What Can a Special Needs Trust Pay For? (2026) | Complete Spending Guide

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You Set Up the Trust. Now What Can You Actually Spend From It?

This is the question I hear from every new trustee — and the one that kept me up at night when I first started managing my own child's special needs trust. You have done the hard part: you hired the attorney, signed the documents, funded the account. Now someone hands you a checkbook and says, "spend this for their benefit."

But what does that mean? What can you buy? What will get you in trouble? And how do you know if a purchase will affect your loved one's SSI or Medicaid?

As a special needs parent with over 27 years navigating this world, I have made some of these calls myself. This guide covers everything trustees need to know about spending from a special needs trust — what is always safe, what triggers benefit reductions, what changed in 2024 (the food rule is important), and what you should never do.

The Core Rule: Supplemental, Not Replacement

A special needs trust exists to pay for things that government benefits **do not cover**. That is the word you will hear over and over: *supplemental*. The trust supplements SSI and Medicaid — it does not replace them.

Three rules govern every dollar that leaves the trust:

1. Pay vendors directly. The trustee writes a check to the store, the therapist, the landlord — never to the beneficiary. If you hand cash to the beneficiary, Social Security counts it as unearned income and reduces their SSI dollar-for-dollar. This is the single most important rule.

2. The sole benefit rule. Every expense must benefit the trust beneficiary. A first-party trust (funded with the beneficiary's own money, like a personal injury settlement) has a strict federal sole benefit requirement. Other people can receive *incidental* benefit — if the trust buys a TV, other household members can watch it — but the purchase must be *for* the beneficiary. A third-party trust (funded by parents or grandparents) may have broader distribution standards depending on the trust language.

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3. Do not duplicate government benefits. If Medicaid already covers a service, the trust generally should not pay for the same thing. The trust pays for what benefits *will not*: the copay Medicaid does not cover, the therapy with a longer wait than Medicaid allows, the adaptive equipment that is not on Medicaid's approved list.

Safe Expenses — No Impact on SSI or Medicaid

These purchases are almost always safe. The trust pays the vendor directly, the beneficiary receives the item or service, and there is no reduction in SSI or Medicaid eligibility.

Medical and therapeutic care

- Medical and dental copays, deductibles, and premiums not covered by Medicaid.
- Therapy (physical, occupational, speech, behavioral, mental health) especially providers or frequency beyond Medicaid limits
- Hearing aids, eyeglasses, dental work
- Adaptive equipment (wheelchairs, communication devices, sensory tools)
- Prescriptions not covered by Medicaid formulary

Technology and communication

- Computers, tablets, smartphones
- Cell phone plans and internet service
- Streaming services, apps, assistive technology software

Education and Enrichment

- Tuition, tutoring, vocational training
- Books, educational materials, software
- Summer camps, enrichment programs, classes

Daily living and personal items

- Furniture, bedding, household items
- Clothing (not counted as in-kind support under federal rules)
- Personal care items and grooming
- Private aides and respite care beyond Medicaid-funded hours

Recreation and quality of life

- Vacations and travel
- Entertainment (movies, concerts, sporting events, museum memberships)
- Hobbies, sports equipment, recreation programs
- Pets and pet care (when the pet benefits the beneficiary)

Transportation

- Vehicle purchase (paid directly to the dealer — one vehicle is exempt from SSI's $2,000 resource limit regardless of value)
- Gas, maintenance, insurance, adaptive vehicle modifications
- Ride-share services, public transit passes.

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Professional services

- Attorney fees (trust administration, guardianship, benefits appeals)
- Financial planning, tax preparation (the trust files its own tax return — Form 1041)
- Care management, life care planning.
- Trust administration and trustee fees

Insurance

- Supplemental health, dental, or vision insurance
- Renter's insurance, vehicle insurance
- Life insurance premiums (if the trust is the policy owner and beneficiary)

Food and Groceries — Now Safe (Since September 2024)

This is real — not a rumor. As of September 30, 2024, the Social Security Administration officially removed food from in-kind support and maintenance (ISM) calculations. A trust can now pay for groceries, restaurant meals, and meal delivery services with **zero impact on SSI**. This is the biggest practical change for trustees in years.

What changed: Before September 30, 2024, if a trust paid for a beneficiary's food, Social Security counted it as "in-kind support and maintenance" and reduced the beneficiary's SSI check. Trustees had to watch every grocery receipt. That rule is gone.

