

Abstract: Achieving a Better Life Experience (ABLE) accounts are tax-free accounts that can be used for expenses of disabled individuals. They can be created by a disabled person or his or her family members or guardians. This article explains eligibility factors and other pertinent details. A sidebar notes an ABLE account's impact on Supplemental Security Income.

ABLE accounts help those with disabilities

There's a tax-advantaged way for people to save for the needs of family members with disabilities — without having them lose eligibility for government benefits to which they're entitled. It can be done through an Achieving a Better Life Experience (ABLE) account, which is a tax-free account that can be used for a variety of expenses.

Eligibility

ABLE accounts can be created by eligible individuals to support themselves, by family members to support their dependents, or by guardians for the benefit of the individuals for whom they're responsible.

Eligible individuals must be blind or disabled — and must have become so before turning age 26. They also must be entitled to benefits under the Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI) programs. Alternatively, an individual can become eligible if a disability certificate is filed with the IRS for him or her.

Other key factors

Distributions from an ABLE account are tax-free if used to pay for expenses that maintain or improve the beneficiary's health, independence or quality of life. These expenses include education, housing, transportation, employment support, health and wellness costs, assistive technology, personal support services and other IRS-approved expenses.

Anyone can contribute to an ABLE account. While contributions aren't tax-deductible, account funds are invested and grow tax-free. If distributions are used for nonqualified expenses, the portion of the distribution that represents earnings on the account is subject to income tax plus a 10% penalty.

An eligible individual can have only one ABLE account. Contributions up to the annual gift-tax exclusion amount, \$15,000 in 2020, may be made to an ABLE account each year for the benefit of an eligible person. Under a rule that took effect in 2018, if the beneficiary works, the beneficiary can also contribute part or all of their income to the account. (This additional contribution is limited to the federal poverty-line amount for a one-person household for the prior year.)

There is, however, a limit on the total account balance. This limit, which varies from state to state, is equal to the limit imposed by that state on qualified tuition (Section 529) plans. For contributions made before 2026, the designated beneficiary can claim the saver's credit for contributions made to his or her ABLE account.

Plenty of options

There are many choices. ABLÉ accounts are established under state programs, but an account may be opened under any state's program if the state allows out-of-state participants. Funds in an account can be invested in a variety of options and the account's investment directions can typically be changed up to twice a year. Contact us if you'd like more details about setting up or maintaining an ABLÉ account.

Sidebar: Impact on Supplemental Security Income

Achieving a Better Life Experience (ABLE) accounts have no impact on an individual's Medicaid eligibility. However, ABLÉ account balances in excess of \$100,000 are counted toward the Supplemental Security Income (SSI) program's \$2,000 individual resource limit.

Thus, an individual's SSI benefits are suspended, but not terminated, if his or her ABLÉ account balance exceeds \$102,000 (assuming the individual has no other assets). In addition, distributions from an ABLÉ account to pay housing expenses count toward the SSI income limit.

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