide that the funds remaining in the trust are distributed to each State in which the individual received Medicaid, based on the State’s proportionate share of the total amount of Medicaid benefits paid by all of the States on the individual’s behalf.”¹⁵

PRACTICE TIP: Note that only Medicaid assistance is subject to the payback provision. There is no required payback of SSI benefits.

G. Other Optional Drafting Provisions Applicable to Both Third-Party and First-Party SNTs

1. Power to Amend. Because of the inherent complexity and changing interpretation of government benefits rules, it may be a good idea to include a provision that allows the trustee to amend the terms of the trust so that it continues to conform its primary purpose of preserving the disabled beneficiary’s eligibility for government benefits.

Power to Amend. The trustee of this trust may amend this trust so that it conforms with any laws or interpretations of law by any governing body or agency relating to government assistance received by the beneficiary and to better effectuate the purposes of the trust.

PRACTICE TIP: The power to amend should not be held by the disabled beneficiary.

2. Early Termination. If a trust contemplates early termination (prior to death) of a special needs trust, recently drafted POMS mandate that certain provisions appear in the terms of the trust, including the following: (a) the beneficiary should not be able to compel this early termination; (b) the remaining trust property must be used to satisfy the Medicaid payback provisions; and (c) after satisfying the Medicaid payback provisions, the balance of the trust property must be paid to the beneficiary.¹⁶

V. CASE SCENARIO

Homer and Marge Simpson come to see you for advice. They have three children. Their oldest son, Bart, has been diagnosed with schizophrenia and bipolar disorder. It is doubtful that he will ever be able to hold a steady job. He will turn 18 in December, and the Simpsons plan to have him apply for SSI and Medicaid.

¹⁵Health Care Financing Administration Transmittal 64 §3259.7.

¹⁶POMS SI 01120.199.

Despite early indications of his mental illness, the clients had been hopeful that Bart would be able to attend college and had put away about \$25,000 in an UTMA account for him. Also, a few years ago, Bart was involved in an accident, where he was hit by a car driven by his father's friend, Barney, while Bart was riding his skateboard. The lawsuit has recently been settled, and Bart is expected to receive about \$250,000 from Barney's auto insurance policy.

The Simpsons heard that they should disinherit Bart and instead give his share of their estate to their daughter, Lisa, instructing her to use the money to take care of Bart. Clients are dubious about the relationship between Bart and Lisa and are worried that Lisa will take advantage of this kind of power to get back at Bart for many events that took place during their childhood.

Clients also want to understand whether the money in the UTMA account will have an impact on Bart's eligibility for SSI and Medicaid.

The Simpsons are also concerned about their youngest daughter, Maggie. Maggie is basically nonverbal but has a very high I.Q. Clients believe that she will be able to support herself, but it is too early to tell.

The clients' middle daughter, Lisa, is very bright and talented (the clients expect her to get a saxophone scholarship to an Ivy League school). However, the clients are concerned that Lisa is not responsible about money. Lisa is very sensitive and prone to become overly passionate about any "cause" that comes across her radar. They are worried that Lisa would be vulnerable to undue influence, or even outright financial exploitation, as an adult. They want to protect her from this.

The clients want your advice on how to incorporate their concerns about their children into their estate plan. They also want your advice on how to make sure Bart can get SSI and Medicaid when he turns 18. Finally, they mention that Marge's sisters plan to direct some of their estate money to Bart, Lisa, and Maggie, since Marge's sisters are not married and have no children of their own.

APPENDIX A—FORM SSA-3288, CONSENT FOR RELEASE OF INFORMATION

Social Security Administration
Consent for Release of Information

 Form Approved
 OMB No. 0960-0566
Instructions for Using this Form

Complete this form only if you want us to give information or records about you, a minor, or a legally incompetent adult, to an individual or group (for example, a doctor or an insurance company). If you are the natural or adoptive parent or legal guardian, acting on behalf of a minor, you may complete this form to release only the minor's non-medical records. If you are requesting information for a purpose not directly related to the administration of any program under the Social Security Act, a fee may be charged.

NOTE: Do not use this form to:

- Request us to release the medical records of a minor. Instead, contact your local office by calling 1-800-772-1213 (TTY-1-800-325-0778), or
- Request information about your earnings or employment history. Instead, complete form SSA-7050-F4 at any Social Security office or online at www.ssa.gov/online/ssa-7050.pdf.

How to Complete this Form

We will not honor this form unless all required fields are completed. An asterisk (*) indicates a required field. Also, we will not honor blanket requests for "all records" or the "entire file." You must specify the information you are requesting and you must sign and date this form.

- Fill in your name, date of birth, and social security number or the name, date of birth, and social security number of the person to whom the information applies.
- Fill in the name and address of the individual (or organization) to whom you want us to release your information.
- Indicate the reason you are requesting us to disclose the information.
- Check the box(es) next to the type(s) of information you want us to release including the date ranges, if applicable.
- You, the parent or legal guardian acting on behalf of a minor, or the legal guardian of a legally incompetent adult, must sign and date this form and provide a daytime phone number where you can be reached.
- If you are not the person whose information is requested, state your relationship to that person. We may require proof of relationship.

