

ACKNOWLEDGMENTS

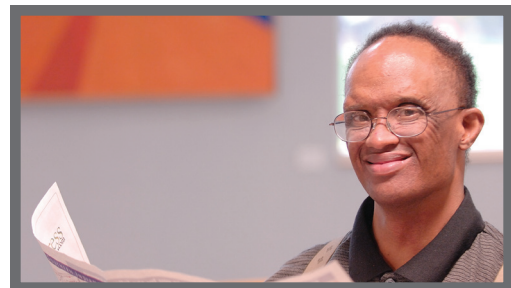
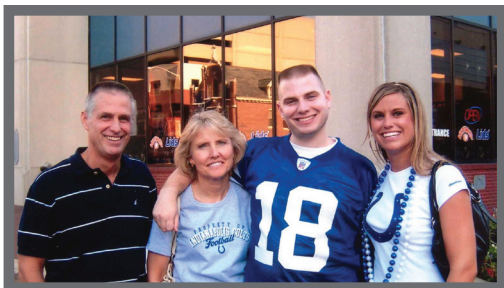
This booklet is dedicated to those Hoosier parents who provided the inspiration for The Arc of Indiana to pursue the development of The Arc Master Trust.

The Arc of Indiana expresses its appreciation to attorneys Thomas P. Ewbank, Robert S. Hulett, and Gordon D. Wishard for their assistance and counsel. The Arc also recognizes former Trust Director Alan P. Kemp for his untiring efforts and dedication to establishing The Arc Master Trust.

Finally, we want to thank those individuals, foundations, organizations and local Arc chapters who provided valuable financial support and priceless moral support to The Arc Trust in its infancy.

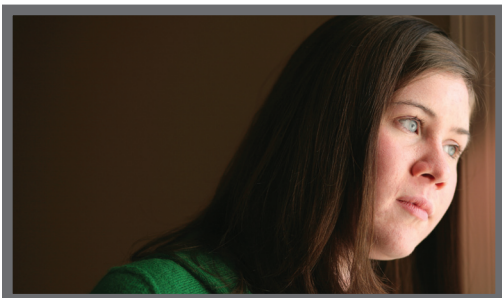
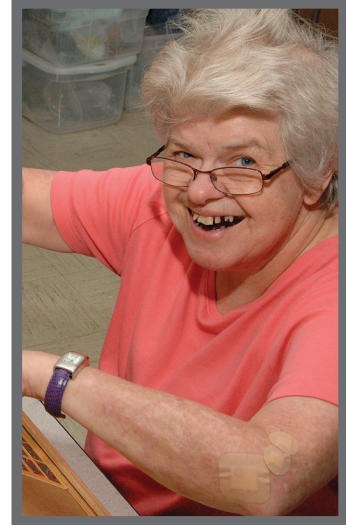
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ABOUT THE ARC OF INDIANA

The Arc of Indiana is a not-for-profit organization established in 1956 by parents of children with developmental disabilities who joined together to build a better and more accepting world for their children. For more than 50 years, The Arc of Indiana has sought to uphold its mission of improving opportunities for people with disabilities. The Arc Master Trust is part of that mission.

In 1988, The Arc of Indiana established Trust I as a way for parents to ensure that even after they are gone, they will be able to provide for their children. Trust II was created in 1995, in response to a new federal law that allowed persons receiving government assistance to fund a Special Needs Trust with their own money. This booklet describes both Master Trusts (or Special Needs Trusts) in detail.

ABOUT THE ARC OF INDIANA MASTER TRUST

The Arc of Indiana Master Trust was founded in 1988 and serves people of all disabilities, including people with physical, mental, emotional, intellectual and other developmental disabilities. The only requirement is the individual (Beneficiary) must be eligible for Government Assistance, such as Medicaid, Medicaid Waivers or SSI, or needs the trust to become eligible for Government Assistance.

A Trust Advisory Committee and Family Advisory Committee, as well as The Arc of Indiana Board of Directors, provides advice and oversight of The Arc Master Trust.

Trust Advisory Committee

Tom Ewbank, Krieg DeVault, Chairman

Dennis Frick, Indiana Legal Services

Tom Allington, Indiana University School of Law

Joanne Orr, Indiana University School of Law

SPECIAL NEEDS TRUST OVERVIEW

The purpose of a Special Needs Trust is to provide a person receiving government assistance with the highest possible quality of life without jeopardizing his or her eligibility for those benefits. Special Needs Trusts are used to supplement a person's lifestyle by providing the extras in life, above and beyond the basic needs that government assistance programs provide. A Special Needs Trust can either be a single, privately drafted trust or a pooled trust and must be used for the Beneficiary's sole benefit. The Arc of Indiana refers to a pooled trust as a Master Trust, where funds are pooled for the purpose of investments and/or management. However, each Beneficiary has his or her own account, which is monitored and tracked separately.

The Arc of Indiana offers two Master Trusts. Our original trust, Trust I, is usually funded by parents or grandparents. The second trust, Trust II, is most often funded by someone receiving government assistance, using his or her own money. Both trusts have the same intent, which is to supplement (not replace) basic support programs such as Medicaid, Medicaid Waivers, Supplemental Security Income (SSI), Food Stamps and HUD/Section 8 Housing.

WHY THE ARC OF INDIANA MASTER TRUST?

The Arc of Indiana's Trusts are professionally administered and provide the lifetime continuity parents desire for their children. Many parents are concerned that administration of a trust for their child may lack continuity if another relative takes on that responsibility. A Beneficiary's brother or sister may move, lose interest in administering the trust, or even die before the beneficiary. The Arc of Indiana's Trusts provide professional administration and oversight for the life of the beneficiary regardless of the circumstances of other family members.

The Arc Trust's service is more affordable than most, if not all, privately drafted and individually managed bank trusts. To be cost effective, most bank administered trusts have a high minimum funding amount, often starting at \$300,000. The minimum amount to fund an Arc Trust I account is \$30,000.

We have unmatched expertise in administering Special Needs Trusts. Every time a Special Needs Trust is used, the Trustee must report the use to each government agency that provides benefits to the Beneficiary. These agencies then determine whether trust usage interferes with the Beneficiary's continuing eligibility. The Arc Trust staff reports to the appropriate government agencies for each disbursement made on behalf of the Beneficiary.

