

READY, PLANNING & ABLE

Special Accounts for Individuals With Disabilities

One of the newer additions to the financial planning toolbox in recent years, ABLE accounts (The Stephen Beck Jr. Achieving a Better Life Experience (ABLE) Act) allow for families who have a loved one living with a disability to create a tax-deferred account that permits tax-free distributions for the account beneficiary's care. Similar to 529 accounts for educational planning, ABLE accounts address the unique needs and often added costs of planning for those with disabilities, while simultaneously taking advantage of public benefits available to those individuals.



Question 1: How does an ABLE account fit into an overall portfolio?

Answer: From one individual or family to another, the needs and requirements of putting together a successful financial road map can be very different. When it comes to planning for an individual with a disability, this is especially true. There should be processes and accounts in place to help ensure the individual has a plan should the family no longer be able to provide support. These individuals and their families may incur significant additional costs associated with health care, nursing care and other support services.

Not only are costs higher, but an individual with a disability who has more than \$2,000 in assets is not eligible for Supplemental Security Income (SSI), a program that provides cash to individuals with

disabilities. In light of that, historical techniques that might go into planning for an individual with a disability could include the creation of a trust, or having specific documentation that accompanies estate planning documents pertaining to everyday needs of the individual (think everyday living items like what food a person may prefer, items he or she may find comforting, allergies, etc.). Established in 2014, ABLE accounts provide a tax-advantaged account to help individuals with disabilities save in the event that they need to cover costs for which public benefits may not be sufficient.

Question 2: Can I only fund an ABLE account with cash?

Answer: The traditional method of funding an ABLE account is through cash contributions that can be made by any party for the benefit of the sole beneficiary of the account. The accounts are limited to total contributions of \$15,000 per year per beneficiary, and once gifts are made to the account, they are considered a completed gift as the beneficiary is technically the owner of the account. While these contributions are not tax deductible at the federal level, they may be deductible at the state level, and the funds grow tax deferred with distributions made for the beneficiary tax free. One of the major changes for ABLE accounts arising from the 2017 tax code

changes provided the ability to rollover money from 529 educational savings plans into ABLE accounts. Consult with your wealth advisor as to whether this option makes sense for you.

Question 3: What are some drawbacks to ABLE accounts?

Answer: ABLE accounts have some relatively strict rules on who can be a beneficiary, how much can be contributed annually and what balances can be kept in the account to still ensure public benefits for the beneficiary. To be a legal beneficiary of an ABLE account, the individual in question must have become disabled prior to his or her 26th birthday. Individuals older than 26 can still open accounts, but the disability must have commenced prior to turning 26.

Funding ABLE accounts is also subject to rules intended to limit the ability of individuals to compile large amounts of savings. First, as previously mentioned, ABLE accounts can only receive contributions of \$15,000 from all sources for a given year. Second, once ABLE account balances reach \$100,000, SSI benefits for beneficiaries are cut off until the balance falls back below \$100,000. Third, and perhaps most importantly, ABLE accounts may be subject to “clawback” rules, meaning once an account beneficiary who was receiving Medicaid benefits passes away, any funds left in an ABLE

account may be subject to claims by the government for reimbursement of Medicaid benefits received. There are other rules that pertain to these accounts.

Question 4: What can funds in an ABLE account be used for?

Answer: Funds are meant to be used to offset the costs associated with living with a disability. Funds are meant to assist a person in the purchase of items and services that are covered as qualified disability expenses.

Question 5: What types of expenses are considered “qualified disability expenses” (QDEs)

Answer: A qualified disability expense (QDE) is any expense related to the account owner’s disability that assists them in increasing and/or maintaining their health, independence and/or quality of life. These may include expenses related to education, housing, transportation, employment training and support, assistive technology, personal support services, health care expenses, financial management and administrative services and other disability-related expenses.

Consider Consulting With Your Advisor

It may be wise to consult a tax professional or wealth advisor to help ensure the account is an appropriate fit for your particular situation.

Sources

[What is ABLE?](#)

[Income and Asset Limits for SSI](#)

[What is an ABLE Account?](#)

[How Can Funds Be Used?](#)

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