What can trustees now do:

- Pay for weekly grocery shopping.
- Pay for restaurant meals and takeout.
- Pay for meal delivery services (Meals on Wheels, DoorDash, meal kits)
- Pay for food during outings and vacations.
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Why this matters: For years, the food-as-ISM rule was one of the most frustrating aspects of trust management. Families would agonize over whether buying groceries would cost their loved one ~$331 a month in SSI. Now that's over. The trust can simply pay for food like any other supplemental expense.

What did not change: Housing costs (rent, mortgage, utilities) *still* count as ISM and still reduce SSI. Only food was removed.

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Housing Costs — Still Reduces SSI (But Often Worth It)

This is the one area where trust spending *does* affect SSI. When a trust pays for shelter — rent, mortgage, property taxes, homeowner's insurance, or any utility (electric, gas, water, sewer, garbage). Social Security counts it as in-kind support and maintenance.
But here is what many families do not realize: **the reduction is capped**, and it is often a good deal.

The ISM math for 2026
The maximum SSI reduction from housing is calculated using the **Presumed Maximum Value (PMV)**:

Component	2026 Amount
SSI Federal Benefit	**$994/month**
One-third of PBR	$331.33
+$20 general income exclusion	+$20.00
Presumed Maximum Value (PMV)	**$331.33/month**
Actual SSI reduction (PMV minus $20 exclusion)	**$331.33/month**

What this means in practice: If the trust pays $2,000 a month in rent, the beneficiary's SSI drops by about $331 — not $2,000. The beneficiary keeps roughly $663 in SSI *and* gets $2,000 in housing paid for. That is a net gain of over $2,300 in total support compared to the $994 SSI alone. For many families, the math clearly favors having the trust pay for housing.

The rental subsidy policy (nationwide since September 2024)
There is an even better scenario. Also, effective September 30, 2024, the **Rental Subsidy Policy** expanded from 7 states to all 50 states plus DC. Here is how it works:
If the beneficiary pays rent that equals or exceeds the PMV ($351.33/month in 2026), Social Security considers it a fair "business arrangement" — **no ISM reduction at all**. This means: if the beneficiary's rent is $351.33 or more per month and they are paying it (even with trust funds deposited into their account as a regular rental payment arrangement), there may be no SSI reduction.

Important: The rental subsidy policy has specific requirements. The beneficiary must have an actual rental obligation, and the arrangement must look like a genuine landlord-tenant relationship. Talk to your trust attorney about whether this applies to your situation — the details matter. See your **state guide** for state-specific housing rules.

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Expenses That Need Careful Handling

These expenses are allowed, but the details matter. Get them wrong and you could create a benefit problem or a legal issue.

Vehicles

The trust can absolutely buy a vehicle — one automobile is excluded from SSI's $2,000 resource limit regardless of its value. The question is whose name goes on the title:

- **Trust-titled:** Maximum asset protection but can complicate insurance and registration in some states.
- **Beneficiary-titled:** Simplest option since one vehicle is SSI-exempt anyway — but the vehicle becomes part of the beneficiary's estate.
- **Never a third party's name:** Titling a trust-purchased vehicle in a parent's or sibling's name violates the sole benefit rule.

The trust can also pay for gas, insurance, maintenance, and adaptive modifications. If the beneficiary does not drive, the trust can pay for a vehicle that others drive *to transport the beneficiary* — but the primary purpose must be the beneficiary's transportation.

Home purchases

A home owned by the beneficiary is excluded from SSI's resource limit (it's the beneficiary's principal residence). The trust can buy a home, and for many families this is one of the most important purchases the trust will ever make.
But ownership structure matters:

- A **first-party trust** that owns a home may need to satisfy Medicaid estate recovery at the beneficiary's death — the state could claim reimbursement from the home's value.
- If family members live in the home, they should pay their proportionate share of household expenses to satisfy the sole benefit rule.
- Ongoing mortgage, property taxes, and utilities count as ISM (shelter) and will reduce SSI by up to ~$331/month.

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Paying family members as caregivers

A trust *can* pay a family member to provide care — this is explicitly allowed under Social Security's policy. But it must be structured properly:

- **Written agreement** specifying duties, hours, and pay rate — signed before care begins.
- **Fair market rate** — what a non-family caregiver in your area would charge for the same work. Overpaying looks like a disguised gift and can violate the sole benefit rule.
- **Time records** — actual hours worked, documented contemporaneously.
- **Payroll compliance** — if paying $3,000 or more per year (2026 threshold), the IRS treats the caregiver as a household employee requiring a W-2, payroll tax withholding, and employer tax payments.
- No medical training is required — family members can be paid for personal care, supervision, companionship, and daily living assistance.

