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## Helping a Family Member Pay for Disability-Related Expenses? An ABLE Account May Help

By  
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For families of individuals with disabilities, crafting a financial plan requires a delicate balance. As a financial advisor, I've seen this balance play out firsthand. Families want to save responsibly, anticipating future expenses including retirement, but need to be careful not to save more than the limits required for government assistance. ABLE accounts are designed to fill this need. Money saved and invested into one of these accounts can be withdrawn to cover current or future care – without putting federal and state aid dollars at risk.

If you have a family member with disabilities and are wondering if an ABLE account could help your family maintain a solid financial foundation, read on for answers to common questions about how they work.

### **Q: What does ABLE stand for?**

**A:** ABLE stands for “Achieving a Better Life Experience,” an acronym coined by Stephen Beck Jr., the advocate behind the act. As the parent of a child with special needs, Beck understood the unique financial challenges families face when trying to save and plan for future disability expenses. Until ABLE legislation was passed in 2014, individuals with disabilities could not have more than \$2,000 in savings if they wanted to maintain eligibility for government funding, such as Social Security and Medicaid. ABLE accounts are tax-advantaged savings vehicles that allow families to save and pay for both current and future expenses – and still qualify for government aid. Earnings grow tax-deferred and funds spent on qualified expenses (more on what “qualified” means below) can be withdrawn on a tax-free basis.

### **Q: Who qualifies for an ABLE account?**

**A:** The individual with disabilities is the account owner and beneficiary of the ABLE account. ABLE accounts can be funded on behalf of individuals of any age, if the onset of their physical or mental disability occurred before age 26. Individuals must also either be receiving Social Security Income (SSI) or Social Security Disability Income benefits, otherwise a licensed doctor needs to certify that the individual meets Social Security's definition of having a functional limitation.

### **Q: How can money be added to the account?**

**A:** A person with disabilities can only have one ABLE account. However, anyone can contribute funds, including the account holder, parents, extended family, friends, or even a special needs trust. Contributions must be made with after-tax dollars and are not tax deductible on federal income tax forms. Individuals may be allowed to deduct ABLE account contributions on state tax forms (check to see if your state allows this).

### **Q: How much can the account holder save and hold in an ABLE account?**

**A:** The annual contribution limit for an ABLE account is \$15,000 in 2019<sup>1</sup>. The limit may be adjusted in the future to keep up with inflation, so it's important to check the rules each year. If the account holder is employed and his or her employer does not offer a retirement plan, additional money can be saved annually (this limit is an additional \$12,140 in 2019<sup>1</sup>).

The total savings in the account varies by state but is generally capped around \$300,000. That said, for account holders to remain eligible for SSI benefits, their account balance must be below \$100,000. If the savings exceed this amount, SSI benefits will be suspended until the account balance falls back under this threshold. Importantly, Medicaid coverage is not impacted by the amount of assets in the account.

### **Q: Are there restrictions on how money in an ABLE account is spent?**

**A:** ABLE account funds can be used for Qualified Disability Expenses, which is any disability-related expense that helps maintain the account holder's health, independence or quality of life. This includes

employment training, medical and dental care, education (e.g. tuition or a tutor), assistive technology, housing, personal support services, and transportation costs. Funds can also be applied to legal fees, financial management services, and funeral and burial expenses for the person with disabilities whose name is on the account.

Keep in mind, ABLÉ account earnings may be taxed if a distribution is greater than a qualified expense. Additional penalties may apply if the funds are used for a non-qualified expense, including the account owner's eligibility for government benefits.

**Q: Where are ABLÉ accounts available?**

**A:** Most states offer ABLÉ accounts. A qualified individual can set up an account in any state that offers an ABLÉ account, as long as the state accepts non-residents in their program. Features vary from state to state, and it may be worthwhile to shop around. For instance, you may have to look beyond your state's borders for an account that offers a range of investment options or a debit card attached to the account. Fees will vary as well. Some states charge an annual maintenance fee or charge fees based on investment choices, while other state programs are free.

An ABLÉ account is one tool available to help families build savings for family members with disabilities. Talk to your financial advisor to explore ABLÉ accounts as well as other investment strategies that can help you create a more secure financial future for your family.

<sup>1</sup>Public Law 113–295 The Stephen Beck, Jr., Achieving a Better Life Experience Act (ABLE Act) – Enacted December 19, 2014

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