TRUST I and TRUST II OVERVIEW

Trust I

The Arc of Indiana Master Trust was one of the first pooled trusts in the country and has since remained one of the nation's largest and respected pooled Special Needs Trust. Since its inception, The Arc of Indiana Master Trust has set the standard for pooled Special Needs Trust efficiency and leadership. The Arc of Indiana Master Trust continues to serve as a model for newly founded pooled Special Needs Trusts around the country.

Master Trust I was established in 1988 in response to concerns of families of loved ones with disabilities. Some of the top trust and estate planning attorneys in Indiana assisted with the legal research and drafting of the Master Trust document. Typically, parents and grandparents, and sometimes other family members (the Donors), enroll in The Arc Trust and, at the time of their enrollment, create or modify their wills, life insurance policies, and other financial holdings to fund The Arc Trust at the time of their death. (Funding the Trust while you are still alive is allowable, but often it is not the best option for the family.) Upon the death of the donor, the money is deposited into The Arc Trust, where it is placed into the Trust I pool. The Trust I pool is on deposit at The National Bank of Indianapolis with a balance over \$27 Million. This large trust corpus is invested in a highly diverse, well-performing, yet prudent portfolio consisting of mutual equity funds, mutual bond funds and a small percentage of money market funds.

Trust I accounts are annuitized, which means the total amount of money in the account is disbursed gradually throughout the Beneficiary's lifetime. In order to calculate how much money should be distributed each year, The Arc of Indiana uses an actuarial computer program and assumes that each Beneficiary will live 80 years. Beneficiaries who live beyond their 81st birthday will continue to receive the same disbursements, even when their accounts are depleted. This benefit is made possible through The Arc Trust's Remainder Fund, which is created by The Arc's 50% minimum remainder for Trust II accounts - accounts created with the Beneficiary's own assets. There is no remainder requirement for Arc Trust I accounts funded by someone other than the Beneficiary.

Trust II

Before 1993, a person receiving government assistance could not place his or her own money into a Special Needs Trust. If they received their own money, they would lose eligibility for Medicaid or SSI until the money was gone.

However, in 1993, Congress allowed people to fund their own trusts with their own money (from personal injury settlements, medical malpractice settlements, back SSI payments, etc.) and still retain eligibility for Medicaid. In response to this new law, The Arc Trust created Trust II in 1995, so persons receiving government benefits could place their money into the trust and safeguard their Medicaid eligibility.

In 1999, Congress passed legislation allowing persons to retain SSI benefits by placing their own money in a Special Needs Trust.

Initially, Trust II was founded with smaller amounts of money, rarely exceeding \$15,000. Accordingly, the intent for Trust II was not to be an investment plan so much as a temporary or long-term safe harbor for persons who have enough money to endanger government benefits. Trust II investments are limited to the purchase of EE series United States savings bonds, removing the burden of taxes for such accounts. All other funds are kept in a non-interest bearing checking account, which has a balance of over \$10 Million.

MASTER TRUST I OVERVIEW

The Arc Master Trust I was established in 1988. Typically, Trust I accounts are funded by the parents or grandparents of a person receiving government benefits, although some Trust I accounts have been funded with assets originally belonging to the Beneficiary. Most parents or grandparents (the Donors) choose to fund an Arc Trust I account for their child or grandchild upon their death - either through their will, living trust, retirement account or life insurance proceeds. Although most families choose to fund an Arc Trust at the death of the second parent or grandparent, this is not a requirement. In limited instances, it may be beneficial to fund the trust account during the Donor's lifetime. This, of course, is a personal decision.

A typical Trust I account is annuitized over the course of the Beneficiary's lifetime, creating an annual spending projection. Setting an annual spending limit ensures that there will always be money in the Beneficiary's account throughout the course of his or her lifetime.

The Arc Trust staff works with one or more Key People when administering the trust for the Beneficiary. A Key Person is a trusted family member, friend, case worker or other person whose function is to help communicate the Beneficiary's needs and desires to The Arc Trust staff. The Key Person assists The Arc Trust in determining the most appropriate way to use the Beneficiary's account in order to provide the best possible quality of life, without jeopardizing eligibility for government benefits.

The Donor is the person (or persons) funding the trust. When the Donor is a person other than the Beneficiary, then the Donor retains control over what happens to funds left in the Beneficiary's account if the Beneficiary passes away prematurely. When the Beneficiary passes away, any funds remaining in his or her trust automatically pass to the named Remaindermen. The Donor names both the Key Person(s) and the Remaindermen of the trust upon enrollment, and retains the power to change both the Key Person(s) and the Remaindermen at any time between enrollment and the funding of the trust. In other words, if you fund an Arc Trust I for your child or grandchild, you will have complete control regarding who assists The Arc Trust in administering the account, as well as who receives any remaining funds in the account when the Beneficiary passes away.

Once the trust is funded, The Arc Trust assumes the responsibility of authorizing disbursements in the best interest of the Beneficiary. In doing so, The Arc Trust acts in accordance with the terms of the Joinder Agreement, the Indiana Trust Code, its common law fiduciary duty to the Beneficiary and the pertinent state and federal statutes and regulations governing the inception, administration and termination of Special Needs Trusts.

FUNDING AND FINANCIAL PLANNING

Families participating in The Arc Trust come from many different economic backgrounds. Some may be able to fund the account with a large sum of money, while others may be able to contribute a modest amount. The most important factors to consider when funding an account are how much you can afford, the type of lifestyle to which your child is accustomed and what his or her needs may be.

Families usually fund the trust with proceeds from their estate, life insurance death benefits, 401ks, retirement accounts or other means. The most common methods by far are through the estate via a will or living trust and life insurance benefits. However, sometimes other relatives may wish to contribute to the trust account.

The minimum amount to fund a Trust I account is \$30,000, and the minimum amount to fund an account before disbursements will be made is \$10,000. Generally, funding a trust does not result in a tax deduction, but your financial planner or attorney may have further information about whether partially funding a third-party Special Needs Trust has any advantages.

If an account is funded before disbursements will be made, it will remain in a deferred status and will be charged the applicable Maintenance Fee. Once the account is fully funded, it enters authorized status and will be assessed the applicable Consulting Fee. The Arc Trust encourages families to seek advice from an attorney, accountant or financial planner when determining how to best fund a trust. The Arc of Indiana is not affiliated with any attorney, accountant or financial planner.

