The Arc®

Master Trust

Indiana's leading
special needs trust,
founded in 1988

The Arc of Indiana Master Trust
thearctrust.org

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ABOUT THE ARC OF INDIANA & THE ARC MASTER TRUST

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. Today, The Arc of Indiana continues to uphold its mission of improving opportunities for people of all ages and disabilities. The Arc Master Trust is part of that mission.

In 1988, The Arc of Indiana established Trust I as a way for families to ensure that even after they are gone, they will be able to provide for their loved one. Trust II was created in 1995, in response to a new federal law that allowed persons receiving government assistance to save their own funds in a special needs trust.

Today, The Arc Master Trust offers families, people of all disabilities, people with mental illness, and people 65+ an experienced, professional option for special needs trust administration at an affordable price, allowing resources to be saved and easily used for qualified disability and personal expenses to better their quality of life.

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

ABOUT SPECIAL NEEDS TRUSTS

The purpose of a special needs trust is to provide a person receiving government benefits a way to save financial resources and keep their 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. The Arc Master Trust is a pooled trust, where funds are pooled for the purpose of investments and/or management. However, each beneficiary has their own account, called a subaccount, which is monitored and tracked separately.

The Arc of Indiana offers two Master Trusts. Our original trust, Trust I, is usually funded by a third party (parent, grandparent, etc.). The second trust, Trust II, is funded by someone receiving government assistance using their 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 by paying for things those programs do not.

Special needs trust can be used for anything that is within the law and does not interfere with government benefit eligibility and includes disability and non-disability related expenses.

WHY THE ARC OF INDIANA MASTER TRUST?

The Arc Master Trusts are professionally administered and provide the lifetime continuity individuals and families desire. Many families are concerned that administration of a trust 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 Master 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. There is no minimum or maximum to fund a Master Trust. Our trusts feature:

- A low annual administration fee
- A trust account manager dedicated for each beneficiary
- Unlimited disbursements and deposits
- Experienced trustee services
- Professional investment oversight at no additional cost

We have unmatched expertise in administering special needs trusts. When disbursements are made from the special needs trust, 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 eligibility. The trust staff reports to the appropriate government agencies for each disbursement made on behalf of the beneficiary. The Arc Master Trust has worked with families and individuals since 1988 to use their trust, while maintaining eligibility for government programs. Each beneficiary has an assigned trust account manager available through our online portal—INtrust, email, phone, mail, or fax. The Arc Master Trust staff handles all trustee responsibilities, including disbursements, receipt management, agency reporting, investments and trust tax preparation, relieving the beneficiary or their key people of these tasks.

Beneficiaries and key people in a beneficiary's life can easily view their trust, balance, print statements, and request disbursements through our secure portal, INtrust, a feature unique to The Arc Master Trust.

Safeguarding the assets of trust beneficiaries is a primary concern of The Arc Master Trust. Trust funds are safely and securely on deposit with The National Bank of Indianapolis, and a trust advisory committee and The Arc of Indiana board of directors provides advice and oversight of The Arc Master Trust. Individuals identified to assist beneficiaries with their trust (that we refer to as "key people") and beneficiaries can review their individual trust account 24 hours a day through a password protected portal, INtrust, on our website. An independent CPA firm audit is completed each year for The Arc of Indiana, which includes examination of trust accounts and interviews with trust staff.

MASTER TRUST I

MASTER TRUST I OVERVIEW

Master Trust I was established in 1988 in response to concerns of families of loved ones with disabilities. Prior to this trust being allowed by federal law, there was no way for individuals to leave funds to a loved one who happened to have a disability without jeopardizing their eligibility for government benefits. 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 trusts.

Typically, Trust I accounts are opened by the parents or grandparents and sometimes other family members or friends (the donors) of a person receiving government benefits (the beneficiary) for the benefit of that person, and at the time of enrollment they create or modify their wills, life insurance policies, and other financial holdings to fund The Arc Master Trust at the time of their death.

Although most donors choose to fund the trust at their death, this is not a requirement. In some circumstances, it may be beneficial to fund the trust account during the donor's lifetime. This, of course, is a personal decision.

Generally, upon the death of the donor or donors, the money is deposited into The Arc Master Trust where it is placed into the Trust I pool. The Trust I pool is on deposit at The National Bank of Indianapolis, and trust accounts with balances over $30,000 are 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. Please keep in mind that while there is not a required minimum balance, there is a $30,000 minimum for the account to be invested.

