

What Are ABLE Accounts?

By Julie Lobaza

The Achieving a Better Life Experience (ABLE) Act of 2014 created 529 ABLE or 529A accounts, which were designed as a version of a 529 college savings plan for people with special needs. ABLE accounts are state-run tax-advantaged accounts for individuals with disabilities that provide a valuable tool with which to accumulate savings without adversely affecting eligibility for government benefits.

ABLE accounts allow families to save and invest money for the care of a disabled family member while maintaining eligibility for government benefits such as Social Security, Medicaid, and public housing. Qualified distributions are tax-free and not counted as income or used to determine state and federal aid. However, in Michigan distributions from MiABLE accounts for housing expenses would be considered a resource when determining eligibility for Supplemental Security Income (SSI) and could affect a beneficiary's Medicaid benefit. Additionally, the account balance of an ABLE account is not usually treated as an asset if under \$100,000. Contributions for all 529 accounts for a designated beneficiary are capped at \$500,000. It is important to note, however, that following the beneficiary's death some, or all the funds in the account after paying outstanding bills for qualified expenses and funeral and burial costs, may have to be paid to the state as reimbursement for any Medicaid assistance the beneficiary received.

These accounts are often used as an alternative or addition to a special needs trust. The account can be set up for someone who is blind or disabled due to an impairment that began before age 26. Individuals already receiving SSI or Social Security Disability Insurance are automatically eligible to open an ABLE account. If not already receiving one of these benefits, they may still be eligible if they meet the Social Security definition and criteria as to functional limitations and receive a letter of certification from a qualified physician.

ABLE accounts are easy to open. Annual contributions are limited to the federal annual gift limit for any individual beneficiary (\$16,000 for 2022). Michigan income taxpayers can potentially claim up to a \$5,000 deduction for single filers and \$10,000 for joint filers for MiABLE contributions. You can also roll over money from a 529 college savings plan into an ABLE account if you are not certain the child will attend college. If the ABLE account owner is working and not a participant in an employer sponsored retirement plan, he or she can also contribute up to the federal poverty level which is \$12,880 for 2022 in the continental US.

A major benefit of an ABLE account is that all growth within the account is tax-deferred and withdrawn tax free if used for qualified purposes. These include basic living expenses, housing, education, transportation, health care costs, assistive technology, and similar expenses. Non-qualified distributions could be taxed as ordinary income and subject to a 10% penalty. ABLE accounts offer flexibility to cover short-term everyday expenses or can be used to save for long-term goals such as buying a house.

Even if a family member is already a beneficiary of a special needs trust, you may want to consider establishing an ABLE account since each serves a different purpose. The ABLE account could be a savings tool, while a special needs trust could be an estate planning tool. It is important to work with financial and legal professionals who focus on special needs planning to best utilize ABLE accounts and special needs trusts.



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