TRUST I FEE STRUCTURE

The fee structure for The Arc of Indiana Master Trust I has four parts:

1. Enrollment Fee

There is a one-time initial **Enrollment Fee**. The 2011 enrollment fee is \$700. It increases about \$10 to \$15 on January 1 of each year, loosely in accordance with the Consumer Price Index (CPI).

2. Renewal Fee

Parents generally enroll in the trust during their lifetime, but they will not fund the trust until their death. Once you enroll in The Arc Trust, we will send you a computer-generated copy of the Joinder Agreement every year. We ask you to make any changes to the Remaindermen, the Key Person(s), or any changes of personal information, such as addresses, phone numbers, etc. There is an annual charge for this; it's called the Renewal Fee. The Renewal Fee is \$79 per year, if enrolled in 2011. Once you enroll, your annual Renewal Fee remains the same, regardless of what the Renewal Fee is in the future. Once the trust is funded, the Renewal Fee is no longer charged.

3. Consulting / Maintenance Fee

When the trust is funded, we charge a Consulting Fee (CF) if the trust is authorized for disbursements, and we charge a Maintenance Fee if disbursements are deferred. The **Maintenance Fee** is simply the Consulting Fee reduced by a certain percentage. Depending on the size of the trust account, the Maintenance Fee will be anywhere from 40% to 70% of the normal Consulting Fee. Please see the chart on page 8 for examples of Consulting Fees.

4. Tax Preparation Fee

An annual **Tax Preparation Fee** of \$100, directly deducted from the individual's trust account, covers the preparation of Federal Form 1041 and Indiana Form IT-41. It also covers K-1 forms, which are prepared only if disbursements have been made from the trust account.

2011 TRUST I ANNUAL CONSULTING FEE TABLE

Amount	Consulting Fee	Amount	Consulting Fee
\$30,000	\$660.00	\$250,000	\$2,145.00
\$125,000	\$907.50	\$300,000	\$2,640.00
\$150,00	\$1,155.00	\$350,000	\$3,135.00
\$175,000	\$1,402.50	\$400,000	\$3,630.00
\$200,000	\$1,650.00	\$450,000	\$4,125.00
\$225,000	\$1,897.50	\$500,000	\$4,620.00

TRUST I ANNUAL SPENDING PROJECTIONS

One unique feature of Trust I is the **annual spending projection**. The annual spending projection tells us how much money we can spend on the Beneficiary each year to ensure that there will be money in his or her account until the end of his or her 80th year. In most Trust I cases, we will annuitize the trust over the course of the Beneficiary's actuarial life span. In doing so, we assume an 80-year life expectancy, an annual 3% increase in inflation, an annual 7% return on Trust I investments, the appropriate Consulting or Maintenance Fee, and Tax Preparation Fee. We use an actuarial computer software program that accounts for all of the above factors, as well as the age of the Beneficiary, to generate a targeted spending amount. This type of trust strategy is sometimes called a "self-depleting" trust, because it is specifically designed to be depleted by the time the Beneficiary passes away. In rare cases, we may assume a lesser life span when calculating the annual targeted spending amount.

What happens if your child outlives his or her actuarial life span? One feature of The Arc Trust, that you are not likely to find anywhere else, is that when your child outlives his or her actuarial life span, The Arc will continue to make disbursements on his or her behalf, even when his or her own account has been depleted. How do we do this? The Arc of Indiana Master Trust maintains a Remainder Fund account, funded by remainder shares from our Trust II accounts, as well as by generous families who remember The Arc of Indiana when designating the Remaindermen of their Trust I accounts.

Parents of Trust I beneficiaries can rest assured that, should their children outlive their annuitized Arc Trust I account, they will continue to benefit from disbursements made on their behalf. In some situations, it may be possible to opt out of the Trust I annuitization. However, when a non-annuitized account is depleted, the Beneficiary will not receive the benefit of additional disbursements from the Remainder Fund account.

2011 ESTIMATED ANNUAL TARGETED SPENDING AMOUNTS

\$30,000

<u>Age of Beneficiary at Funding</u>	<u>Annual Targeted Spending Amount</u>
20	\$599
30	\$658
40	\$759
50	\$958
60	\$1,261

\$50,000

<u>Age of Beneficiary at Funding</u>	<u>Annual Targeted Spending Amount</u>
20	\$1,421
30	\$1,536
40	\$1,705
50	\$2,037
60	\$2,542

\$100,000

<u>Age of Beneficiary at Funding</u>	<u>Annual Targeted Spending Amount</u>
20	\$3,501
30	\$3,732
40	\$4,070
50	\$4,734
60	\$5,745

\$200,000

<u>Age of Beneficiary at Funding</u>	<u>Annual Targeted Spending Amount</u>
20	\$6,673
30	\$7,134
40	\$7,810
50	\$9,138
60	\$11,160

\$300,000

<u>Age of Beneficiary at Funding</u>	<u>Annual Targeted Spending Amount</u>
20	\$9,844
30	\$10,536
40	\$11,551
50	\$13,542
60	\$16,574

TAX INFORMATION

Trust I accounts that are funded are subject to taxation for all interest, dividends, and their share of market gains and losses incurred during a year. Each year, The Arc of Indiana's Trustee – The National Bank of Indianapolis – prepares and files Federal Form 1041 and Indiana Form IT-41 for all funded Trust I accounts. The \$100 fee for preparing these forms and any amount owed to the United States Treasury and Indiana Department of Revenue are deducted from the trust.

If disbursements have been made from the account, the Key Person will need to prepare and file a Federal Form 1040 and Indiana Form IT-40 on behalf of the Beneficiary. In order to prepare these forms, the Key Person will need a Form K-1 or a Grantor Tax Letter, depending on what type of account it is. The National Bank of Indianapolis prepares the Form K-1 or Grantor Tax Letter and mails it to the Key Person prior to April 15. The fee for preparing this form is included in the \$100 tax preparation fee.

If no disbursements have been made from a Trust I account during the year, a Form K-1 or Grantor Tax Letter will not be issued.

We recommend that all tax questions be directed to a qualified tax preparer.

FREQUENTLY ASKED QUESTIONS

1. What is the primary purpose of Trust I?

The primary purpose of Trust I is to enhance a person's quality of life without jeopardizing benefits like Medicaid, Medicaid Waivers and Supplemental Security Income (SSI). As a parent, you supplement these benefits. The trust will continue this effort after you die or have become incapacitated.