Trust I accounts with a balance over $30,000 are annuitized, which means the total amount of money in the account is disbursed gradually throughout the beneficiary's lifetime. If the beneficiary out-lives the money that has been deposited, we continue to make disbursements to the beneficiary from The Arc Master Trust Remainder Fund. See page 6 for more detailed information regarding the Remainder Fund.

The donor always retains control over what happens to funds left in the beneficiary's account when they pass away. At the death of the beneficiary, any funds remaining in the trust automatically pass to the named remaindermen. The donors name both the key person(s) and the remaindermen of the trust upon enrollment and retain the power to change both the key person(s) and the remaindermen at any time. In other words, if you fund Trust I for your loved one, you will be able to update who assists The Arc Master Trust in administering the account, as well as who receives any remaining funds in the account when the beneficiary passes away. There is no remainder requirement for Trust I to stay with The Arc Master Trust. However, the donors may elect to leave part of the remainder to The Arc Master Trust if they wish.

FUNDING & FINANCIAL PLANNING

Families participating in The Arc Master 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 loved one is accustomed, and what their needs may be.

Families usually fund the trust with proceeds from their estate, life insurance death benefits, 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.

A standard Trust I account is typically funded with a minimum of $30,000, but there is no minimum or maximum to fund Trust I. 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.

The Arc Master Trust encourages individuals 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 FEES

1. Enrollment Fee

There is a one-time initial **enrollment fee**.

2. Renewal Fee

Intended donors generally enroll in the trust during their lifetime, but they will not fund the trust until their death. Once you enroll in The Arc Master Trust you will be charged an annual **renewal fee.** The renewal fee is a commitment to continue the unfunded trust plan for another year. Donors receive all documents to update and/or make changes. This may also be a good time to talk with a trust team member to review your plan and ask questions. 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. Administration / Maintenance Fee

If the trust is funded with over $30,000, and is authorized for disbursements, we charge an **administration fee.** If disbursements are deferred, we charge a **maintenance fee**.

If the trust is funded with under $30,000 we use a sliding scale to assess either the administration or maintenance fee based on the account balance.

4. Tax Preparation Fee

If the trust is funded with over $30,000, then an annual **tax preparation fee**, directly deducted from the beneficiary'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. If the trust is funded with under $30,000, there is no tax preparation fee or other tax forms that need to be prepared.

Please see the enclosed fact sheets for information on current fees.

TRUST I ANNUAL SPENDING PROJECTIONS

If a Trust I account is funded with over $30,000 an annual spending projection is calculated each year. The annual spending projection tells us how much money can be spent on behalf of the beneficiary each year to ensure that there will be money in their account until the end of their 65th year. In most cases, we will annuitize the trust over the course of the beneficiary's actuarial life span. In doing so, we assume a 65-year life expectancy, an annual 3% increase in inflation, an annual 7% return on Trust I investments, the appropriate administration or maintenance fee, and tax preparation fee. We use an actuarial formula 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 loved one outlives their actuarial life span? One unique feature of The Arc Master Trust, that you are not likely to find anywhere else, is that when your loved one outlives their actuarial life span, The Arc Master Trust will continue to make disbursements on their behalf, even when their account has been depleted. How do we do this? The Arc 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.

Families of Trust I beneficiaries can rest assured that should their loved one outlive their annuitized trust 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 prior to the age of 65, the beneficiary will not receive the benefit of additional disbursements from the remainder fund account.

Please see the enclosed estimated Annual Targeted Spending Amounts chart.

TAX INFORMATION

Trust accounts that are funded over $30,000 are subject to taxation for all interest, dividends, and their share of market gains and losses incurred during a year. The National Bank of Indianapolis prepares and files Federal Form 1041 and Indiana Form IT-41 for all trust accounts funded over $30,000. The fee for preparing these forms and any amount owed to the United States Treasury and Indiana Department of Revenue is deducted from the trust.

The key person(s) may 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. The National Bank of Indianapolis prepares the Form K-1 and The Arc Master Trust mails it to the key person prior to April 15. The fee for preparing this form is included in the tax preparation fee.