PRIVACY ACT STATEMENT

Section 205(a) of the Social Security Act, as amended, authorizes us to collect the information requested on this form. The information you provide will be used to respond to your request for SSA records information or process your request when we release your records to a third party. You do not have to provide the requested information. Your response is voluntary; however, we cannot honor your request to release information or records about you to another person or organization without your consent.

We rarely use the information provided on this form for any purpose other than to respond to requests for SSA records information. However, in accordance with 5 U.S.C. § 552a(b) of the Privacy Act, we may disclose the information provided on this form in accordance with approved routine uses, which include but are not limited to the following: 1. To enable an agency or third party to assist Social Security in establishing rights to Social Security benefits and/or coverage; 2. To make determinations for eligibility in similar health and income maintenance programs at the Federal, State, and local level; 3. To comply with Federal laws requiring the disclosure of the information from our records; and, 4. To facilitate statistical research, audit, or investigative activities necessary to assure the integrity of SSA programs.

We may also use the information you provide when we match records by computer. Computer matching programs compare our records with those of other Federal, State, or local government agencies. Information from these matching programs can be used to establish or verify a person's eligibility for Federally-funded or administered benefit programs and for repayment of payments or delinquent debts under these programs.

Additional information regarding this form, routine uses of information, and other Social Security programs are available from our Internet website at www.socialsecurity.gov or at your local Social Security office.

PAPERWORK REDUCTION ACT STATEMENT

This information collection meets the requirements of 44 U.S.C. § 3507, as amended by section 2 of the Paperwork Reduction Act of 1995. You do not need to answer these questions unless we display a valid Office of Management and Budget control number. We estimate that it will take about 3 minutes to read the instructions, gather the facts, and answer the questions. **SEND OR BRING THE COMPLETED FORM TO YOUR LOCAL SOCIAL SECURITY OFFICE. You can find your local Social Security office through SSA's website at www.socialsecurity.gov. Offices are also listed under U.S. Government agencies in your telephone directory or you may call 1-800-772-1213 (TTY 1-800-325-0778). You may send comments on our time estimate above to: SSA, 6401 Security Blvd., Baltimore, MD 21235-6401. Send only comments relating to our time estimate to this address, not the completed form.**

Form SSA-3288 (07-2010) EF (07-2010) Destroy Prior Editions

**APPENDIX B—SAMPLE FORM: AUTHORIZATION TO
RELEASE CONFIDENTIAL INFORMATION**

AUTHORIZATION TO RELEASE CONFIDENTIAL INFORMATION

To: _____

From: _____

Date of Birth: _____

Social Security No.: _____

I hereby authorize and direct you to release to the attorneys and staff at [Law Firm] any and all information that they may request relating to:

and to freely discuss the same with [Law Firm]. I request that you cooperate fully with [Law Firm]. A photographic or facsimile copy of this authorization shall have the same force and effect as the original.

Date

Client Name

APPENDIX C—LETTER TO DOJ RE DISTRIBUTION STANDARDS
IN SELF-SETTLED SNTS FOR SSI RECIPIENTS

August 4, 2010

Karl Goodwin
Oregon Dept. of Justice
General Counsel Division, Human Services Section
1162 Court Street NE
Salem, OR 97301-4096

Re: Distribution Standards in Self-Settled Special Needs Trusts for SSI Recipients

Dear Karl:

Per our conversation earlier today, we are writing regarding distribution standards in self-settled Special Needs Trusts for SSI recipients. The purpose of this letter is to outline the legal basis for distribution standards which allow trustees of SNTs to make occasional distributions for food and shelter.

As we discussed, we have confirmed the acceptability of such distribution standards with Doug McSweyn at the Social Security Administration. However, our analysis actually begins with OAR 461-135-0010(6)(a), which provides that recipients of SSI are assumed eligible for OSIPM. Under this rule, if the Social Security Administration has determined that an SSI recipient's SNT is not a resource, this determination is binding on DHS.

Because the SSA's eligibility determinations are binding, we look to the POMS governing trusts to determine what types of trusts are considered to be resources. The new (2009) POMS provision, "Exceptions to Counting Trusts Established on or after 1/1/00," SI 01120.203, outlines several exceptions to the general rule that trusts created with an individual's own funds are considered resources. Subsection (B)(1)(a), which deals specifically with Special Needs Trusts, states: "Although this exception is commonly referred to as the special needs trust exception, the exception applies to any trust meeting [the (d)(4)(a) requirements] **and does not have to be a strict special needs trust.** (Emphasis added.).

As you know, both federal and state law define a (d)(4)(a) trust as one that: i) contains the assets of an individual under age 65 who is disabled; ii) is established by a parent, grandparent, guardian or court; and iii) provides that the State(s) will receive all amounts remaining in the trust upon the death of the individual, up to the total medical assistance provided. Neither 42 USC 1396p(d)(4)(a) nor OAR 461-145-540(9) impose any requirement that the distribution standards in such trusts prohibit distributions for food and shelter.

As the new POMS provision cited above points out, trusts meeting the (d)(4)(a) criteria are not automatically exempt. Rather, they must also be evaluated under the general trust rules found at SI 01120.200. Those provisions state, at subsection (D)(2):

If an individual does not have the legal authority to revoke or terminate the trust or to direct the use of the trust assets for his/her own support and maintenance, the trust principal **is not** the individual's resource for SSI purposes. (Emphasis in original text).