2. What are examples of how Trust I can be used?

Trust I can pay for dental care, eye care and nursing care when such care is not available through Medicaid or other medical insurance programs. Payment for school tuition, communication aids, cable television, phone service, vehicles for transportation, clothing, house wares, furniture, vacations, outings, gifts for a Beneficiary, gifts in the Beneficiary's name to others and church contributions are other examples of how the trust is often used.

3. Can Trust I pay shelter expenses, such as rent, mortgage and utilities?

On occasion, when appropriate and affordable, Trust I has paid for shelter expenses. Payment for shelter expenses is appropriate when it does not reduce shelter assistance from other sources, such as HUD, SSI or government funded residential programs. Our trust is intended to supplement, not replace, such assistance. Payment is allowable if your child's account is sufficient to maintain on-going shelter assistance. However, often, the amount a Donor can leave is not sufficient to routinely pay shelter expenses over an extended period of time.

4. Does Trust I allow family members to be involved in deciding how the trust will be used?

Yes. We encourage active participation and advice from Key Persons, who often are family members. Family members do not, however, need to learn government regulations regarding trust matters. These responsibilities are The Arc's. Although the Key Person does not have an official legal role in the administration of the trust, The Arc Trust pays great deference to the opinions, insights and directions given by Key Persons when making decisions on behalf of the Beneficiary.

5. How are requests for disbursement made?

Requests are usually made over the phone and can only be made by the Key People. When appropriate, requests can also be made by the Beneficiary.

6. After I die, one of my other children will call to request disbursements for my daughter who is disabled. If my other child is not satisfied with the trust, can that child withdraw without penalty?

A funded Trust I account is irrevocable, meaning it cannot be changed or cancelled. If your other child is dissatisfied, that child can request a review of the grievance. The grievance is reviewed by the Trust's Advisory Committee, The Arc's Board of Directors or our Trustee, The National Bank of Indianapolis.

7. Are the people using Trust I satisfied with the service?

We regularly survey the families and individuals using our service, and we consistently receive high grades. Please contact us for the results of our most recent survey. We would be proud to share the results with you.

8. What are the fees?

Following is a brief description of each of our fees:

- **Enrollment Fee.** This is a one-time fee paid by the person who will fund the trust. This person is called the Donor. This fee is paid when the Donor first enrolls in Trust I.
- **Renewal Fee.** This fee is paid annually starting one year after enrollment and continues until the trust is funded. **It ceases once the trust is funded.**
- **Consulting Fee.** The Arc receives an annual fee for providing consultation to the Trustee. This fee begins only when the trust is funded and distributions are authorized. It is assessed each year against each Beneficiary's account. It does not represent an out-of-pocket expense to you or any other family member

The Arc's Consulting Fee is less than the Trustee's Fee charged annually by most banks. We encourage you to compare our fee with that charged by banks in your community.

- **Maintenance Fee.** This fee is charged for Trust I accounts that have a status of funded enrollment, distributions deferred. This fee is assessed each year against each Beneficiary's account. It is not an out-of-pocket expense.

9. When must the account be funded?

In most cases, the Trust will be funded at the death of the second parent or grandparent. Generally, it will be funded through a will, a living trust, a retirement plan or a life insurance policy specifically designated for this purpose.

10. What if I want to fund the account in advance?

If you want to fund the account in advance, you can do so. If you fund Trust I while you are still alive, you are making Trust I a living, irrevocable trust. Keep in mind that once the trust is funded, the money no longer legally belongs to you. It can only be used for your child.

11. If I decide to fund the account in advance, do I still pay an annual Renewal Fee?

No. There is no annual Renewal Fee after you fund the account, regardless of when you fund it. However, your child's account is subject to either a Consulting Fee or Maintenance Fee. The Consulting Fee is assessed if disbursements are authorized to be made; the Maintenance Fee is assessed if disbursements are deferred until a future date.

12. How many people can fund a single account?

There may be one or multiple Donors to a Beneficiary's account. Typically, if both parents are alive, both parents will be listed as Donors. Multiple Donors might also include other family members, such as grandparents and siblings. Regardless of the number of Donors, only one Enrollment Fee is charged.

13. What if I need to go into a nursing home myself. Can I fund my child's account at that time?

Yes. The Omnibus Budget Reconciliation Act of 1993 (OBRA '93) allows you to fund a Special Needs Trust for your child and immediately qualify for Medicaid without being subject to the look-back period.

14. After I enroll, what happens if I let my enrollment expire?

To take advantage of Trust I, you must remain enrolled. This means that you must pay the annual Renewal Fee. If you cease paying the Renewal Fee, the Trustee will be unable to accept any funds you leave for your child. If, for some reason, you cease paying the Renewal Fee and then want to re-enroll, you can do so, but at higher Enrollment and Renewal Fees. If for any reason you terminate your enrollment, Trust I will not refund previously paid Enrollment and Renewal Fees.

15. What if I enroll, but realize later I don't have enough money to fund the trust? Do I bear legal liability to contribute to the trust?

No. Your enrollment lets you use Trust I if you want, but it does not obligate you to do so. Some parents may enroll as a hedge against other plans not working out as planned.

16. If I do not have enough money to fund Trust I, is there an alternative?

Yes. We have a second Master Trust, called Trust II. If you enroll in Trust I, but you do not have enough money to fund Trust I, we can transfer the money into Trust II. Several families have used this approach.

17. Can I delay enrolling until after my death?

When you enroll, we start a file of information about your child. We update this file annually. This is why we charge the annual Renewal Fee. We do this because your child's situation and what you want for your child may change over time. We want our information to reflect these changes. If you do not enroll, we do not receive routine updates on important information that affects your child's future.

Nevertheless, if you want to delay, you can, but there is a cost. If someone enrolls for your child after your death and you are the last parent to die, a higher Enrollment Fee may be charged. This fee is currently three times the regular Enrollment Fee.

We charge a higher fee in this type of situation simply because we want to encourage families to enroll while they are living, so we can get to know them and make sure that the funding of the trust will go as smoothly as possible. If someone else, such as the executor of your estate, for example, enrolls in the trust on your behalf once you have passed, it can be confusing for all parties involved, and it is typically more difficult for The Arc Trust to obtain information about your child that is needed to safely and effectively administer the trust for his or her benefit.

18. When my child dies, what happens to money remaining in the account?

Our intent is to spend the entire amount for your child's benefit during his or her actuarial lifetime. If he or she lives to actuarial life expectancy, the trust should be completely depleted. Should any money remain, you, as the Donor, designate how this money is distributed.