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

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

TRUST I ENROLLMENT PROCESS

- Complete the Trust I Joinder Agreement. The Joinder Agreement is available to print on our webiste at thearctrust.org. If you would like to schedule a meeting with a member of the trust team, please call, email, or visit our website to schedule a time to meet or have a phone conference.
- All donors (the people who are establishing the trust) should sign the Joinder Agreement where indicated.
- Mail the Joinder Agreement and the check for the enrollment fee, to The Arc Master Trust, PO Box 1547, Indianapolis, IN 46206. The check should be made payable to The Arc of Indiana. Please note the beneficiary's name on the memo line of the check. If you have made prior arrangements with the Chief Trust Officer to make payments on the enrollment fee or have made payment by credit card, please note that when mailing in the Joinder Agreement.
- Once the completed Joinder Agreement is received and the full enrollment fee has been paid, The Arc Master Trust office will process the enrollment. Please allow 10 business days to process the enrollment.
- Once the enrollment is processed donors will receive a letter confirming that the account has been opened and what the account number is.
- 11 months after the date of the enrollment the donor(s) will receive an updated Joinder Agreement and statement for the renewal fee payment in the mail. Renewal fees are always due on the last day of the month in which the trust was opened. This mailing will be done every year until the trust is funded, at which time the renewal fee ends.

Please contact The Arc Master Trust if you have any questions about the Trust I enrollment process.

FREQUENTLY ASKED QUESTIONS

1. Does Trust I allow family members or trusted individuals 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 or individuals trusted by donors and beneficiaries, do not need to learn government regulations regarding trust matters. These are the responsibilities of The Arc Master Trust. The key persons do not have an official legal role in the administration of the trust. The Arc Master Trust often defers to the opinions, insights and directions given by key persons when making decisions on behalf of the beneficiary.

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

Trust I can pay for disability related and non-disability related expenses including but not limited to, 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 and more. Please see page 22 for additional examples of how a trust can be used. If you have specific thoughts for your loved one might use their trust, please do not hesitate to contact The Arc Master Trust to discuss those options.

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

On occasion, Trust I has paid for shelter (rent or mortgage), and basic utility expenses (water, gas, electric, heat). Trust I can make payments for shelter and basic utility expenses when those payments do not impact the benefits that the beneficiary is currently receiving, such as HUD, SSI, or government funded residential programs. The intent of Trust I is to supplement, not replace, what those benefits support. If paying for shelter and basic utility expenses does not impact the benefits that the beneficiary is receiving, Trust I can be used to pay for these expenses when there are sufficient funds in the beneficiary's trust account to support ongoing assistance.

4. How are requests for disbursements made?

Each trust is assigned a trust account manager who is the primary contact for disbursement requests.Requests can be made through our online portal, INtrust, or by email, phone, or fax. Requests can only be made by the key people, or, when appropriate, by the beneficiary.

5. After I die, one of my other children will contact the trust to request disbursements for my child who is disabled. If my other child is not satisfied with the trust, can that child close the trust?

A funded Trust I account is irrevocable, meaning it cannot be changed or cancelled. If your other child is dissatisfied, they can request a review of the grievance. The grievance is reviewed by the Trust Advisory Committee and The Arc Board of Directors. When appropriate, the trust can be transferred to another pooled trust.

6. Can a beneficiary have both a Trust I and Trust II account?

Yes. If this is the case, all disbursements will first be made from Trust II account until it is depleted.

7. When must the account be funded?

In most cases, the trust will be funded at the death of the second donor if there is more than one listed. Generally, it will be funded through a will, a living trust, a retirement plan or a life insurance policy specifically designated for this purpose.

8. 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 the trust beneficiary.

9. 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 trust, regardless of when you fund it. However, the trust account will be subject to either an administration fee or maintenance fee. The administration fee is assessed if disbursements are authorized to be made. The maintenance fee is assessed if disbursements are deferred until a future date.

10. How many people can fund a single account?

There may be one or multiple donors to a beneficiary's account. 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.

Only the individuals listed as donors formally on the Joinder Agreement will be permitted to make changes to remaindermen and key persons. Multiple individuals may contribute to a trust; however, if they are not formally listed as donors, they will not have the authority to make changes and will be agreeing to the information the formal donors have made. If an individual wants to contribute to a trust but is not in agreement with the remainderman or key persons of the existing trust, they might want to consider establishing their own Trust I for their loved one.

11. 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.

12. 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 donors may enroll as a hedge against other plans not working out as planned.

