



THE WHITE PAPER

Your Guide to Life Planning

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The ABLE Act: Helping Disabled Americans Save for the Future

Late last year President Obama signed into law legislation aimed at giving disabled Americans and their families the opportunity to save for education and other related expenses in a tax-friendly vehicle without jeopardizing their federal benefits.

What ABLE Offers

Modeled after 529 college savings plans, money invested in "Achieving a Better Life Experience" (ABLE) accounts can be withdrawn tax free to pay for qualified expenses including education and job training, transportation, health care, and housing.¹ Individuals can amass as much as \$100,000 in such accounts without affecting their eligibility for Social Security Income (SSI) and other federal benefits. Further, Medicaid coverage will not be affected by how much money is accrued in an ABLE account.

This legislation marks a major departure from the financial constraints that -- up until now -- prevented people with disabilities from doing what the rest of us take for granted: setting aside money for future use. Prior to this law, to remain eligible for government assistance individuals had to report to the IRS any savings in excess of \$2,000. (Assets placed in special needs trusts to be used for the benefit of the disabled person continue to be an exception, and do not disqualify that individual from receiving his or her government benefits.)

Not a Cure-All

Still, some restrictions apply. For instance, to qualify for an ABLE account, an individual must have experienced the onset of his or her disability prior to the age of 26. Each beneficiary can have only one account, and while there are no limits on how many family members and friends can contribute to the account, there are limits on how much can be contributed annually. For 2015, the total annual gifting limit allowed is \$14,000, an amount that is adjusted for inflation each year. Any account accumulation totals in excess of \$100,000 would trigger a suspension of the recipient's SSI benefits, but Medicaid benefits would continue.

States Must Get On Board

ABLE accounts can be set up starting this year, but as with 529 plans, individual states must take the lead in making them available to individuals and families. Some states, including California, Maryland, and Pennsylvania already have plans in the works.² Generally beneficiaries must belong to their home-state plan -- and spending of account assets can occur only in the individual's state of residence -- although exceptions (and individual state tax benefits) may apply.² If the ABLE account beneficiary dies, any funds remaining in the account may be claimed by the state to recoup expenses paid by Medicaid.

While the ABLE Act is by no means a cure-all, it does take a small, important step toward helping millions of disabled Americans live a more independent, fulfilling life.

¹Disability Scoop, "Obama Signs ABLE Act," December 22, 2014.

²AARP, "New 529 Plan Created for People With Disabilities," December 22, 2014.

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