Our discussion of distribution standards that allow payments for food and shelter has been in the context of irrevocable SNTs, which grant no discretion to the beneficiary to direct the use of the assets. On the contrary, these trusts generally give sole discretion to the trustee to make payments for food and shelter, and only after determining that the temporary loss of public assistance is outweighed by the benefit of the distribution. Thus, under both the SNT-specific POMS and the general trust POMS, SNTs can allow payments for food and shelter without being considered a resource.

Additional support for this position is found in SI 01120.201, regarding "Trusts Established with the Assets of an Individual after 1/1/00" (a.k.a. "first party" trusts). That provision states, in subsection (I)(1), that in cases where the trust principal is not a resource, "...disbursements from the trust may be income to the SSI recipient, depending on the nature of the disbursements." That rule goes on to state, in subsection (I)(1)(b): "Food or shelter received as a result of disbursements from a trust...is income in the form of in-kind support and maintenance and is valued under the presumed maximum value rule." The fact that the POMS details a mechanism for reducing a recipient's SSI benefit when he or she receives food or shelter distributions from an exempt trust further demonstrates that such distributions are allowable (albeit with consequences to the recipient).

As we indicated, we recently confirmed our understanding of the above-cited POMS provisions with Doug McSweyn at SSA. In light of this, we are hopeful that DHS will not object to the inclusion of "flexible" distribution standards in Special Needs Trusts, in cases involving SSI recipients. We currently have two cases ready to file with the Court, but we would like to resolve this matter before filing (thereby avoiding an objection). Taking the argument to the Court would result in lost time and efficiency for all of us.

Please let us know your thoughts on this . We will follow up with you late next week, but feel free to call or email us at any time with your input.

FITZWATER MEYER, LLP

Michael J. Edgel

Donna R. Meyer

**APPENDIX D—SAMPLE FORM: THIRD-PARTY TESTAMENTARY
SNT STRICT DISTRIBUTION STANDARD**

1. If My Spouse Does Not Survive. If my spouse does not survive me, I give the residue in equal shares to my children, one share for any child who survives me and one share by right of representation for the then surviving descendants of each child who does not survive me; provided however, that any share for my son, [William Smith], shall be held in trust for his benefit and administered and distributed as provided in section 2.

2. Special Needs Trust for Child

2.1 Name of Trust. This trust may be called [The William Smith] Special Needs Trust.

2.2 Disability of Beneficiary. [William Smith] is disabled. As a result of this disability, he requires financial assistance to meet his needs.

2.3 Trust Purpose. My purposes for creating this trust for the benefit of the beneficiary is as follows:

2.3(a) Supplement Public Resources. To provide a fully discretionary spendthrift trust to supplement public resources and benefits when such resources are unavailable or insufficient to provide for the special and supplemental needs of the beneficiary. It is my purpose to create a fund for the benefit of the beneficiary which will not supplant any assistance that might otherwise be available from any public sources; and

2.3(b) Enhance Quality of Life. To enhance the beneficiary’s health, comfort, happiness, and dignity during his lifetime, subject to the sole and absolute discretion of the trustee.

2.4. Distributions.

2.4(a) Special Needs. During [William]’s lifetime, my trustee shall have sole discretion to distribute for the benefit of the beneficiary those amounts of income or principal that my trustee considers advisable to meet the beneficiary’s special needs that are not met by government assistance programs.

[Adapt]

“Special needs” shall include, but not be limited to, the following types of special needs, to the extent other funds from public sources are not available: clothing; personal attendant and personal care services, respite care, advocacy, rehabilitation, social development services, private case management; medication or therapies prescribed by a physician or other healing arts practitioner; health insurance premiums; dental care; psychological support services; durable medical equipment; goods and services necessary to modify living environment to accommodate special needs; guardian and conservator fees; education and training; transportation expenses; recreation, vacation, and outings; companion care to accompany the beneficiary on outings; entertainment and entertainment equipment; telephone equipment and services; housekeeping services and supplies.

2.4(b) Purchase of Exempt Assets. The trustee may purchase items for the use of the beneficiary that would be considered “exempt” assets for purposes of public benefits law, such as personal household items, transportation devices, medical equipment, or a legal interest in a residence, and may, in the trustee’s sole discretion, distribute such items to the beneficiary to be held in the beneficiary’s name, or if the beneficiary lacks legal capacity, in the name of the beneficiary’s court-appointed conservator or guardian. Any distribution to the beneficiary of an exempt asset shall not be construed to be a breach of fiduciary to the remainder beneficiaries.

2.4(c) Supplement Public Assistance. This trust shall be used to supplement public assistance benefits of any county, state, federal, or other government entity which has a legal responsibil-

ity to serve the beneficiary and shall not be used to supplant such benefits. No part of the income or principal of the trust estate shall be considered available to the beneficiary.