19. Does The Arc require that a percentage of any remainder in Trust I stay with The Arc?

No. There is no mandatory remainder to The Arc for Trust I. You can, of course, voluntarily designate a remainder percentage to The Arc. We use this money to fund other programs for Hoosiers with disabilities, as well as to continue to make disbursements for Trust I beneficiaries, even when their annuitized accounts have been depleted.

20. If my child lives longer than her life expectancy and nothing is left in the account, what happens?

A goal of Trust I is to continue some level of disbursement for your child, even if your child's account is completely depleted. As long as money remains in our Remainder Fund, we will be able to continue this practice indefinitely.

21. I have a trust for my child, with one of my other children serving as Trustee. Why should I consider switching to The Arc Master Trust I?

- **Continuity.** Parents want continuity. They want the trust they create to last their child's lifetime. That continuity could be at risk if the trust is being administered by a Beneficiary's brother or sister, because siblings might move away, lose interest in administering the trust or die before the Beneficiary. The Arc of Indiana's Trust I is professionally administered, providing the lifetime continuity parents want.
- **Reliability.** In planning for your child's future, you want a service that delivers on its promises. You want a service that meets the expectations it creates. Trust I has a proven history of reliability. It is a part of The Arc of Indiana's mission to meet the expectations we create.
- **Expertise.** If one of your other children serves as Trustee, his or her most challenging responsibility may be learning and staying current with regulations, and making reports to agencies such as the Division of Family Resources (DFR), the Social Security Administration (SSA), the Division of Disability, Aging and Rehabilitative Services (DDARS) and the Division of Mental Health (DMH). Our staff has the knowledge and expertise to make these reports.

22. Why is reporting so important?

Many people rely on means-tested benefits to pay for the basics in life. Examples of means-tested benefits include Medicaid, SSI and Medicaid Waivers. Eligibility for means-tested benefits is based, in part, on income and resources. If your child's income or resources exceed the maximum allowed, he or she is likely to be ineligible.

When your child first applied for a means-tested benefit, his or her income and resources might have satisfied the allowable limit. But, if not properly administered, once the trust is used, income or resources might be created that exceed the allowable limit.

Whoever administers the trust must report each expenditure to every agency administering means-tested benefits. These agencies then determine, based on their specific regulation (no two agency regulations are identical), if the trust has created excess income or resources. If excess income or resources have been created, eligibility for benefits may be compromised or lost.

23. Does The Arc make these reports?

Yes, we make the reports. We know the regulations well. Our expertise minimizes potential challenges from government agencies. Because we administer hundreds of accounts, we are constantly reviewing regulations and making written reports. Our daily routine enhances our effectiveness. It is unlikely that others who might serve as Trustee (even bank trust departments) have experience and expertise comparable to The Arc's.

24. I have a trust for my child, with a bank named as Trustee. Why should I consider switching to Trust I?

- Many banks in Indiana are reluctant to administer trusts of under \$300,000. The Arc Master Trust I accepts much less. The minimum amount to fund an Arc Trust I account is \$30,000.
- We charge less. Our annual Consulting Fee is almost always substantially less than the annual fee banks charge for individually managed trust accounts.
- A bank trust department might be compelled to terminate a trust if the trust's principal or income is insufficient to justify the annual fee. This is something The Arc Trust will not do. As long as funds remain, we continue administering your child's account.
- Few bank trust departments know the regulations for Medicaid, SSI, Medicaid Waivers and other means-tested benefits. The Arc has a thorough knowledge of the regulations for means-tested benefits.
- When parents set up a trust for their child, they frequently want more than professional management and expertise. They want insight into meeting their child's personal needs. Few banks have this insight. The Arc of Indiana does. Our membership and governing Board of Directors is comprised mainly of family members and other people who routinely interact with people with disabilities. Because of our background, we may be more sensitive to what parents want.
- Families who are enrolled in The Arc Trust have the full backing of The Arc of Indiana and all that we have to offer in the way of support, advocacy and expertise in the area of special needs issues.

25. Is it possible for The Arc to change Trustees?

Yes. Currently the Trustee is The National Bank of Indianapolis. While we anticipate no change, The Arc does have the flexibility to change the Trustee if desirable.

26. I want to keep the trust account I already have, but I also want a Trust I account. Can I have both?

Yes. Several families want our experience and expertise, but they also want family members to control the bulk of trust resources. Both of these objectives can be achieved by using tandem trusts. If this situation applies to you, please request our handout describing tandem trusts.

27. How much money should I put into the trust?

No single answer is correct for everyone. Every family's situation is unique. We can, however, provide examples of what a trust, funded at a specific level, might provide. These examples are not guarantees. They are for the purpose of illustration only.

28. Does the amount I leave to the trust determine how much will be spent each year for my child?

The amount you leave provides the Trustee with an annual target, but the Trustee has full discretion to depart from this target, with good cause shown.

29. Is there a minimum deposit to fund a Trust I account?

Yes. This minimum amount increases slightly every three years. *However, once enrolled, your minimum is guaranteed.* While it does increase for families who enroll later, it does not increase for you. The precise minimum is based on the date enrollment occurs.

If you enroll in Trust I, but you find you cannot fund Trust I at the guaranteed minimum, the money can be transferred to Trust II. Thus, even if you are unable to fund at the Trust I minimum, you can still enroll and fund your child's account under Trust II.

30. What rate of return is assumed from investments?

To provide examples of what might be available for your child, The Arc assumes a seven percent (7%) rate of return. *This assumption is based on past performance since 1988. Past performance does not guarantee future performance.*

31. What happens if the rate of return is more or less than seven percent (7%)?

Earnings are allocated proportionately among all funded accounts. If earnings exceed seven percent (7%), more will be available for distribution. If earnings are less than seven percent (7%), less will be available for distribution.

32. Does Trust I assume guardianship?

No. If your child needs a guardian, someone other than The Arc should be chosen. Whomever you choose should work cooperatively with the trust. On occasion, information available only to a guardian might be needed to administer the trust properly. In your written instructions to the guardian, it is important to stress the need to work cooperatively with The Arc Trust staff, so this information remains available to us.

33. What if my child moves to another state?

If a similar trust is operating in the state to which your child moves and if that trust is willing to accept responsibility, a transfer can be made from our trust to the new trust. If the new trust is not willing to accept assignment, or if there is no similar trust, we retain responsibility for administering your child's trust account.

