

ABLE Accounts for Loved Ones with Disabilities

Families should know about these new tax-advantaged savings vehicles.

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Families with special needs children have a new tax-advantaged savings option. The ABLE account, also called a 529A savings account, is patterned after the popular 529 savings plan created to help parents save for a child's higher education. Like 529 plans, they are run by the states rather than the federal government.

ABLE accounts address an underpublicized financial need. While some families open college savings accounts, very few start discrete savings accounts or trusts for children with disabilities. That difference may be partly due to the presumption that “the money will be there” when a disabled child becomes an adult.

The money may not be there, at least not as much many families hope. Increasingly, state agencies and non-profit groups helping the disabled face funding challenges and pressure to limit the “entitlements” they distribute. Social Security, which provides Supplemental Security Income (SSI) to millions of disabled adults, faces its own set of pressures.

Financially and legally, what changes when a special needs child turns 18? As an adult, a disabled person becomes eligible for Medicaid and monthly SSI payments, provided that he or she meets the financial requirements, typically only available to those with \$2,000 or less in assets. Some special needs adults have more than \$2,000 in assets in their name by age 18. Savings accumulate, family gifts and investments are made on behalf of the child, and suddenly that young man or woman is ineligible for fundamental health care and income benefits.

ABLE accounts nicely address this dilemma. Money accumulated in a tax-advantaged ABLE account does not count toward that \$2,000 total.

How much can you save annually through an ABLE account? Currently, an individual can contribute as much as \$14,000 a year to one of these accounts; yearly contributions are capped at the current federal gift tax limit. The account can contain as much as \$100,000 in some states, as much as \$300,000 in others; the total limit corresponds to a state's dollar limit on 529 college savings plans. Past that limit, the ABLE accountholder loses eligibility for SSI payments (though eligibility for Medicaid is retained).

More than 30 states have enacted ABLE accounts. If your state is not among them, you can go ahead and open an ABLE account through another state's program.

ABLE accounts are becoming an important component of special needs planning. An account with a ceiling of \$100,000 (or \$300,000) probably won't hold enough to cover lifetime care expenses for most disabled adults, even if replenished. So the ABLE account should not be seen as a standalone financial “answer” for families with mentally or physically challenged

children, but as part of a greater financial strategy. An ABLE account can be used in tandem with a supplemental needs trust, as well as other savings efforts.

These accounts do have their shortcomings. The biggest drawback of ABLE accounts is that they do nothing for people who become disabled after age 26. By law, they cannot be opened for a disabled person older than 26 unless proof is shown that the individual became disabled prior to that age. Another little-known demerit: states sponsoring ABLE accounts can seek repayment from those accounts for the cost of care covered by Medicaid if the beneficiary dies. A properly written and implemented trust should not face that request.

ABLE account contributions are not tax-deductible (though they are excluded from federal gift tax). That trade-off is made in exchange for tax-free earnings and tax-free withdrawals. Withdrawals go untaxed so long as the money is spent on “qualified disability expenses,” which can range from education, housing, and transportation costs to financial management and legal fees. Non-qualified withdrawals are subject to ordinary income tax and a 10% IRS penalty. Only one 529A account is allowed per disabled individual, while multiple 529 plan accounts can be opened to fund a child’s college education.

The bottom line? ABLE accounts give families with special needs children a new way to save and invest for future needs and expenses.

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