2.4(d) Distributions to Pay Tax. The beneficiary may have income tax liability that results from income received by the trust but is properly reported on the beneficiary's income tax return. During the term of this trust, the trustee shall pay directly to the Internal Revenue Service of the United States, or to the taxing authorities of any state, such amounts of income and/or principal of the trust as is needed to pay any such income tax liability of the beneficiary. In no event shall such a distribution be made directly to the beneficiary.

2.4(e) Consideration of Other Resources. Despite any other provision of this instrument, my trustee shall consider any income, support, or property available to [William] from any source, including government assistance programs, before making any discretionary distributions under this trust. My trustee shall further consider the applicable resource and income limitations under any government assistance programs for which the beneficiary may be eligible.

2.4(f) Manner of Distributions. The trustee shall refer to the following guidelines when making distributions and is encouraged to seek the advice of an experienced attorney or advisor prior to making distributions that do not conform to these general guidelines. During such time as the beneficiary is receiving Supplemental Security Income, Medicaid, or benefits through another similar program that has income and/or resource limitations:

2.4(f)(1) The trustee shall not distribute cash directly to the beneficiary;

2.4(f)(2) The trustee shall not reimburse the beneficiary directly for purchases he makes;

2.4(f)(3) The trustee may pay directly for goods and services, provided that the beneficiary does not receive any assets as a result of such expenditure that can be converted to cash.

2.4(g) Eligibility for Government Assistance. The trustee shall take any steps required to qualify the beneficiary for government assistance programs and to ensure that the beneficiary's support needs are met through such programs.

2.4(h) Defense of Trust. For purposes of determining the beneficiary's eligibility for such benefits, no part of the principal or income of the trust estate shall be considered available to the beneficiary. In the event the trustee is requested by any department or agency to release principal or income of the trust to or on behalf of the beneficiary to pay for equipment, medication, or services that other organizations or agencies are authorized to provide, or in the event the trustee is requested by any department or agency administering such benefits to petition the court or any other administrative agency for the release of trust principal or income for this purpose, the trustee shall deny such request and may defend, at the expense of the trust estate, any contest or other attack that defeats the purpose of this trust.

2.4(i) Preferential Rights of Beneficiary. The rights and interests of the lifetime beneficiary are preferred over the rights of any remainder beneficiary who receives the trust property after the death of the life beneficiary. The trustee is authorized to exercise discretion to spend all income and/or principal of the trust in order to accomplish the trust purposes.

2.4(j) Spendthrift. No interest in the principal or income of this trust shall be anticipated, assigned, or encumbered, or be subject to any creditors claim or to legal process, prior to its actual receipt by the beneficiary. Furthermore, I declare that it is my intent as expressed herein that, because this trust is to be conserved and maintained primarily for the special needs of [William Smith], no part of the corpus thereof, nor principal nor undistributed income, shall be subject to the claims of voluntary or involuntary creditors for the provision of care and services, including residential and

institutional care, by any public entity, office, department, or agency of the State of Oregon, or any other state, or of the United States, or any other governmental agency.

2.4(k) Power to Amend. The trustee of this trust may amend this trust so that it conforms with any laws or interpretations of law by any governing body or agency relating to government assistance received by the beneficiary and to better effectuate the purposes of the trust.

2.4(l) Obtain Professional Advice. I strongly encourage my trustee to consult with a knowledgeable attorney for professional advice regarding (a) the fiduciary duties of a trustee, (b) how to handle trust distributions in a manner that will not jeopardize the beneficiary's eligibility for government assistance programs. My trustee is to be reimbursed for the cost of this professional advice.

2.4(m) Death of Beneficiary. Upon the death of the beneficiary, the trustee may pay the expenses of the beneficiary's funeral, and all administrative expenses relating to this trust, including reasonable attorney and accountant fees, if, in the trustee's sole discretion, other satisfactory provisions have not been made for the payment of such expenses.

2.4(n) Termination of Special Needs Trust. This trust shall cease and terminate on the death of the beneficiary and thereupon the trust shall be divided into equal shares, one share for any child of mine who is then living and one share by right of representation for the then surviving descendants of each child of mine who is then deceased. The trustee shall distribute each share outright and free of trust.

APPENDIX E—SAMPLE FORM: FIRST-PARTY SNT CREATED BY
PARENT FOR ADULT CHILD WHO HAS CAPACITY

THE SALLY SMITH
SPECIAL NEEDS TRUST

THIS TRUST AGREEMENT is made by [Mrs. Smith], individually and in her capacity as parent of the beneficiary, hereinafter referred to as “settlor,” and [Robert Jones], as trustee, hereinafter referred to as “trustee.” This is an Irrevocable Special Needs Trust for the benefit of [Sally Smith], hereinafter referred to as “beneficiary”.

ARTICLE 1
TRUST

1.1 Nature of Trust. The Trust established under this Agreement is an Irrevocable Living Trust made in accordance with the laws of the State of Oregon, whereby the property placed in trust shall be managed for the benefit of beneficiary for her lifetime. The effective date of this Trust Agreement shall be the date it is executed by the settlor and accepted by the trustee. All property that is made subject to this Trust shall be held, administered, and distributed in accordance with this Agreement.

