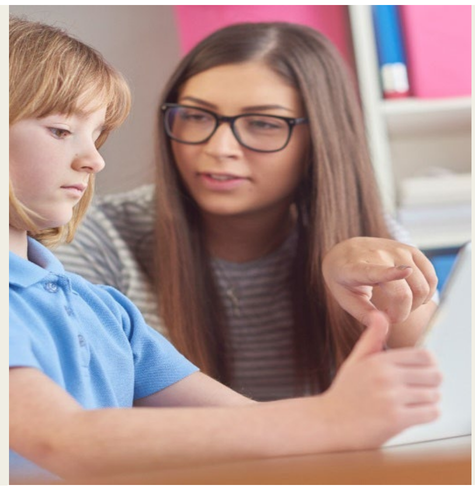
Financial Planning

ABLE Accounts Bring New Savings Opportunities for Families with Special Needs

Achieving a Better Life Experience (ABLE) accounts are tax-advantaged savings accounts designed for disabled individuals and their families. They offer the opportunity to save for future disability-related expenses without losing important government benefits such as Supplemental Security Income (SSI) and Medicaid, and they offer the benefits of tax-deferred growth and tax-free withdrawals for qualifying disability expenses.



ABLE accounts, also referred to as 529 ABLE or Section 529A plans, were modeled after and are similar to 529 Education Savings Plans in their design but provide benefits for disabled individuals.

ABLE accounts must be sponsored by a state. Each state determines its own program details, such as state tax incentives, costs, investments, or whether out-of-state residents can participate, but all will provide tax-deferral on investment earnings and tax-free withdrawals for qualified disability expenses of the account beneficiary on federal income tax returns.

Here are some of the key features applicable to ABLE accounts:

Eligibility and Accounts

- Only one ABLE account per disabled individual may be established.
- ABLE accounts can be established through a plan offered by the beneficiary's state of residence, or through a national plan sponsored by another state.
- The individual must be blind or disabled prior to the age of 26 (regardless of the date of diagnosis).
- The individual must be eligible for Supplemental Security Income (SSI) or Social Security Disability Income (SSDI) or otherwise meet a disability certification required by the IRS.

Contributions

- Only cash contributions may be made.
- Contributions are not tax deductible.
- Anyone can contribute to an ABLE account.
- Disabled individuals making their own contributions can qualify for the Saver's Credit beginning in 2018
- Annual contributions cannot generally exceed the annual gift limit ($18,000 in 2024; $17,000 in 2023). Beginning in 2018, a special rule applies for disabled beneficiaries who are employed.
- Special Rule for Employed Disabled Beneficiaries – Disabled individuals who are employed may also contribute up to 100% of their earned income or an amount equal to the poverty line for a one-person household.
- Aggregate contribution limits set by the state also apply.
- Rollover contributions completed within 60 days can be made tax-free from one state's ABLE plan to another state's ABLE plan once a year.
- Rollovers can also be made from a 529 education savings account (up to the amount of the annual contribution limit) beginning in 2018 for the designated beneficiary or eligible member of the family.

Withdrawals

- Withdrawals for qualified disability expenses are income tax free.
- Qualified disability expenses include: education, housing, transportation, employment training and support, assistive technology and personal support services, health, prevention and wellness, financial management and administrative services, legal fees, expenses for oversight and monitoring, funeral and burial expenses, and other expenses that will be defined by the IRS.
- Withdrawals that exceed qualified disability expenses are subject to income taxes and a 10% penalty on the earnings withdrawn.

Coordination with Federal Programs

- ABLE accounts are generally not considered for means-tested federal programs like SSI (which has a $2,000 resource limit for individuals) and Medicaid.
- There are two exceptions:
  - ABLE account distributions for housing expenses will be counted as income for SSI, and
  - ABLE account balances that exceed $100,000 will be considered a resource of the beneficiary and SSI benefits will be suspended (but not terminated).
- When the beneficiary dies, after final beneficiary expenses have been paid, amounts remaining in an ABLE account generally revert back to the state to repay the state for medical assistance paid during the life of the beneficiary (Medicaid payback).
- Only amounts remaining in the ABLE account after state claims are settled may pass to the beneficiary's estate or designated beneficiary (earnings would be taxable but not subject to the 10% penalty).

ABLE accounts are designed to supplement, not replace, existing benefits programs and planning strategies such as the use of special needs trusts. They are not currently offered by all 50 states, but the emergence of national plans means individuals with disabilities and their families have access to them today. With the tax advantages they provide, look for ABLE accounts to help address a very real problem - the financial challenges that many families with disabilities face. ■