34. What effect will participation in Trust I have on estate, gift and death taxes?

For most families, participation should have little effect on their taxes, because the amount of money in their estate will be below that subject to substantial taxation. We recommend that you consult directly with your own attorney or tax advisor. If there are any questions, we will be happy to work with him or her directly.

35. If I fund Trust I while I am alive, can I take this as a tax deduction or a gift tax exclusion?

No. Contributions to Trust I are not deductible as charitable gifts or otherwise. The Internal Revenue Code treats these funds as being of direct benefit to your child and not disinterested general charity. A contribution to Trust I for your child is not a "present interest" gift. Only present interest gifts are eligible for the gift tax exclusion.

36. Can a government agency challenge in court my child's eligibility for public benefits by virtue of his or her participation in Trust I?

We have taken every step to create and maintain a trust that is not likely to be challenged or, if challenged, is likely to survive any potential challenge. We thoroughly researched court rulings and legislature before preparing our trust documents to allow enrollment in 1988.

MASTER TRUST II OVERVIEW

The Arc of Indiana Master Trust II was established in 1995 in response to legislation enacted by the United States Congress in 1993. The Omnibus Budget Reconciliation Act of 1993 (OBRA '93) made it possible for people to fund a Special Needs Trust with their own money and still retain Medicaid. Congress acted again in 1999 with The Foster Care Independence Act, making it possible for people to fund a Special Needs Trust with their own money and still retain eligibility for SSI.

In Indiana, thousands of people have benefited from these laws. People receiving an inheritance, a lump sum back-payment from Social Security or a personal injury settlement have put their money into a Special Needs Trust rather than spend the money quickly just to stay eligible for government benefits.

Initially, Trust II was funded with smaller amounts of money, rarely exceeding \$20,000. Accordingly, the intent for Trust II was not to be an investment vehicle so much as a temporary safe harbor for persons who have enough money to jeopardize public assistance benefits, but not nearly enough to make long-term plans. For the sake of simplicity regarding taxes, Trust II investments are limited to the purchase of EE series United States savings bonds. All other funds are kept in a non-interest bearing checking account, which has a balance of over \$11 Million. The Arc Trust II is ideal for, but not limited to, the following situations:

- Small to mid-sized Social Security lump-sum, back payments
- Small to mid-sized personal injury and medical malpractice settlements
- Avoiding monthly spend-down in order to keep under the \$1,500 Medicaid and \$2,000 SSI resource requirements
- Tandem trust arrangements
- Third-party funded trusts that cannot meet the minimum funding requirement for Trust I

2011 TRUST II FEE STRUCTURE

The fee structure for The Arc of Indiana Master Trust II has two parts:

1. Enrollment Fee

There is a one-time **Enrollment Fee** of 12.75% of the amount funded, with a minimum of \$100 and a maximum of \$1,500.

2. Consulting Fee

The **Consulting Fee** for Trust II is an annual fee. We use a sliding scale to assess the Consulting Fee based on the account balance.

2011 Trust II Consulting Fees

Account Value	Fees
Less than \$5,000	\$53
\$5,000 - \$5,999	\$65
\$6,000 - \$6,999	\$77
\$7,000 - \$7,999	\$89
\$8,000 - \$8,999	\$100
\$9,000 - \$9,999	\$117
\$10,000 - \$10,999	\$165
\$11,000 - \$11,999	\$189
\$12,000 - \$12,999	\$212
\$13,000 - \$13,999	\$236
\$14,000 - \$14,999	\$265
\$15,000 - \$15,999	\$295
\$16,000 - \$16,999	\$324
\$17,000 - \$17,999	\$353
\$18,000 - \$18,999	\$384
\$19,000 - \$19,999	\$418
\$20,000 - \$20,999	\$430
\$21,000 - \$21,999	\$490
\$22,000 - \$22,999	\$524
\$23,000 - \$23,999	\$559
\$24,000 - \$24,999	\$596
\$25,000 - \$34,999	\$642
\$35,000 - \$49,999	\$707
\$50,000 - \$74,999	\$766
\$75,000 - \$100,000	\$884

TRUST II AND MEDICAID PAYBACK

Public benefits agencies, like those who administer Medicaid and SSI (Supplemental Security Income), place a cap on a recipient's income and assets in order for the recipient to become or remain eligible for benefits. As person who receives Medicaid must not own more than \$1,500 in assets. A person who receives SSI must not own more than \$2,000 in assets. These types of benefits are referred to as "means-tested" benefits.

When a recipient of means-tested benefits receives a lump sum of money, that money can make him or her ineligible for assistance. Fortunately, The United States Congress passed a law in 1993 allowing persons to fund their own Special Needs Trusts. This law is called the Omnibus Budget Reconciliation Act of 1993, (or OBRA '93 for short).

Today, a trust, such as Trust II, funded by a person with his or her own money is called a Self-Settled Trust, or a Medicaid Payback Trust. This is because when Congress passed OBRA '93, it required that when the recipient Beneficiary passes away, any funds left in the trust must go back to the State to reimburse the state's Medicaid program for the money it spent on the Beneficiary during his or her lifetime. Any money remaining *after* the State has been reimbursed can pass to the recipient Beneficiary's estate or heirs. It is rare for any money to be left after the State has been reimbursed for Medicaid expenses.

However, in the case of trusts like Trust II, the law allows a portion of the trust to go to an organization that assists persons with disabilities prior to the state receiving any remaining funds. Although the law allows trusts like Trust II to retain up to 100% of the remaining balance, The Arc Trust retains only 50% of the remainder. After The Arc Trust has retained 50% of the funds remaining in the trust, only then does the State receive any remaining funds.

Some families are at first surprised to learn that The Arc of Indiana retains 50% of the assets remaining in a Trust II account upon the death of the Beneficiary. Without understanding how the federal law works, it is natural to assume that the 50% retained by The Arc otherwise would pass to the Beneficiary's estate. However, in the overwhelming majority of cases, if The Arc did not retain any of the remainder, the State would claim it all anyway.

How do we utilize the 50% we retain? The Arc Trust only uses the remaining money for Trust administrative expenses and for existing Beneficiaries. One way The Arc of Indiana uses that money is to guarantee to Trust I Beneficiaries that disbursements will continue to be made even if they outlive their actuarial life span and deplete their accounts.