1.2 Name of Trust. For convenience, this Trust may be called the [Sally Smith] Special Needs Trust.

1.3 Initial Funding. The beneficiary is disabled. The sum of \$10.00 of the initial funding of this Trust shall be contributed by settlor. The remainder of the initial funding of this Trust will be contributed by the beneficiary, with assets beneficiary will receive as an inheritance. Such property, together with any additions thereto, shall constitute the trust estate.

1.4 Additions to Trust. The trustee may accept property from any source and upon any terms. Upon acceptance by the trustee, the property shall become subject to this agreement.

1.5 Trust Is Irrevocable. This Trust is irrevocable and may not be changed, altered, or amended by the beneficiary.

ARTICLE 2
PURPOSES OF TRUST

2.1 Payback Trust. The beneficiary was born on [birthdate] and is disabled as defined in Section 1614(a)(3) of the Social Security Act. The settlor establishes this Trust to conform to the provision of the Omnibus Reconciliation Act of 1993 pertaining to disabled individuals under the age of 65, which is found at 42 U.S.C. Section 1396p(d)(4)(A), and the provisions of the Foster Care Independence Act of 1999 also pertaining to trusts for disabled individuals under the age of 65, which is found at 42 U.S.C. Section 1382b.

2.2 Purposes of Trust. The beneficiary’s disability prevents her from engaging in substantial gainful activity. The funds described in section 1.3 are insufficient to provide for her needs. The beneficiary currently receives Supplemental Security Income, which provides a small monthly cash benefit, and Medicaid Assistance, which provides certain health care services. The intent of the settlor is as follows:

2.2(a) To provide a fully discretionary spendthrift trust to supplement public resources and benefits when such resources are unavailable or insufficient to provide for the special and supplemental needs of the beneficiary. It is the purpose of the Trust to create a fund for the benefit of the beneficiary that will not supplant any assistance that might otherwise be available from any public sources; and

2.2(b) To enhance the beneficiary's health, comfort, happiness, and dignity during her lifetime, subject to the absolute discretion of the trustee.

ARTICLE 3 DISTRIBUTIONS

3.1 Distributions for Special Needs. The trustee shall pay to or apply for the benefit of the beneficiary, for her lifetime, such amounts from the principal or income, up to the whole thereof, as the trustee may from time to time determine necessary or advisable for the satisfaction of the beneficiary's special needs.

3.2 Special Needs Described. As used in this Trust, "special needs" refers to the requisites for maintaining beneficiary's good health, safety, and welfare when, in the discretion of the trustee, such requisites are not being provided by any public agency, office, or department of the State of Oregon, or of any other state, or of the United States, or any insurance carrier with insurance policies covering the beneficiary.

"Special needs" shall include, but not be limited to, the following types of special needs, to the extent other funds from public sources are not available: clothing, education and training; transportation expenses; computer equipment and services; entertainment and entertainment equipment; telephone equipment and services; housekeeping services and supplies; private case management; medication or therapies prescribed by a physician or other healing arts practitioner; health insurance premiums; dental care; psychological support services; personal care services; and durable medical equipment.

Expenditures for these and similar benefits shall be made only if public benefit programs do not cover these benefits, and only if the trustee chooses, in the exercise of his sole discretion to choose among special needs, to allow them. This list is intended to be illustrative and not inclusive of all kinds of nonsupport disbursements that would be appropriate for the trustee to make. Any income not distributed shall be accumulated and added to principal. Distributions may be made from the trust estate without court approval.

3.3 Purchase of Exempt Assets. The trustee may purchase items for the use of the beneficiary that would be considered "exempt" assets for purposes of public benefits law, such as personal household items, transportation devices, medical equipment, or a legal interest in a residence.

3.4 Distributions to Pay Tax. The beneficiary may have income tax liability that results from income received by the Trust but is properly reported on the beneficiary's income tax return. During the term of this Trust, the trustee shall pay directly to the Internal Revenue Service of the United States, or to the taxing authorities of any state, such amounts of income and/or principal of the Trust as is needed to pay any such income tax liability of the beneficiary. In no event shall such a distribution be made directly to the beneficiary.

3.5 Consideration of Other Resources. Despite any other provisions of this instrument, the trustee shall consider any income, support, or property available to the beneficiary from any source, including government assistance programs, before making any discretionary distributions under this Trust. The trustee shall further consider the applicable resource and income limitations under any government assistance programs for which the beneficiary may be eligible.

3.6 Defense of Trust. For purposes of determining the beneficiary's eligibility for such benefits, no part of the principal or income of the trust estate shall be considered available to the beneficiary. In the event the trustee is requested by any department or agency to release principal or income of the Trust to or on behalf of the beneficiary to pay for equipment, medication, or services that other organizations or agencies are authorized to provide, or in the event the trustee is re-

quested by any department or agency administering such benefits to petition the court or any other administrative agency for the release of trust principal or income for this purpose, the trustee shall deny such request and may defend, at the expense of the trust estate, any contest or other attack that defeats the purpose of this Trust.

3.7 Manner of Distributions. The trustee shall refer to the following provisions as guidance when making distributions and is encouraged to seek the advice of an attorney or advisor experienced in making distributions for persons with disabilities similar to that of the beneficiary. During such time as the beneficiary is receiving Supplemental Security Income, Medicaid, or benefits through another similar program that has income and/or resource limitations:

3.7(a) The trustee shall not distribute cash directly to the beneficiary;

3.7(b) The trustee shall not reimburse the beneficiary directly for purchases the beneficiary makes;

3.7(c) The trustee may pay directly for services, provided that the beneficiary does not receive any assets as a result of such expenditure that can be converted to cash.