Travel with companions

The trust can pay for a companion's travel expenses (transportation, lodging, food) when the companion is necessary for the beneficiary's safety or care during the trip. Social Security accepts the trustee's reasonable judgment on necessity — you do not need a doctor's note, but you should document why the companion was needed. The companion should have a genuine caregiving role, not just be along for the trip.

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What the Trust Should Never Pay For

Some expenses will always cause problems — either because they directly reduce benefits, violate the trust's legal requirements, or both.

Cash to the beneficiary. This is the number one mistake, and it is always wrong. Cash given to an SSI recipient is counted as unearned income and reduces SSI dollar-for-dollar (after a $20 monthly exclusion). It does not matter that the cash was "meant for groceries" or "just this once." Cash is cash. Use vendor payments, trust-held credit cards, or direct purchases instead.

Gifts to other people. A first-party trust cannot make gifts to non-beneficiaries — no birthday presents for grandchildren, no charitable donations, no holiday gifts for family. This violates the sole benefit rule. (A third-party trust *may* allow gifts if the trust document specifically authorizes them — check the language.)

Expenses for other people. The trust cannot pay a sibling's college tuition, a parent's car payment, or a friend's medical bills. Even if the beneficiary "wants" to help, first-party trust funds can only benefit the beneficiary.

Anything that duplicates Medicaid. If Medicaid covers 40 hours a week of home care, the trust should not pay for those same 40 hours. It *can* pay for additional hours beyond what Medicaid provides, or for a different type of care that Medicaid does not cover.

Pre-paying for the beneficiary's funeral is allowed (and often smart planning), but the trustee should use an irrevocable prepaid funeral arrangement to keep it excluded from SSI's resource count. A revocable burial fund has a $1,500 limit.

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First-Party vs. Third-Party Spending Differences

Not all special needs trusts have the same spending rules. The type of trust determines how much flexibility the trustee has.

	First -Party (Self-Settled)	Third – Party (Parent/Grandparent)	Pooled Trust
Funded By	Beneficiary's own assets (settlement, inheritance, back pay)	Family members' assets	Either – depends on sub-account
Sole benefit rule	Strict federal requirement	Set by trust document language	Nonprofit's policies govern
Gifts to others	Not allowed	May be allowed if trust language permits	Generally not allowed
Medicaid payback at death	Yes – state recovers Medicaid costs first	No payback requirement	Varies by program
Trustee flexibility	Most restricted	Most flexible	Moderate – nonprofit approves distributions
Distribution Standards	"Supplemental needs" only	Whatever the trust says (often "health, education, maintenance, support"	Supplemental needs per program rules

Why this matters: If you are managing a third-party trust with broad distribution language, you may have more spending flexibility than this guide's conservative recommendations. Read your trust document carefully — or better yet, have your attorney walk you through what your specific trust allows.

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Record-Keeping: Protect Yourself and the Beneficiary

Good records are what separates a trustee who sleeps well from one who dreads the mail. If Social Security, Medicaid, or a court ever questions a distribution, your records are your defense.

What to keep for every distribution:

- **Receipt or invoice** showing what was purchased, from whom, and the amount.
- **Brief note on purpose** — one sentence explaining how this benefits the beneficiary ("New tablet for communication app" or "Dental copay not covered by Medicaid")
- **Bank/investment statements** — monthly statements showing all trust account activity.

SSA reporting requirements:

- When the trust is first established, submit a copy of the trust document and initial funding information to Social Security within **10 days after the end of the month** the trust is funded.
- Report any changes that could affect SSI (new trust distributions for shelter, significant changes in living arrangements) on the same timeline.
- If your state Medicaid agency or a housing authority is involved, they may have separate reporting requirements.

Trust accounting:

- Many states require periodic trust accountings filed with the court (often annually). Check your state guide — requirements vary significantly.
- A trust accounting shows all income, distributions, investment gains/losses, fees, and the ending balance.
- Even if your state does not require court filings, maintain a running ledger of all transactions. Professional trustees use trust accounting software; family trustees can use a spreadsheet.

How long to keep records: Most attorneys recommend keeping trust records *indefinitely* — or at minimum 7 years. Medicaid estate recovery can happen years after a beneficiary's death, and you want records available to support every distribution.

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Common Trustee Mistakes

1. Giving cash "just this once." There is no "just this once" with SSI. Any cash given to the beneficiary is countable income for that month, and if it pushes resources over $2,000, it is a problem for the next month too. Use a trust-held debit card, vendor payments, or buy items directly.