13. What if I do not have $30,000 to fund my trust?

The Arc Master Trust will accept whatever you leave for your loved one; however, if the balance is under $30,000 it will not be held in our investment account.

14. Can I delay enrolling until after my death?

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

Nevertheless, if you want to delay, you can, but there is a cost. If someone enrolls for your beneficiary after your death and you are the last donor to die, a higher enrollment fee may be charged. This fee is currently three times the current enrollment fee at the time of funding.

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 funding the trust will go as smoothly as possible. If someone else, such as the executor of your estate, 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 Master Trust to obtain information about your beneficiary that is needed to safely and effectively administer the trust for their benefit.

15. When a beneficiary dies, what happens to money remaining in the account?

Our intent is to spend the entire amount for the beneficiary's benefit during their lifetime. If they live to actuarial life expectancy, the trust should be completely depleted. Should money remain in the trust after a beneficiary passes away, the donors, designate how this money is distributed.

16. If a beneficiary lives longer than their life expectancy and nothing is left in the account, what happens?

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

17. I have a private trust established with a family member serving as trustee. Why should I consider switching to The Arc Master Trust I?

- **Continuity**. Families want continuity. They want the trust they create to last a lifetime. That continuity could be at risk if the trust is being administered by a family member. They might move away, lose interest in administering the trust or die before the beneficiary. The Arc Master Trust I is professionally administered, providing the lifetime continuity families want.
- **Reliability**. In planning for the 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.
- **Expertise**. If a family member serves as trustee, their most challenging responsibility may be learning and staying current with regulations and making reports to agencies such as the Social Security Administration (SSA), Medicaid, and the Indiana Family and Social Services Administration (FSSA). Our staff has the knowledge and expertise to make these reports.

18. 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 a beneficiary's income or resources exceed the maximum allowed, they are likely to be ineligible.

When your loved one first applied for a means-tested benefit, their 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. The Arc Master Trust staff knows the government regulations so the key people do not need to be concerned that benefits will be reduced or eliminated.

19. Does The Arc Master Trust make these reports?

Yes, we make the reports. We know the regulations well. Our expertise minimizes potential challenges from government agencies. Because we administer thousands 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 have experience and expertise comparable to The Arc Master Trust.

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

Yes. Donors want our experience and expertise, but they also want trusted individuals in their lives 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.

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

No single answer is correct for everyone. Every 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.

22. Does the amount I leave to the trust determine how much will be spent each year?

Yes. The spending target is based on the balance in the account and the age of the beneficiary. 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.

23. What rate of return is assumed from investments?

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.***

24. 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.

25. What if a beneficiary moves to another state?

If a similar trust is operating in the other state 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 the trust account.

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

For most, participation should have little effect on taxes, because the amount of money in the 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 them directly.

27. 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 the benificiary and not disinterested general charity. A contribution to Trust I for the beneficiary is not a “present interest” gift. Only present interest gifts are eligible for the gift tax exclusion.

MASTER TRUST II

TRUST II OVERVIEW

Master Trust II was established in 1995 in response to legislation enacted by the United States Congress in 1993. Before 1993, a person on government assistance such as Medicaid and SSI would lose eligibility if they received money or if they wanted to be able to save their own money. This changed with the passage of this law. Since that time, individuals, known as beneficiaries, can establish and place their money into their own trust account through The Arc Master Trust, which we call Trust II.

Many Trust II beneficiaries use their trusts as a savings account and add to it whenever they need or want to with excess money left after paying their monthly bills and other necessities. Many of our Trust II accounts are small. The average balance generally is under $10,000.

If there is a larger amount received from an inheritance, social security back payment or lawsuit settlement, and the amount placed into the trust is over $30,000, then these accounts are held in our Trust II investment account.

There is no minimum or maximum that has to be placed in a Trust II account. However, for the sake of simplicity regarding taxes, Trust II accounts funded under $30,000 are placed in The Arc's trust that does not have investment income.

Trust II is ideal for, but not limited to, the following situations:

- A way for individuals with disabilities to save a portion of their SSI, SSDI or wages
- Social Security lump-sum, back payments
- Personal injury and medical malpractice settlements
- Savings accounts or other investments held in the beneficiary's name
- Inheritance where the individual has been named directly

TRUST II FEES

1. Enrollment Fee

There is a one-time enrollment fee.

2. Administration/Maintenance Fee

If the trust is funded with over $30,000, and is authorized for disbursements, we charge an administration fee. If disbursements are deferred, we charge a maintenance fee.

