

EVERYTHING YOU NEED TO KNOW ABOUT ABLE ACCOUNTS

ABLE accounts can be powerful financial tools for those living with a disability. Here's how they work.



By: Maryalene LaPonsie - February 18, 2020

After nearly a decade of lobbying from disability advocacy groups, Congress passed the Achieving a Better Life Experience Act in 2014. The law, now known simply as ABLE, allows for the creation of tax-advantaged accounts for people with disabilities, similar to 529 plans for college. The accounts allow eligible individuals to save money without jeopardizing their eligibility for government programs.

"The advantage of using an ABLE account is that the income will not be used for means testing for (Supplemental Security Income) or Medicaid," says Marc Scudillo, managing officer of financial firm EisnerAmper Wealth Management and Corporate Benefits LLC.

Despite their benefits, ABLE accounts still aren't widely used or understood. Fewer than 57,000 accounts have been opened nationwide, according to the National Association of State Treasurers (as of publication).

If you or someone you love has a disability, keep reading for answers to all the questions you may have about ABLE accounts.

- Why should someone open an ABLE account?
- Who is eligible to open an ABLE account?
- Which states offer ABLE accounts?
- Are there tax incentives for using an ABLE account?
- How much can I contribute to an ABLE account?
- What expenses are eligible to be paid from an ABLE account?
- How much does it cost to open an ABLE account?
- Should I consider a special needs trust instead?

Why Should Someone Open an ABLE Account?

"Living with a disability can be costly, hence the reasoning behind ABLE accounts," says Matt Schechner, president and founder of financial planning firm Essential Advisory Services in Westbury, New York.

People with disabilities may have out-of-pocket medical expenses or additional costs related to transportation, education and housing. At the same time, they may receive income and benefits from government programs such as SSI and Medicaid. These programs typically limit a person's assets to \$2,000. Prior to 2014, this put disabled individuals in a position where they could not save for future

needs without jeopardizing current benefits.

"The ABLE account is the way a person can have assets that they control," says Scott Butler, a retirement income planner with Klauenberg Retirement Solutions in Laurel, Maryland. Up to certain limits, money held in an ABLE account isn't counted toward government program asset limits.

Who Is Eligible to Open an ABLE Account?

An individual must be deemed to be blind or disabled prior to age 26 to be the beneficiary of an ABLE account. Those who are receiving SSI or Social Security Disability benefits are automatically eligible to open an account. Others need to meet Social Security's definition of a disability and receive a physician's letter to that effect in order to qualify, according to The ABLE National Resource Center.

Which States Offer ABLE Accounts?

Currently, 42 states and the District of Columbia offer ABLE accounts. However, even those who live in a state that doesn't offer ABLE accounts can open one through another state's program. At this time, 26 states allow anyone to open an account while the remainder limit their programs to state residents.

Are There Tax Incentives for Using an ABLE Account?

Like 529 accounts for college savings, ABLE accounts are administered on the state level, and several offer state tax incentives to residents.

For instance, Michigan and Arkansas allow single filers to deduct \$5,000 in contributions to an ABLE account on their state tax forms. For joint filers in both states, the maximum deduction is \$10,000. Meanwhile, Illinois offers state income tax deductions of \$10,000 and \$20,000 to single and joint filers, respectively, while Kansas limits its deductions to \$3,000 for individuals and \$6,000 for couples. Other states, including New York and California, offer no tax incentive for contributions.

These deductions are typically only available to residents who are making contributions to their own state's ABLE program. While contributions to another state's account won't garner a deduction, Butler says people should consider whether other plans have lower fees and better investment options. "Sometimes it's better to pick a different plan than to get that tax (deduction)," he says.

Regardless of which state you choose, withdrawals from an ABLE account are tax-free so long as the money is used for

a qualified expense related to the beneficiary's disability.

How Much Can I Contribute to an ABLE Account?

An individual can contribute \$15,000 to an ABLE account each year. While anyone can make a contribution, be aware that only the first \$100,000 of an account's balance is shielded from asset means testing for government programs. "If it's over \$100,000, it could affect your SSI benefits," Butler says.

What Expenses Are Eligible to Be Paid From an ABLE Account?

Money in an ABLE account can be used for a wide range of products and services such as medical treatment, transportation, housing, education and assistive technology. The only requirement is that the expense be related to a person's disability.

Withdrawals used for non-qualified expenses may be subject to both regular income tax and a 10% tax penalty.

How Much Does It Cost to Open an ABLE Account?

Fees vary by state, so it pays to compare costs. For instance, Ohio charges a \$30 annual fee for its residents and a \$42 annual fee to non-residents. In New York, which doesn't allow enrollments by non-residents, the annual fee is \$45 unless paper statements are selected. In that case, the annual fee is \$55.

There may also be investment fees associated with an ABLE account, and these may depend on which funds you choose for your money. "ABLE accounts have account service fees, which keep ABLE accounts up and running, and an asset management fee, which compensates managers for choosing stocks and managing the portfolio," Schechner says. Investment fees may be taken from an account balance rather than being paid directly by the account owner.

Each state's plan offers different investment choices, so make sure to carefully review low-fee investment options to pick a plan that you're comfortable with.

Should I Consider a Special Needs Trust Instead?

While ABLE accounts have the potential to help millions of Americans with disabilities, some people may still choose to set up a special needs trust, sometimes called a supplemental needs trust. These trusts cost more to set up but offer more flexibility in their use, Scudillo says. Plus, they are typically the only option for those who did not become disabled until after age 26.

Scott Butler, CRC, is a financial planner with Klauenberg Retirement Solutions. Using his background as a former teacher, Scott breaks down financial topics to levels that clients can more easily understand, believing each person should have a basic understanding of the wealth strategies and products that work for them.

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