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The News You Need to Know

Left to right: Andrew Woolley, Andrew Barninger, Christopher Miller, Steven Bell and Alan Loss.

In the past, individuals and families who rely on government benefits such as Medicaid and SSI were hesitant to accumulate assets in fear of becoming disqualified for their benefits. 529A savings plans (ABLE Accounts) will allow that fear to come to an end.

ABLE Accounts for Loved Ones with Disabilities

More families should know about these tax-advantaged savings vehicles.

Families who have children with special needs have a unique 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 states rather than the federal government.[1] They operate in essentially all the same ways, except the purpose of the ABLE account is not for higher education, but for the needs of a child who qualifies as having a special need.

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. In reality, the money may not be there; at least, not as much of it as many families hope.

Financially and legally, what changes when a child with special needs turns 18? As an adult, a person who is disabled becomes eligible for Medicaid and monthly SSI payments, provided he or she meets the financial requirements, typically only available to those with $2,000 or less in assets and income under a certain level.[3] For many, it is not difficult to disqualify oneself for entitlements. Savings accumulate, family gifts and investments are made on behalf of the child, and suddenly, that young person is ineligible for fundamental health care and income benefits.[2]

ABLE accounts nicely address this dilemma. Money accumulated in a tax-advantaged ABLE account does not count toward that $2,000 total. 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.[1,3] And the account limits are very high (the account limit in Pennsylvania is $511,758).[5] One should note, however, that balances above $100,000 does disqualify the beneficiary for SSI payments (but not Medicaid) [3] and funding is still constrained to the $15,000 annual limit.

ABLE accountholders have some new options, thanks to federal tax reform. ABLE accounts have always been designed to provide tax

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benefits. Money inside an ABLE account can be invested and grow tax-deferred. Withdrawals can be made tax-free as long as it is for the purpose of paying for a "qualifying" expense.[5]

The Tax Cuts and Jobs Act of 2017 brought three notable changes for these accounts. While the basic annual ABLE account contribution limit is currently $15,000 for an individual, working individuals may now contribute employment income to their accounts in excess of that threshold, up to the individual federal poverty level set for the preceding calendar year. In addition, some ABLE account beneficiaries may be eligible for the Saver's Credit, a sizable federal tax break.[1]

You may now roll over up to $15,000 per year from a standard 529 plan into an ABLE account. One key condition must be met: the beneficiary of the standard 529 plan must either be the same person who is the beneficiary of the ABLE account or a member of the same family as the ABLE account holder.[1]

ABLE accounts are becoming an important component of special needs planning, but they do have their shortcomings. The biggest drawback of ABLE accounts is that they do nothing for people who become disabled after age 26. One cannot be opened for a disabled person older than 26, unless 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.[4]

ABLE account contributions are not tax deductible. That trade-off is made in exchange for tax-deferred earnings and tax-free withdrawals. Non-qualified withdrawals are subject to ordinary income tax and a 10% I.R.S. penalty on the portion of the withdrawal that represents earnings.[5] Only one 529A account is allowed per disabled individual.[4]

However, as ABLE accounts are becoming more frequently used, people are finding that a "qualifying expense" definition can be quite flexible.[3] Many of the state plans offer a bank or debit card which can link to the ABLE account, for even easier access.[5]

The bottom line? ABLE accounts give families new ways to save and invest for the future of their child and then gives that child, as an adult, financial resources which most people with special needs are not used to being permitted to have.

Citations.

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5 - https://paable.gov/overview/