3.8 Preferential Rights of Beneficiary. The rights and interests of the lifetime beneficiary are preferred over the rights of any remainder beneficiary who receives the trust property after the death of the life beneficiary. The trustee is authorized to exercise discretion to spend all income and/or principal of the Trust in order to accomplish the trust purposes.

ARTICLE 4 TERMINATION

4.1 Termination of Trust. This Trust shall cease and terminate at the death of the beneficiary.

4.2 Winding up Trust at Termination. At the termination of the Trust, the trustee shall conclude all of the affairs of the Trust, paying for all administrative costs, including trustee fees, attorney fees, and accounting fees.

4.3 Remainder. Upon termination of the Trust, the remaining trust property, after payment of expenses as set forth above, shall be paid and distributed as follows:

4.3(a) Payment to State for Medicaid Assistance Provided. The trustee shall pay the remaining trust property to any state that may have provided the beneficiary with medical assistance, up to an amount equal to the total medical assistance paid on behalf of the beneficiary under the Medicaid program to the extent such medical assistance has not already been reimbursed from any other source. This provision is intended to meet the requirements of 42 U.S.C. 1396(p)(d)(4)(A) and 42 U.S.C. 1382b.

4.3(b) Trust Property Then Remaining. If there is any trust property then remaining, the trustee shall distribute the remaining trust property, including principal and undistributed income of this Trust, to such individuals, corporations, or other appointees, including the whole thereof, as the beneficiary shall appoint by a validly executed Will, provided that her will contains a reference to this specific power of appointment. To the extent that the beneficiary fails effectively to exercise this power of appointment, due to minority or any other reason, the remaining trust corpus shall be distributed to in equal shares to the beneficiary's children, [Susan Smith and Steven Smith], one share to each of them who survive the beneficiary and one share by right of representation for the then surviving descendants of any of them who does not survive the beneficiary. If none of the above named individuals survive the beneficiary, then the trustee shall distribute the then remaining trust property to those people who survive the beneficiary who are entitled to her intestate property on the date of her death.

4.4 Early Termination of Trust. The Trustee may terminate the Trust prior to the death of the beneficiary, if the Trustee determines it is in the best interest of the beneficiary or if the beneficiary's disability ended. In such event, the Trustee shall make distribution as provided for in sections 4.3(a) and (b), and the remaining trust property, after payment of allowable expenses, shall be distributed to the beneficiary. In no event may the beneficiary compel termination of this Trust.

ARTICLE 5 TRUST ADMINISTRATION

5.1 Limitation on Length of Trust. Unless sooner terminated or vested in accordance with other provisions of this instrument, all interests not otherwise vested, including, but not limited to, all trusts and powers of appointment created hereunder shall terminate twenty-one (21) years after the death of the last survivor of the beneficiary living on the date of this agreement, at the end of which time distribution of all principal and all accrued, accumulated, and undistributed income shall be made to the persons then entitled to distributions of income and in the manner and proportions herein stated (or, if not stated, equally), irrespective of their then-attained ages.

5.2 Undistributed Income. Income accrued or undistributed at the termination of a beneficiary's interest in a trust shall be added to and become part of the principal of that trust, and any rights of that beneficiary to that income shall terminate.

5.3 Trustee Protection So Long as Trustee Acts in Good Faith. Settlor recognizes that the trustee is not licensed nor skilled in all possibly relevant fields, including medicine, social services, investment management, and public benefits law. The trustee may seek the counsel and assistance of experts, at trust cost, and of the beneficiary's guardian or conservator, if any, and any state and local agencies that have been established to assist the disabled in similar circumstances as the beneficiary. The trustee may use these resources to aid the beneficiary, or the beneficiary's guardian or conservator, as appropriate, in identifying programs that may be of social, financial, or developmental assistance to the beneficiary. However, the trustee shall not in any event be liable to the beneficiary, the remainder beneficiaries of the Trust, or any other party for his or her acts as trustee hereunder so long as the trustee acts in good faith. For example, the trustee, the beneficiary, and the beneficiary's guardian or conservator, if any, shall not be liable for the failure to identify each program or resource that might be available to the beneficiary because of disabilities.

5.4 No Commingling of Assets. Any public assistance benefits of any beneficiary of this Trust shall not be commingled with trust assets but shall be separately held by the trustee, should the trustee be payee or the recipient of those benefits. Nothing in this provision shall be construed to require the addition to the trust estate of public assistance benefits received by, or on behalf of, the beneficiary.

5.5 Notice, Information, and Reports. To the extent allowed by law, the provisions of this instrument shall govern the trustee's duty to furnish notice, information, and reports.

5.5(a) Initial Notice. The trustee shall provide initial notice of the trust's existence, of the identity of the settlor, of the right to receive a copy of the trust instrument, and of the right to a trustee's report to the lifetime beneficiary, the permissible distributees, the qualified beneficiaries, and, if the beneficiary has a court-appointed conservator, to the conservator.

