Achieving a Better Life Experience (ABLE) Act

Under the 2015 amendment of Section 529A of the Internal Revenue Code, the ABLE Act allows states to establish a tax-free savings account for individuals who become disabled before age 26.

The ABLE Act recognizes that due to the extra costs of living with a disability, many individuals rely on a variety of public benefits to get by. An ABLE account gives individuals with disabilities and their families the ability to fund a type of savings account that does not endanger them from being disqualified from programs such as Supplemental Security Income (SSI) and Medicaid. In the past, the only way to legally save money without jeopardizing these benefits was by establishing a Special Needs Trust (SNT).

All distributions from the ABLE account will not be taxable if the funds are applied towards qualifying expenses. Qualified expenses include housing, transportation, education, employment training and support, assistive technology, health and wellness, health care expenses, and other miscellaneous expenses (legal, financial, administrative).

An individual may only maintain one ABLE account at a time. Contributions from all sources are limited to $14,000 per year, which is the maximum an individual may give to another individual and not have to file a gift tax return. If the total value of the ABLE account reaches $100,000 and the beneficiary receives SSI, the monthly SSI benefits will be placed in suspension until the account value drops below $100,000. Beneficiaries will not lose any Medicaid benefits based on the value of their ABLE account. However, the state will be able to recoup account assets up to the value the state paid towards Medicaid services when the beneficiary dies or is no longer considered disabled.

If the beneficiary in a Special Needs Trust dies, the funds may be returned to the family rather than the government. Other key features of a SNT are that there are no age restrictions, nor are there contribution or account limits. However, establishing a SNT is much costlier and more complicated than establishing an ABLE Account.

Both of these savings vehicles have similar goals: to give individuals with disabilities the ability to save without losing their public benefits. The financial situation of the family/individual will determine which vehicle is the most beneficial.

To learn more about the implementation of ABLE plans by state, refer to www.thearc.org. Each state is responsible for establishing and operating their ABLE plan. States that choose not to establish their own ABLE plan may choose to contract with a state that offers one.