

529A Accounts for Special Needs Individuals

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The Achieving a Better Life Experience (ABLE) Act created tax-favored accounts for individuals with disabilities. These 529A accounts are intended to be a low-cost alternative to special needs trusts.

About the 529A Account

Individuals with disabilities may open one 529A account. To qualify, beneficiaries must have a significant disability that they were diagnosed with before age 26 and that disability must be expected to last for at least 12 consecutive months.

Contributions

- Contributions are limited to \$17,000 per individual, per year.
- Contributions are ineligible for the five-year-averaging rules available to standard 529 college savings plans.
- Unlike contributions to traditional 529 plans, contributions to 529A accounts are irrevocable.

Distributions

- Qualified distributions may be taken over the beneficiary's lifetime to cover the costs of medical expenses, education, transportation, employment training and support, and housing.
- Nonqualified distributions are subject to income tax on earnings, as well as a 10 percent penalty.

Additional Features

- These accounts typically will not disqualify the disabled individual from most state or federal aid, such as Medicaid or social security.
 - Only the first \$100,000 in the account is exempt from the Supplemental Social Security Income limit of \$2,000, however.
- Funds remaining in the account when the disabled individual passes away will be used to repay the state for any benefits received under a state Medicaid plan.

A number of states have implemented their own ABLE programs, and most of them accept enrollment nationwide. In addition, the Tax Cuts and Jobs Act of 2017 included several provisions that expanded the ability to contribute to ABLE plans:

1. Owners of traditional 529 accounts are allowed to roll over these accounts to ABLE (529A) accounts. The amount that can be rolled over is limited to \$17,000.
2. Beneficiaries who are employed but do not participate in an employer retirement plan can contribute up to 100 percent of their earned income up to the prior year's poverty line amount for a one-person household (\$13,590 for 2022 in the continental U.S.).
3. Qualifying ABLE beneficiaries may claim the Saver's Credit based on contributions made to their account.

It's likely that 529A accounts will be an integral part of financial planning for families with special needs children in the future.

For up-to-date information on which states offer 529A plans and their specific provisions, visit www.savingforcollege.com.

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