If the trust is funded with under $30,000, and is authorized for disbursements, we use a sliding scale to assess either the administration fee or a maintenance fee based on the account balance.

3. Tax Preparation Fee

If the account is held in the Trust II investment pool (account balances over $30,000), an annual tax preparation fee, deducted directly from the beneficiary's account, covers the preparation of Federal Form 1041 and Indiana Form IT-41. It also covers the preparation of the Grantor Tax Letter, which is prepared each year.

Please see the enclosed fact sheet for information on current fees.

TAX INFORMATION

Trust accounts in the investment pool are subject to taxation for all interest, dividends, and their share of market gains and losses incurred during a year. Each year, The National Bank of Indianapolis prepares and files Federal Form 1041 and Indiana Form IT-41 for all trust accounts funded over $30,000. The fee for preparing these forms and any amount owed to the United States Treasury and Indiana Department of Revenue is deducted from the trust.

The beneficiary or key person may need to prepare and file a Federal Form 1040 and Indiana Form IT-40. In order to prepare these forms, the key person will need a Grantor Tax Letter. The National Bank of Indianapolis prepares the Grantor Tax Letter, and The Arc Master Trust mails it to the key person prior to April 15. The fee for preparing this form is included in the tax preparation fee.

A Grantor Tax Letter will be mailed each year regardless of whether or not disbursements have been made.

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

TRUST II & MEDICAID PAYBACK

Public benefits agencies, like those who administer Medicaid and SSI (Supplemental Security Income), place a cap on a recipient's assets (resources) in order for the recipient to become or remain eligible for benefits. These types of benefits are referred to as "means-tested" benefits. When a recipient of means-tested benefits has more money than this, that money can make them ineligible for assistance. Fortunately, The United States Congress passed a law in 1993 allowing persons to fund their own special needs trust. 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 their own money is called a Self-Settled Special Needs 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 their 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.

In the case of trusts like Trust II, the law allows a portion of the trust to go to the not-for-profit that administers the trust 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 Master Trust retains only 50% of the remainder. The remaining 50% is sent to the State to reimburse Medicaid expenses.

Some families are at first surprised to learn that The Arc Master Trust 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 Master Trust otherwise would pass to the beneficiary's estate. However, in the overwhelming majority of cases, if The Arc Master Trust did not retain any of the remainder, the State would claim it all anyway.

How do we utilize the 50% we retain? The Arc Master Trust uses the remaining money for trust administrative expenses and for existing beneficiaries. One way The Arc Master Trust 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 Master Trust'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 Master Trust may suggest employing a Tandem Trust. We would be happy to provide you with more information on Tandem Trusts.

There is no avoiding Medicaid Payback when a special needs trust is funded with money originally belonging to the beneficiary. It is the intent of The Arc Master Trust for the funds to be spent during the beneficiary's lifetime. It is important to remember, however, that there is no mandatory remainder requirement when a trust with The Arc Master Trust is funded with money originally belonging to someone other than the beneficiary, such as parents or grandparents.

TRUST II ENROLLMENT PROCESS

- Complete the Trust II Joinder Agreement. The Joinder Agreement is available to print on our website at thearctrust.org. If you would like to schedule a meeting with a member of the trust team, please call, email, or visit our website to schedule a time to meet or have a phone conference.

- Please note when completing the Trust II Joinder Agreement that even though there may not be money left to give to remaindermen upon the beneficiary's death, this area must be completed in order to open the Trust II account. Examples of remaindermen include family, friends, not-for-profit agencies (such as the Humane Society, The Arc of Indiana, The Arc of Indiana Foundation, Self-Advocates of Indiana, Special Olympics, NAMI, etc.), or churches.

- If you would like to have online access to view and print your trust account statements, please indicate this on the Joinder Agreement. We can also mail the account statement at specified intervals.

- The Joinder Agreement should be signed by the appropriate person (see items a-d below), needed to open the account.
    a. The beneficiary, legal guardian, parent or grandparent may sign the Trust II Joinder Agreement where indicated to open the trust.
    b. If the beneficiary is a minor the parent or parents (natural guardians) or legal guardian (appointed by the court) MUST sign the Joinder Agreement where indicated to open the trust. The minor child cannot sign the Joinder Agreement to open the account.
    c. If there is a Guardian of Estate or Full Legal Guardian (Guardian of Person and Estate) that person or persons (if co-guardians) MUST sign the Joinder Agreement where indicated.
    d. If there is a Guardian of Person only that person or persons (if co-guardians) MAY sign the Joinder Agreement where indicated. The beneficiary may also sign in this case.

