

ABLE Accounts: Frequently Asked Questions

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ABLE accounts, also known as 529A or 529 ABLE accounts, were established as part of the Achieving a Better Life Experience Act of 2014. This act created these tax-advantaged accounts for people with disabilities under section 529A of the Internal Revenue Code.

But who is eligible to establish an ABLE account, and what are the advantages? We'll answer these frequently asked questions and more in this in-depth look at ABLE accounts.

Who is eligible?

Eligibility to establish an ABLE account is limited to individuals living with significant disabilities and whose disability onset began before age 26. (Note, this does not mean a person must be younger than 26 to be eligible.) Those who meet these criteria and are already receiving benefits under Supplemental Security Income (SSI) and/or Social Security Disability Insurance (SSDI) are automatically eligible to establish an ABLE account. Those who meet these criteria but are *not* receiving benefits under SSI and/or SSDI must first obtain a disability certification from a doctor.

Here, it is important to keep in mind that ABLE accounts are owned by the disabled individual, but *contributions* can be made by the beneficiaries, their family, and their friends.

How does an ABLE account affect government benefits?

For individuals with disabilities and their families, these accounts are valuable because they allow for saving without jeopardizing eligibility for government benefits. Without an ABLE account, a disabled person cannot earn more than \$700 per month or have more than \$2,000 in savings or other assets in order to remain eligible for Medicaid health coverage or SSI. With an ABLE account, on the other hand, a balance of up to \$100,000 can accrue before federal benefits are affected, allowing disabled people to save for the future and use the funds for a range of needs.

Is there a contribution limit?

For 2018, the annual contribution limit for an ABLE account is \$15,000 (the amount of the annual gift tax exclusion). This figure may be adjusted periodically to account for inflation. Many states have set total contribution limits of \$300,000; however, if a person's ABLE account balance exceeds \$100,000, his or her SSI cash benefit will be suspended until the account balance falls below \$100,000. The ability to receive or be eligible to receive medical assistance through Medicaid is not affected by the individual's account balance.

The Tax Cuts and Jobs Act of 2017 (TCJA) made one minor but significant change to ABLE accounts. The TCJA permits tax-free rollovers of funds between 529 and ABLE accounts for the benefit of the same beneficiary or a family member of the beneficiary. The \$15,000 contribution limit still applies, so a maximum of \$15,000 can be rolled over from a 529 to an ABLE account in 2018.

How can ABLE accounts be used?

Similar to a 529 plan for college, contributions to an ABLE account can grow and be spent tax free on qualified disability expenses for the designated beneficiary. These include any expense related to the designated beneficiary as a result of living a life with disabilities, such as:

- Education
- Housing
- Transportation
- Employment training and support
- Assistive technology
- Personal support services
- Health care expenses
- Financial management and administrative services
- Other expenses that help improve health, independence, and/or quality of life

What are the ABLE account options?

Like state 529 college savings plans, ABLE accounts are not limited by the state of residency—although investment options and expenses can vary by state. Eligible individuals are free to enroll in any state’s program provided that the program accepts out-of-state residents.

Some states provide residents with a state income tax deduction on contributions made to ABLE accounts opened in that state, although all contributions are made with after-tax dollars. Further, some states offer debit card/purchasing cards, which can make it easier to use ABLE account assets for qualified expenses. To compare state plans, we recommend you check out the ABLE National Resource Center website (http://ablenrc.org/state_compare).

What is the difference between an ABLE account and a special needs trust?

The biggest difference between an ABLE account and a special needs trust is tax efficiency. With an ABLE account, income and distributions are tax free if used for qualified disability expenses, whereas special needs trusts are subject to trust tax rates for any and all income that is not paid out to trust beneficiaries each year. ABLE accounts are also far cheaper to establish and easier to administer than special needs trusts. Plus, they offer a greater level of control and flexibility.

Special needs trusts do offer advantages in several key areas, however. Most important, they allow unlimited funds to be set aside for the benefit of a disabled individual without affecting federal benefits. ABLE accounts can shield only \$100,000 before SSI benefits are turned off. Qualified disability expenses from an ABLE account are very broadly defined, but a special needs trust drafted with the appropriate language can be used for an even wider array of expenses. Last but not least, a properly established and implemented special needs trust can pass leftover trust assets to the disabled individual’s beneficiaries, whereas money left in an ABLE account at the time of this individual’s death will be subject to Medicaid payback and will likely be exhausted.

Given these advantages, it is no wonder that special needs trusts have long been the most popular way to support a disabled individual without jeopardizing his or her federal benefits. Despite the

benefits of ABLE accounts, the relatively low contribution limits mean ABLE accounts are unlikely to fully meet the needs of disabled individuals. As such, families with the means to do so should still consider creating special needs trusts, although ABLE accounts can be used in conjunction to maximize savings and benefits.

Interested in learning more?

For more information on ABLE accounts and to compare plans, be sure to visit the ABLE National Resource Center website (www.ablenrc.org). Of course, our team is happy to answer any further questions you may have regarding ABLE accounts.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

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