ABLE 101 Part 5: Myths and Opportunities

While the ABLE program has been around for years, people are still figuring out details and new opportunities for financial success. Some myths may make some people hesitant about opening an ABLE account, even if doing so is a good idea. These myths may also lead some people to make mistakes with their accounts. Here are some ABLE myths and the truth about them — and some clever opportunities to use ABLE accounts to your advantage.

Myth: I can't open an ABLE account if I have a Special Needs Trust or 529(a) account

This is not correct. You can still have an ABLE account if you have a Special Needs Trust or 529(a) account. Each of these accounts can have benefits and drawbacks, so in some cases, it may be worthwhile to choose one or the other, or have a mix of account types open.

For example, here are some differences between Special Needs Trusts and ABLE accounts:

- With Special Needs Trusts, spending must be controlled by a "trustee," such as a family member or designated professional. With ABLE accounts, the account holder can control spending using a web portal, debit card, or checkbook (depending on the state program).
  In some cases, a designated guardian or representative can also manage ABLE funds.
- ABLE account funds must be spent on qualified disability expenses (QDEs) while Special Needs Trust funds can be spent on anything that goes directly to the beneficiary. Some states are more flexible on the definition of QDEs.
- ABLE accounts have limits on annual contribution amounts, savings without affecting SSI, maximum account amounts, and ways of changing investments. Special Needs Trusts do not have limits on contributions or maximum funds and have more flexibility around investments.
- ABLE accounts allow for tax-free investments. Earnings from Special Needs Trusts are taxed.

It is important to research the benefits and drawbacks of different accounts and programs before deciding which to use and how to distribute funds between them. Consult with a benefits counselor or investment professional before you make your decision.

Myth: Every qualified disability expense (QDE) must be a medical expense

Not at all. The list of qualified disability expenses is quite broad and includes just about anything that is related to a disability and will improve the account holder's quality of life (check out the ABLE National Resource Center's page on expenses that meet the QDEs criteria).

Think about some of your options. Would adaptive cycling or skiing improve your health and personal wellbeing? Because adaptive activities are disability-related, you could pay for equipment, coaching, and travel to get on the ski slopes. Do you think that job courses could grow your opportunities and income? QDEs can include education, so you can use ABLE funds to expand your future economic potential. Education expenses may include private school, special tutoring programs, college tuition, books, or a laptop computer.

There are plenty of options aside from medical devices or expenses that count as QDEs. So, just look around, do some brainstorming, and improve your life through an ABLE account.

Myth: Any earnings that I put into an ABLE account won't count as income

Unfortunately, this isn't true. Any earnings that you get from work still count as income for tax purposes, as well as for determining SSI and SSDI amounts and eligibility for Medicaid and other federal benefits programs.

Luckily, there are some tax advantages to depositing your income into an ABLE account. Individuals are eligible for a Saver's Credit of up to $2,000 per year, and some states' programs provide tax deductions for money deposited into an ABLE account by in-state residents.

Always report income and changes in income to the Social Security Administration (SSA) and other agencies that manage benefits, especially if income will affect your eligibility.

Myth: Money in ABLE investment funds will always continue to grow

This is not necessarily true. Investment funds can go up or down with stock markets and other financial factors. More "aggressive" investments grow faster when the stock market goes up but can drop more when it goes down; more "conservative" investments grow slower but are less risky.

Research ABLE investment funds and choose the best risk and potential reward for your future.

Opportunity: Get housing support without affecting your SSI

The Social Security Administration adjusts your SSI benefit amount based on what they call "countable income," which includes "unearned income," such as cash benefits and housing support, and "earned income" from employment. Unearned income can affect SSI dollar-for-dollar, which means that if your family pays for your rent or gives you a room in their home for free, your SSI can be reduced.

With an ABLE account, though, a family member could contribute the value of rent to your ABLE account each month, and then you could use ABLE funds to pay for your rent. Because funds deposited into ABLE accounts don't affect SSI (and housing is a QDE), you can get housing support without any reduction in SSI cash benefits.

Opportunity: Crowd-fund contributions to your ABLE account

Anybody can contribute to an individual's ABLE account, not just the account holder. Many ABLE programs provide websites where family, friends, and others can contribute to your account. Some programs also have mailing addresses for sending deposits. You can set up a webpage and link to it through emails or social media to gather broad contributions.

And remember that annual contribution limits go from January to December, so a year-end fundraising drive can be a great idea.

Opportunity: Use a 401(k) for tax-deferred savings

ABLE accounts may not be for everybody, but there are other options out there. For example, 401(k) plans let you put earnings from your paycheck directly into investment accounts, without them being taxed (money is taxed when it is withdrawn). Employers can even contribute matching funds.