- If a lawsuit settlement will be used to fund the trust, a copy of the court order must be provided.

- A copy of the guardianship papers or power of attorney forms (if appropriate) must be received in order to open the Trust II account.

- Mail the Joinder Agreement, check to fund the trust, a copy of the guardianship or power of attorney papers (if appropriate), and a copy of the court order (if appropriate) to **The Arc Master Trust, PO Box 1547, Indianapolis, IN 46206.** The check to fund the trust should be made payable to The Arc of Indiana. If the beneficiary's name is not printed on the check, please note the beneficiary's name on the memo line of the check.

- Once all of the appropriate documents are received, The Arc Master Trust staff will process the enrollment. Please allow 10 business days for the enrollment to be processed.

- Once the enrollment is processed the main key person (or key people if appropriate) will receive a copy of the original Joinder Agreement, the Trust II account number assigned to their trust, and a Welcome Guide with information on how to access and use the trust.

Please contact The Arc Master Trust if you have any questions regarding the Trust II enrollment process.

FREQUENTLY ASKED QUESTIONS

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

If the account is funded with under $30,000 there is no investment. If the amount is over $30,000 it is invested in a diverse, well performing, prudent portfolio consisting of mutual funds, mutual bond funds, and a small percentage of money market funds.

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

There is no required minimum or maximum that has to be deposited in Trust II.

3. My child is a minor. I have applied for the Medicaid Waiver for them. They would be eligible for the waiver, but they have assets over the allowable limit to meet Medicaid financial eligibility. Can Trust II help?

We would be cautious about doing this if your child has not been found eligible for Supplemental Security Income (SSI). If an individual has a special needs trust established before they apply for SSI, then any funds in a trust will count towards the resource limit. If they are found eligible as a minor or as an adult, and then create a trust, SSI does not consider the trust to be a resource.

Yes. You can put their money into Trust II. Once the money is in our trust it no longer counts as an asset in determining their other 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, and while living the money can only be used for the sole benefit of the child.

4. Because my child is a minor, are disbursements from his Trust II account considered differently than if they 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 account for such requests.

5. If my child is a minor or an incapacitated adult, can I, as their parent or guardian, enroll for them?

The law allows the parent, grandparent, guardian, court or the person with the disability to open the trust. There may be times when a court order is required to open the Trust II account.

6. By using Trust II, does a beneficiary incur taxes?

If the account is funded with over $30,000, funds are held in our Trust II investment account and a Grantor Tax Letter will be mailed to the key person authorized to receive tax information on the account.

7. Are all Trust II disbursements reported to Medicaid and SSI by The Arc Master Trust?

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.

8. When is the trust account funded?

Trust II accounts are funded initially when the trust is established. Beneficiaries and/or key persons can continue to make deposits to Trust II accounts after the trust has been established by mailing a check or by electronic deposit in INtrust.

9. Does Trust II 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 Master Trust's. Although the key person does not have an official legal role in the administration of the trust, The Arc Master Trust pays great deference to the opinions, insights and directions given by key persons when making decisions on behalf of the beneficiary.

10. How are requests for disbursements made?

Each trust beneficiary is assigned an account manager who is the primary contact for disbursement requests. Requests can be made through our online portal, INtrust, or by email, phone, or fax. Requests can only be made by the key people, or, when appropriate, by the beneficiary.

11. What are examples of how Trust II can be used?

Trust II can pay for disability related and non-disability related expenses including but not limited to, dental care, eye care and nursing care (when such care is not available through Medicaid or other medical insurance programs), school tuition, communication aids, cable television, phone service, vehicles for transportation, clothing, house wares, furniture, vacations, outings and more. Please see page 22 for additional examples.

12. Can Trust II pay shelter expenses, such as rent, mortgage and utilities?

On occasion, Trust II has paid for shelter (rent or mortgage), and basic utility expenses (water, gas, electric, heat). Trust II can make payments for shelter and basic utility expenses when those payments do not impact the benefits that the beneficiary is currently receiving, such as HUD, SSI, or government funded residential programs. The intent of Trust II is to supplement, not replace, what those benefits support. If paying for shelter and basic utility expenses does not impact the benefits that the beneficiary is receiving, Trust II can be used to pay for these expenses when there are sufficient funds in the beneficiary's trust account to support ongoing assistance.