In those rare cases where the trust account is large and the Beneficiary has been on Medicaid only a short period of time, there is the chance that The Arc of Indiana's 50% remainder requirement may decrease money that otherwise would pass to the Beneficiary's estate. Again, this is rare. When there is the potential for this situation to arise, The Arc of Indiana may suggest employing a Tandem Trust. We would be happy to provide you with more information on Tandem Trusts. If the Beneficiary passes away within a year of funding their trust, The Arc will not keep the full 50% of the assets remaining in the Trust II account.

There is no avoiding Medicaid Payback when a special needs trust is funded with money originally belonging to the Beneficiary. It is important to remember, however, that there is no mandatory remainder requirement when an Arc Trust is funded with money originally belonging to someone other than the Beneficiary, such as parents or grandparents.

FREQUENTLY ASKED QUESTIONS

1. What is the basic purpose of Trust II?

Like Trust I, the primary purpose of Trust II is to enhance the Beneficiary's quality of life without jeopardizing benefits like Medicaid, Medicaid Waivers and SSI.

2. Who is the Trustee of Trust II?

The Arc of Indiana is Trustee and has custody of all Trust II resources.

3. What kind of investments are made through Trust II?

Interest-bearing investments are limited to U.S. savings bonds, series EE.

4. Must EE bonds be redeemed when a Beneficiary wants to use Trust II?

We recommend that enough cash be retained in the checking account to meet anticipated withdrawals. If the checking account is not adequate to make a purchase, bonds are then redeemed.

5. How long must I wait before I can redeem the bonds?

There is a government required wait of one year from the time the bonds are purchased until they can be redeemed. For example, if the bonds are bought in January, they cannot be redeemed until the following January.

6. Can the Beneficiary designate how much of his or her trust is put into EE bonds and how much is put into the checking account?

Yes. The Beneficiary has full control. He or she decides how much to put into the checking account and how much to put into EE bonds.

7. Is there a minimum or maximum amount that can be put into Trust II?

There is no required minimum, but accounts are usually funded with several thousand dollars. However, an account can be started with as little as the cost of our Enrollment Fee.

8. Is there a limit to how often a Trust II account can be used each year?

Generally, a Trust II account can be used to make twelve disbursements per year. In addition to these twelve disbursements per year, a Trust II account can be used to pay a Beneficiary's monthly recurring bills, such as cell phone, cable TV, internet access and other monthly bills, as long as paying these bills would not interfere with the Beneficiary's eligibility for benefits. The payment of recurring monthly bills does not count toward the twelve times per year limit.

9. My child will be moving into his own apartment. We will need furniture and household items. Does each purchase count as a disbursement?

No. Prior to making these purchases we would agree that all purchases to set up the apartment will count as one disbursement.

10. What are the two fees for Trust II?

1. The **Enrollment Fee** is a one-time fee paid when you join Trust II.
2. The **Consulting Fee** is an annual fee. We use a sliding scale to assess the Consulting Fee based on the balance of the account.

11. What would it cost if I went to a local attorney to have a trust drafted?

For a precise answer, you need to ask the attorney who would draft the trust. However, a trust comparable to ours is likely to cost several times more.

12. My child is a minor. I have applied for the Medicaid Waiver for him. He would be eligible for the waiver, but he has assets over the allowable limit to meet Medicaid financial eligibility. Can Trust II help?

Yes. You can put his money into Trust II. Once the money is in our trust it no longer counts as an asset in determining his financial eligibility for the waiver. However, per federal law, after your child's death, the state has a claim on a portion of any funds remaining in the trust.

13. Because my child is a minor, are disbursements from his Trust II account considered differently than if he were an adult?

Parents of minor children have a legal duty to provide basic support for their children, including food, clothing, shelter and basic educational expenses. This duty ceases at age 18. Using the child's trust fund to pay for what parents are legally obligated to provide would not be in the child's best interest.

Disbursements from your child's trust should be reserved for extraordinary expenses, such as expenses unique to parents whose minor children are disabled, or very large medical expenses not covered by insurance or Medicaid and not easily afforded by the parents.

Every situation is somewhat different. However, as a general rule, if the requested disbursement is for something that our laws and cultural norms generally expect parents of a minor to provide for their children, then The Arc Trust will be reluctant to use funds from the child's Trust II.

14. If my child is a minor or an incapacitated adult, can I, as his parent or guardian, enroll for him?

The Indiana Trust Code requires a Court Order when establishing a trust for an incapacitated person if the money funding the trust belongs to the incapacitated person. An attorney must be hired in order to prepare the petition on behalf of the parent or guardian, requesting that the Court having jurisdiction over the guardianship order the funds into the trust.

15. By using Trust II, does a Beneficiary incur taxes?

Taxes may be due on interest received when any EE bonds are redeemed. If bonds are not redeemed, then no tax is due. Because Trust II funds are held in a non interest-bearing account, Trust II accounts do not generate a taxable event. Only when we redeem EE bonds does a taxable event occur.

16. Will The Arc prepare the necessary tax forms when bonds are redeemed?

When bonds are cashed in, a 1099 MISC form is generated from the bank. The 1099 is mailed to the Trust II Beneficiary. Beneficiaries then report this information, along with other income, on the tax forms they already use.

17. Are all Trust II disbursements reported by The Arc?

Yes. An important part of our service for both trusts is reporting disbursements and explaining why they do not interfere with eligibility for benefits like Medicaid, SSI and Medicaid Waivers.

HOW DOES THE TRUST OPERATE ONCE FUNDED?

What happens once you fund the trust? How does the Beneficiary access his or her account? It's actually quite simple. Just give us call. In most cases, this is all that is required. We are committed to doing everything in our power to use the Beneficiary's account to provide him or her the best possible quality of life without jeopardizing valuable public benefits. We say yes to disbursement requests whenever possible, so long as the disbursement would not jeopardize public benefits, is for the sole benefit of the Beneficiary and is otherwise in the Beneficiary's best interest. We are committed to seeing that Arc Trust Beneficiaries are able to access their Arc Trust accounts with dignity and with as little difficulty as possible.