5.5(b) Annual Report. The trustee shall report, at least annually, to the lifetime beneficiary, to the permissible distributees and qualified beneficiaries who request a report, and, if the beneficiary has a court-appointed conservator, to the conservator.

5.5(c) Contents of Annual Report. The trustee's report shall show assets on hand and show in detail all receipts, disbursements, investment transactions, and distributions of both principal

and income since the report. The report shall be deemed to have been furnished to the person entitled to it when it has been personally delivered or placed in the United States mail addressed to that person at the person's last known address. Copies of documents evidencing ownership of assets in the name of the Trust shall be attached to the report.

5.5(d) Beneficiary Protector. The beneficiary's sister, [Jennifer Jones], shall serve as beneficiary protector. If [Jennifer Jones] fails to qualify or ceases to act as beneficiary protector, or is then acting as trustee, any interested person may file a petition requesting the court to name a beneficiary protector, who shall be a person who has a high degree of familiarity with the beneficiary's personal and health needs. The beneficiary protector shall have all rights a beneficiary has at law or in equity to protect the beneficiary's interest in a trust and is designated to receive notices and reports delivered by the trustee as provided for in this trust and required by law on behalf of and in addition to the beneficiary, if she becomes financially incapable and, further, on behalf of any qualified beneficiaries entitled to notice and reports who are minors or financially incapable.

5.5(e) Protection If Beneficiary Protector Acts in Good Faith. The beneficiary protector shall not in any event be liable to the beneficiary, the remainder beneficiaries of the Trust, or any other party for acts performed as the beneficiary protector under this Agreement as long as the beneficiary protector acts in good faith.

ARTICLE 6 TRUSTEE POWERS

6.1 In General. The trustee shall have all powers conferred on a trustee by Oregon law as now existing or later amended, except as specifically restricted in this instrument. In addition, the trustee shall have the powers described in this Article 6.

6.2 Manage and Dispose of Assets. To manage, maintain, improve, lease, grant options on, encumber, sell, exchange, or otherwise dispose of part or all of the trust estate in any manner and on any terms the trustee considers beneficial to the trust estate.

6.3 Retain Assets. To retain any property, including nonproductive property, for so long as the trustee considers retention of probable benefit to the trust estate and the trust beneficiaries.

6.4 Make Investments. To invest and reinvest the trust estate in common or preferred stocks, bonds, mutual funds, annuities, common trust funds, secured and unsecured obligations, mortgages, and other property, real or personal, which the trustee considers advisable and in the best interest of the trust estate.

6.5 Receive Compensation. To receive reasonable compensation for the trustee's own services and reimbursement for expenses incurred in administering the trust estate.

6.6 Pay Administrative Costs. To pay administrative costs such as bank service charges, trustee fees, attorney fees, fees for preparation of yearly tax returns, and charges for photocopying, fax and postage.

6.7 Trustee Relieved of Duty to Diversify. Trustee is relieved of the obligation to diversify assets.

6.8 Limited Amendment Right. The trustee of this Trust may amend this agreement so that it conforms with any laws or interpretations of law by any governing body or agency relating to 42 U.S.C. Section 1396p, 42 U.S.C. Section 1382b, or related statutes or rules, including state statutes or rules that are consistent with the provisions and purposes of these laws, and to better effect the purposes of this Trust.

This agreement may not be revoked by the Beneficiary, nor may the rights of the state Medicaid agencies to repayment under Section 4.3 be modified unless specifically allowed under 42 USC §1396p, 42 USC §1382b, or related statutes or rules.

6.9 Do Other Acts. Except as otherwise provided in this instrument, to do all acts that might legally be done by an individual in absolute ownership and control of property and which, in the trustee’s judgment, are necessary or desirable for the proper and advantageous management of the trust estate.

ARTICLE 7 BENEFICIARY’S INTERESTS AND POWERS

7.1 Tax Nature of Trust. This Trust is funded with \$10 contributed by settlor, with the remainder of the funding contributed solely with assets initially owned by the beneficiary. It is the intent of the Settlor that this Trust be construed as a “grantor trust” under the Internal Revenue Code. All income received, distributed, held, or accumulated by this Trust shall be taxable to the beneficiary, individually.

7.2 Renunciation. In addition to any power to renounce conferred by law, the beneficiary (including the beneficiary’s personal representative or conservator), may renounce in whole or in part any power granted to the beneficiary under this Trust Agreement.

7.3 Nonassignment/Spendthrift. No interest in the principal or income of this Trust shall be anticipated, assigned, or encumbered or be subject to any creditor’s claim or to legal process. Furthermore, because this Trust is to be conserved and maintained entirely for the special needs of the beneficiary, no income or principal shall be subject to the claims of voluntary or involuntary creditors for the provision of care and services, including residential care, by any private or public entity, office, department, or agency of any state, or of the United States or any other governmental agency. No beneficiary shall have the power to sell, assign, transfer, encumber, or in any other manner anticipate or dispose of his or her interest in the Trust or the income produced thereby, prior to its actual distribution by the trustee for the benefit of the beneficiary in the manner authorized by this agreement. No beneficiary shall have any assignable interest in any trust created under this agreement or in the income therefrom. Neither the principal nor the income shall be liable for any debts of the beneficiary. The limitations herein shall not restrict the exercise of any power of appointment or disclaimer.