13. What if I am not satisfied with my trust?

A funded Trust II account is irrevocable, meaning it cannot be changed or cancelled. A request can be made to have the grievance reviewed by the Trust Advisory Committee or The Arc Board of Directors. When appropriate the trust may be transferred to another pooled trust.

TRUST I and TRUST II

HOW DOES THE TRUST OPERATE ONCE FUNDED?

Once the trust is funded the key people and if appropriate the beneficiary will receive notice that the account is established. From there, the trust can be utilized to pay for goods and services. To access information about the trust and make disbursement requests, you can use the online portal, INtrust, or by contacting the dedicated account manager by phone, fax or email, or by mail.

The Disbursement Process

- The key person or beneficiary submits a request to their trust account manager via our online portal, email, fax, or mail. The request should indicate what is desired, who or what will be paid, and the total of the disbursement.
- The trust account manager 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 account manager then works directly with the key person and/or vendor to make payment. The Arc Master Trust will make the payments and do all the reporting associated with the disbursement request. 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 for reimbursement.
- We cannot write checks payable to the beneficiary or deposit money into a beneficiary's bank account.
- Almost all disbursement requests must be approved in advance.
- A receipt or other documentation *must* be submitted for all disbursements made. The trust cannot reimburse a key person without a receipt.

Some 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 Account Statements

Trust account statements may be viewed and printed by logging into INtrust at any time after online login access has been established. If online access is not requested, trust account statements can be mailed monthly, quarterly, or annually.

TRUST I & 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
Donor/person funding the trust	Not the person receiving benefits	The person receiving benefits
Time of Funding	At donor's option (usually at death) additional deposits can be made once established	At enrollment
Funding Required	While generally the minimum is $30,000, there is no minimun or maximum	No minimum or maximum
Fees	Please see the enclosed listing with the current enrollment, administration, maintenace and tax preparation fees	
Frequency of Use	No limit	No limit
Investments	Over $30,000 – Mutual Equity and Bond funds	Over $30,000 – Mutual Equity and Bond funds
Remainder to The Arc	No, unless donor chooses	See page 15
Remainder to the State	No	Yes, reimbursement for Medicaid costs as required by law–see page 15
Expected Duration	Estimated life expectancy* (full actuarial life)	Less than estimated life expectancy, perhaps as brief as a few years

* 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 PURCHASE WITH MY TRUST?

Disbursements from a special needs trust are to supplement and not replace what the beneficiary's government benefits will pay for. While it is impossible to draft an all-inclusive list of what goods and services can and cannot be purchased with a special needs trust, following are items that are routinely covered.

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
Kitchen Appliances/Tools
School Tuition
Household Appliances
Outdoor Grill
Prepaid Funeral Expenses

Services

Cell Phone Services
Internet
Cable TV
Hair Care
Transportation
Auto Insurance
Eye and Dental Care
Entertainment Expenses
Tuition to Camps, Classes, etc.
Athletic or Recreational Fees
Auto Repair/Maintenance
Attendant Care
Rehabilitation
Pet Grooming/Veterinarian Bills
Tickets to Concerts, Movies, Sporting Events, etc
Music Lessons
Maid Services
Home Modifications/Improvements
Field Trips/Day Trips, etc.
Therapeutic Massages
Vehicle modifications to make accessible
HVAC Services
Attorney/Accountant/Financial Planning
Seminar/Training/Conference Expenses

If the beneficiary lives with family or has roommates, living expenses will be divided among all the individuals living in the home.

If the beneficiary is a minor, the trust can only pay for items directly related to the individual's disability. Once the beneficiary turns 18 they may access all the goods or services listed.

If you have specific questions about how a beneficiary can use their trust, please contact the The Arc Master Trust.

SSI and Disbursements from the Trust

The information in this section only applies to Supplemental Security Income (SSI) payments and not Social Security Disability Income (SSDI) payments.

If the trust is used to pay any of the expenses below for an SSI recipient, then the SSI check could be reduced up to the SSI's Presumed Maximum Value (PMV), which is currently 1/3 of the SSI check plus $20.