Here is how it works:

- The trust is funded.
- Normally, within 48 to 72 hours, the trust is processed and disbursements are ready to be made.
- The Key Person (or, in some cases, the Beneficiary) calls, writes or e-mails us with a request. The Key Person tells us what is desired, why and at what expense.
- The Trust Director determines whether the disbursement request can be honored based on multiple factors, such as state and federal regulations affecting the type of disbursement requested, the balance in the account and the annual targeted spending amount, if applicable.
- The Trust Director, with the support of The Arc Trust staff, then works directly with the Key Person and/or vendor to make payment. The Arc Trust will make the payments and do all the reporting associated with the disbursement request. It takes about two days for the disbursement request to be processed. Checks are prepared on Tuesdays and Thursdays for requests made by 4:00 p.m. on Mondays and Wednesdays. We then mail the check either to the vendor, which is preferred, or to the requesting Key Person. In some situations, the Key Person may be able to pay for the good or service in advance and then submit the receipts to The Arc Trust for reimbursement.
- Under no circumstances can we give cash directly to the Beneficiary or deposit money into a Beneficiary's bank account.
- Almost all disbursement requests must be approved in advance. The Arc Trust cannot make a reimbursement to a Key Person without a receipt.
- A receipt must be submitted for all disbursements made.

Some Arc Trust Beneficiaries and Key Persons are often surprised to learn just how easy it is to access their accounts. Despite our size and the complexity of the law governing the use of Special Needs Trusts, we try to keep things as easy as possible.

TRUST I AND TRUST II COMPARISON

What follows is not intended as a definitive distinction among these options. This comparison is intended to provide some basic differences among the options and help you clarify more specific questions of concern to you.

TOPIC	TRUST I	TRUST II
Enrollment Fee	Please see page 7	Please see page 20
Consulting Fee	Please see page 8	Please see page 20
Frequency of Use	No limit	Twelve times per year, in addition to regularly recurring bills
Investments	Mutual Equity and Bond funds	EE savings bonds; checking account (no interest)
Time of Funding	At Donor's option (usually at death)	At enrollment
Remainder to The Arc	No	Yes
Remainder to the State	No	Yes, reimbursement for Medicaid costs as required by law
Expected Duration	Full actuarial life*	Less than full actuarial life; perhaps as brief as a few years
Funding Required	Trust I has a minimum that increases	No minimum and no maximum
Tax Preparation	Yes	No
Donor	Usually not the person with the Disability	Usually the person with the disability

* Trust I provides for possible disbursements even if the Beneficiary's account is completely depleted at actuarial life. No such provision applies to Trust II.

WHAT CAN I BUY WITH THE ARC TRUST?

Federal and State regulations that govern how a Special Needs Trust can be used are so voluminous and complex, it is almost impossible to draft an all-inclusive list of what goods and services you can and cannot purchase with a Special Needs Trust. Following is a list of goods and services routinely paid for through a Special Needs Trusts.

Goods

- Furniture
- Personal care items
- Clothing
- Mattress/box springs
- Vehicles
- Television/stereo, etc.
- Eyeglasses/contacts
- Toys
- Vacations
- Hobby supplies
- Gasoline
- Essential dietary needs
- Computers/software
- Pets/pet supplies
- Games
- Washer/dryer
- Guitar, musical instrument, etc.
- Household products and supplies, etc.
- Kitchen appliances/tools
- Property taxes
- Rent/mortgage payments
- School tuition
- Household appliances
- Outdoor grill
- Prepaid funeral expenses*

Services

- Cell phone services
- Internet services
- Cable TV
- Hair care
- Transportation
- Insurance payments
- Eye and dental care
- Entertainment expenses
- Tuition to camps, classes, etc.
- Athletic or other recreational league fees
- Auto repair/maintenance
- Attendant care
- Rehabilitation
- Pet grooming/veterinarian bills
- Attendance to concerts, movies, sporting events, etc.
- Music lessons
- Maid services
- Home modifications/home improvements
- Field trips/day trips, etc.
- Utilities
- Therapeutic massages
- Modifications to make vehicle handicap
- Accessible travel expenses
- HVAC services
- Attorney/accountant/financial planning fees
- Seminar expenses

This list is for illustration only and is by no means exhaustive. It is also important to point out that, just because an item appears on the list, it does not mean that it will always be allowable or in the Beneficiary's best interest. What may be in one Beneficiary's interest may not be in the best interest of another. This also means that we may be able to pay for goods and services that do not appear on this list.

* The Arc Trust cannot pay for a Beneficiary's funeral after the Beneficiary has passed away. Please review our discussion of funeral expenses.

SSI AND THIRD PARTY PAYMENT OF FOOD AND SHELTER EXPENSES

When a trust Beneficiary receives SSI, we must be careful when using the trust to pay for anything that the Social Security Administration defines as “food” or “shelter.” When a third party, including a Special Needs Trust, pays a shelter expense for a person who receives SSI benefits, SSI will take a dollar-for-dollar reduction from the following month’s SSI check, up to a regulatory cap called the Presumed Maximum Value. This Presumed Maximum Value is one-third of the maximum federal benefit rate, plus \$20. It is a complicated law. When an SSI recipient receives money from a third party to pay for a shelter expense, he or she can expect to lose up to one-third of his or her SSI benefits for the following month.

Determining whether or not an item is “food” is fairly self-explanatory. “Food” includes groceries, snacks, milk bread, etc. However, we can use the trust to pay for a Beneficiary to go out to eat, as this is reported as an entertainment expense, which is acceptable to the government.

SSI defines “shelter” expenses as the following:

- Mortgage
- Rent
- Property insurance, if required by a bank or other mortgage holder
- Gas bills
- Electric bills
- Heating fuel
- Water
- Sewer
- Garbage collection services
- Property taxes

This does not mean that we can never pay a shelter expense for an SSI recipient. However, it does mean that the answer often is no, and that we must approach these requests with caution and prudence to ensure it is in the Beneficiary’s best interest.

IMPORTANT INFORMATION ABOUT FUNERALS

An Arc Trust Beneficiary can use his or her Arc Trust I or Trust II account to pre-pay for any and all funeral expenses during his or her lifetime. However, a Beneficiary’s Trust I or Trust II account cannot be used to pay for funeral expenses after the death of the Beneficiary. The reason The Arc Trust cannot pay for funeral expenses after the death of a Beneficiary has to do with State and Federal laws governing Trusts. For this reason, The Arc of Indiana strongly urges all Arc Trust Beneficiaries to pre-pay all costs associated with their funeral, burial plot, headstone and other related expenses before their death. In general, the use of an irrevocable funeral trust for the purposes of pre-paying funeral costs will not affect Medicaid or SSI benefits.