2. Paying for things Medicaid already covers. If Medicaid provides 30 hours a week of home health aide services, the trust paying for those same hours is duplicating benefits — not supplementing them. The trust *can* pay for hours *beyond* the 30, or for services Medicaid will not cover (like recreational outings with an aide).

3. Not documenting distributions. A trustee who writes checks without notes, receipts, or purpose documentation is vulnerable. If Social Security audits the trust or a beneficiary's family member challenges a distribution, you need a paper trail. Write a one-line note for every expenditure.

4. Paying the beneficiary's share of household bills incorrectly. If the beneficiary lives with family, the household expenses need to be split fairly. The trust can pay the beneficiary's *proportionate share* of rent and utilities (which will count as ISM), but it should not pay the *entire* household's bills — that benefits other residents and may violate the sole benefit rule.

5. Forgetting about taxes. A special needs trust is its own taxpayer. It gets an EIN (employer identification number) and files Form 1041 annually. Trust tax rates are compressed — in 2026, income over $16,000 is taxed at the highest federal rate (37%). Many trustees do not realize this until they get a notice from the IRS. Hire a CPA experienced with trust taxation.

6. Not coordinating with an ABLE account. If the beneficiary is eligible for an ABLE account (disability onset before age 46 as of 2026), the trust can fund the ABLE account up to the annual limit ($20,000 in 2026). ABLE distributions for qualified expenses are tax-free, and the first $100,000 in an ABLE account is excluded from SSI's resource limit. This can save the trust significant money on taxes alone.

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7. Going it alone. Managing a trust is not something you need to figure out by yourself. A special needs trust attorney can review distributions, help structure payments, and catch problems before they become crises. An annual consultation is a legitimate trust expense — and one of the best investments a trustee can make.

Frequently Asked Questions

Can the trust pay for a car?

Yes. The trust can purchase a vehicle by paying the dealer directly. One automobile is excluded from SSI's $2,000 resource limit regardless of value. The trust can also pay for gas, insurance, maintenance, and adaptive modifications. Title the vehicle in the trust's name or the beneficiary's name — never in a third party's name.

Can the trust pay rent?

Yes, but it will count as in-kind support and maintenance (ISM) and reduce SSI by up to about $331 per month in 2026. For many families, this is worthwhile — the trust pays $1,500+ in rent and SSI drops by $331, which is a significant net gain. Under the rental subsidy policy (nationwide since September 2024), if the beneficiary pays rent at or above $351.33/month, there may be no SSI reduction at all.

Can the trust pay for groceries now?

Yes — with no SSI impact. As of September 30, 2024, food is no longer counted as in-kind support and maintenance. The trust can pay for groceries, restaurant meals, meal delivery, and any other food expenses without reducing SSI. This is a permanent rule change, not a temporary policy.

Can the trust pay for a vacation?

Yes. Vacations are a supplemental need — government benefits do not cover recreation. The trust can pay for transportation, lodging, food, entertainment, and tickets. If the beneficiary needs a companion for safety or care, the trust can pay for the companion's expenses too. Document why the companion was necessary.

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Can the trust pay family members as caregivers?

Yes, but it must be structured properly. You need a written agreement signed before care begins, specifying duties, hours, and a fair market rate. Keep time records and comply with payroll tax requirements if paying $3,000 or more per year (2026 threshold). The agreement should look like a genuine employment arrangement, not a way to transfer trust money to family.

What happens if the trustee makes a mistake?

It depends on the mistake. An improper distribution that gives cash to the beneficiary will reduce that month's SSI — but it is fixable going forward. A pattern of sole-benefit violations could trigger a trust review by Social Security or Medicaid, potentially finding the trust is no longer a valid exemption from resource counting. In serious cases, a court can remove the trustee and surcharge them for losses. The best protection: document everything, get professional guidance when unsure, and correct mistakes immediately.

Can the trust pay for a cell phone and internet?

Yes — these are supplemental expenses with no impact on SSI. Phone plans, internet service, and streaming subscriptions are all safe trust expenditures. Technology that helps the beneficiary communicate, learn, or access services is exactly what supplemental spending is for.

Can the trustee give cash to the beneficiary?

No. Cash given to an SSI recipient is counted as unearned income and reduces benefits dollar-for-dollar (after a $20 monthly exclusion). This includes checks payable to the beneficiary, refundable gift cards, and standard debit cards with cash withdrawal access. Instead, the trustee should pay vendors directly, use a trust-held credit card for purchases, or buy items and give them to the beneficiary.

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