- Rent
- Mortgage
- Utility payments (home heating oil or gas, water, electric, sewage, trash removal)
- Property Taxes
- Home Owner's Insurance, if required by the mortgage company

If the trust is used to pay any of the above-mentioned expenses for an SSI recipient, then the SSI check could be reduced up to the SSI's Presumed Maximum Value (PMV), which is currently 1/3 of the SSI check plus $20. Therefore, The Arc Master Trust is hesitant to pay the above expenses for our beneficiaries receiving SSI and will instead try to find other expenses that are not on the above list (telephone, cable and internet, for instance). There may be certain circumstances when the trust can pay these expenses even if the beneficiary receives SSI. This will always need to be approved by trust staff and an agreement signed that says the beneficiary, guardian and/or key person understands there will be a reduction in the SSI check and that the payment(s) have to be reported to the Social Security Administration (SSA).

Additionally, trust funds from accounts for SSI beneficiaries should not be used to purchase any kind of gift card since doing so could cause a reduction or loss of SSI benefits.

Information on Gifts

Additionally, The Arc of Indiana Master Trust II cannot be used to purchase gifts for others. The reason for this is the law that governs this type of trust says that the trust is to be used solely for the benefit of the beneficiary. However, the beneficiary's trust can be used to purchase their own gifts on holidays and birthdays.

Disbursements must be made for the sole benefit of the beneficiary. If the beneficiary lives with the family or has roommates, living expenses will be divided among all the individuals living in the home, once approved.

IMPORTANT INFORMATION ABOUT FUNERALS

A trust beneficiary can use their Trust I or Trust II account to pre-pay for any and all funeral expenses during their 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 Master 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 Master Trust strongly urges all 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.

WE'RE HERE TO HELP

The Arc Master Trust is not your only option for establishing a special needs trust, however, we believe we are the right option more often than not. In most cases, The Arc Master Trust can accomplish everything that a privately-drafted special needs trust can accomplish not only at a lower cost, but also with the years of experience and expertise we bring from our long history of serving Hoosiers receiving government benefits.

A special needs trust is only one part of a comprehensive estate plan. Do not hesitate to include a competent elder law/Medicaid/special needs attorney in your overall estate-planning strategy. We work with attorneys throughout the state to provide comprehensive estate-planning options to families. Often, the attorney takes care of the majority of the estate-planning, and then calls The Arc Master Trust to incorporate our services into the comprehensive estate plan.

In addition to our knowledgeable trust staff, please know that staff members at The Arc of Indiana are available to provide information on a wide range of issues, including applying for government programs; navigating private and public healthcare coverage; and learning about guardianship and alternatives to guardianship including supported decision-making.

Whether you come to The Arc Master Trust directly, consult a private attorney first, or employ the best of both worlds by having both private counsel and The Arc Master Trust on your side as you plan for the future, please know we, along with The Arc of Indiana, are here to help.

The Arc®
Master Trust

317-977-2375
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05/2025

The Arc Master Trust

Addendum to The Arc Master Trust Booklet

The following updates to this booklet took effect on **January 1, 2026**:

- The Arc of Indiana Master Trust now uses **KeyBank** for all banking services. Any references to **The National Bank of Indianapolis** should be disregarded.
- **Money market accounts** are now available to beneficiaries. These accounts are offered for trusts with balances between **$10,000 and $20,000**. The annual fees are the same for all trusts. Depending on the amount of interest earned, these accounts may generate a **K-1 tax form for Trust I** accounts or a **Grantor Tax Letter for Trust II** accounts.
- The **minimum balance required for invested accounts** is now **$20,000** (previously $30,000) for both **Trust I and Trust II**.
- When a trust is established **unless otherwise stated**, the funds received will determine if the account will be held in the invested trust, money market, or non-invested account. Example, if an enrollment check for $15,000 is received to establish a trust, the trust funds will automatically be held in a money market account. Likewise, if we receive an enrollment check of $25,000, the trust funds will automatically be held in an investment account. If you would prefer a specific account for your funds to be held in, please notify The Arc Master Trust at the time of establishment.
- The **disbursement request cut-off time** listed on page 20 has changed to **3:00 p.m. on Mondays and Wednesdays**.
- The Arc of Indiana Master Trust **no longer charges a renewal fee** for any **unfunded Trust I account**.
- An **investment management fee** is now charged for accounts held in the **invested trust** (this does not apply to money market accounts). Please see the enclosed handout for details about the current fee structure.