ARTICLE 8 TRUSTEE

8.1 Resignation of Trustee. Any trustee may resign the trusteeship at any time. Any resignation shall be in writing and delivered to any remaining acting trustee. If upon resignation no existing trustee remains, the resignation shall become effective only upon written acceptance of the Trust by a successor trustee.

8.2 Designation of Successor Trustee. If [Robert Jones] ceases to act due to resignation, removal, incapacity, or death, then the settlor appoints [Jennifer Jones] to serve in his place as trustee. If [Jennifer Jones] is unable to or ceases to act due to resignation, removal, financial incapability, or death, the currently acting trustee may nominate a successor trustee, in writing, and the nominated successor trustee shall become the acting successor trustee upon written acceptance of the Trust by the successor trustee.

8.2(a) Power of Beneficiary to Remove and Appoint Trustees. Notwithstanding any other provision of this agreement, the beneficiary may at any time and from time to time: (i) remove a trustee or cotrustee without cause; and/or (ii) appoint a sole trustee or cotrustees. In no event may

the beneficiary name herself or her spouse, if any, to be the trustee of this Trust. Any action to appoint a successor trustee under this subsection shall be in writing and shall become effective only upon written acceptance by the successor trustee.

8.2(b) Court to Appoint or Remove Trustee. If the Trust has no trustee and no successor is named in this instrument or appointed by the acting trustee or the beneficiary as provided for in this section, any court having jurisdiction may do so at the request of any person interested in the trust. Furthermore, any court having jurisdiction may remove a trustee for good cause shown at the request of any person interested in the trust.

8.3 Transfer to Successor Trustee. Upon acceptance, a successor trustee shall succeed to all rights, powers, and duties of the trustee. All right, title, and interest in the trust property shall vest in the successor trustee. The prior trustee shall, without warranty, transfer the existing trust property to the successor trustee. A successor trustee shall not have any duty to examine the records or actions of any former trustee and shall not be liable for the consequences of any act or failure to act of any former trustee.

8.4 No Bond Required. No bond or other undertaking shall be required of any individual trustee of any trust. However, should a Court of proper jurisdiction determine, upon the application of any interested person, that it is contrary to the best interests of the beneficiary for the trustee not to be bonded, then the trustee shall, as a trust expense, be bonded in such amount as the Court shall determine.

ARTICLE 9 GENERAL ADMINISTRATIVE PROVISIONS

9.1 Definitions. The definitions in this section shall apply for purposes of this Trust.

9.1(a) Descendants. “Descendants” means all naturally born or legally adopted descendants of the person indicated.

9.1(b) Financially Incapable. “Financially incapable” means a condition in which a person is unable to manage financial resources effectively because the person cannot take the actions necessary to obtain, administer, and dispose of real and personal property, intangible property, business property, benefits, claims, and income.

9.1(c) Permissible Distributee. “Permissible distributee” means a beneficiary who is currently eligible to receive distributions of Trust income or principal, whether the distribution is mandatory or discretionary.

9.1(d) Qualified Beneficiary. “Qualified beneficiary” means a beneficiary who is a permissible distributee, who would be a permissible distributee if the interests of all permissible distributees terminated, or who would be a permissible distributee if the trust terminated. “Qualified beneficiary” also includes the other persons described in ORS 130.040.

9.1(e) Beneficiary Protector. “Beneficiary protector” means the person designated to act in good faith to protect the interests of a person who is a minor or financially incapable and to receive notices and reports delivered by the trustee as provided for in this Trust and otherwise only as further required by ORS 130.020(3)(b). The beneficiary protector shall have all the rights a beneficiary has at law or in equity to protect the beneficiary’s interest in a trust.

9.2 Trustee. The word “trustee” shall be deemed a reference to whomever is serving as trustee, whether original, alternate, or successor, and shall include a trustee acting alone or as a cotrustee.

9.3 Governing Law. The validity and construction of this Trust Agreement shall be determined under Oregon law in effect on the date this Agreement is signed, and the initial situs of this Trust is Oregon.

9.4 Captions. The captions are inserted for convenience only. They are not a part of this Trust Agreement and do not limit the scope of the section to which each refers.

EXECUTED by [Mrs. Smith] this _____ day of _____, [2010], individually and in her capacity as parent of [Sally Smith].

[Mrs. Smith], Settlor and parent of beneficiary

STATE OF OREGON
County of _____

On this _____ day of _____, 2010, personally appeared before me the above named settlor, [Mrs. Smith], in her capacity as parent of [Sally Smith], and acknowledged the foregoing instrument to be her voluntary act and deed.

Notary Public for Oregon

EXECUTED AND ACCEPTED by trustee [Robert Jones] this _____ day of _____, 2010.

[Robert Jones], Trustee

STATE OF OREGON
County of _____

On this _____ day of _____, 2010, personally appeared before me the above named trustee, [Robert Jones], and acknowledged the foregoing instrument to be his voluntary act and deed.

Notary Public for Oregon

SCHEDULE A

DATE:

PROPERTY:

\$10 contributed by settlor

