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Wealth Matters Newsletter

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ABLE Accounts for Loved Ones with Disabilities

Families with special needs children have a new tax-deferred savings option. The ABLE account, also called a 529A savings account, is patterned after the popular 529 savings plan, created to help parents save for a child's higher education. Like 529 plans, ABLE accounts are run by states rather than the federal government. These plans emerged after the passage of the Achieving a Better Life Experience (ABLE) Act in 2014.

ABLE accounts address an underpublicized financial need. While some families open college savings accounts, comparatively few start discrete savings accounts or trusts for children with disabilities. That difference may be partly due to the presumption that "the money will be there" when the child becomes an adult.

The money may not be there; at least, not as much of it as many families hope. State agencies and nonprofit groups helping the disabled face ongoing funding challenges, including pressure to limit the "entitlements" they distribute. Social Security, which provides Supplemental Security Income (SSI) to millions of disabled adults, faces its own set of issues.

Financially and legally, what changes when a child with special needs turns 18? As an adult, a disabled person becomes eligible for Medicaid and monthly SSI payments, provided they meet the financial requirements, typically only available to those with $2,000 or less in assets. Some special needs adults have more than $2,000 in assets in their name by age 18. Savings accumulate, family gifts and investments are made on behalf of the child, and suddenly, that young person is ineligible for fundamental health care and income benefits.

ABLE accounts nicely address this dilemma. Money accumulated in a tax-advantaged ABLE account does not count toward that $2,000 total. Even if funds in the account exceed $100,000, the account beneficiary will still be eligible for Medicaid (albeit, ineligible for SSI).

How large can an ABLE account become? Current ABLE account maximums range from $235,000 to $529,000 (limits vary per state). Account contributions can be made by anyone.

What if the state you live in has no ABLE accounts? Consider opening an account in another state. Some states allow out-of-state residents to participate in their ABLE programs. (It is also worth noting that some states have lower ABLE account fees than other states.)

ABLE account holders have some new options, thanks to federal tax reform. The Tax Cuts and Jobs Act of 2017 brought notable changes for these accounts. While the basic annual account contribution limit is currently $15,000 for an individual, working ABLE account holders may now contribute employment income to their accounts in excess of that $15,000 threshold, up to the individual federal poverty level set for the preceding

calendar year. In addition, some ABLE account beneficiaries may be eligible for the Saver's Credit, a sizable federal tax break.

You may now roll over up to $15,000 from a standard 529 plan into an ABLE account. One key condition must be met: the beneficiary of the standard 529 plan must either be the same person who is the beneficiary of the ABLE account or a member of the same family as the ABLE account holder.

ABLE accounts are becoming an important component of special needs planning. The word worth emphasizing here is "component." The money in an ABLE account alone may not be enough to cover lifetime care expenses for a disabled adult, even if the account is replenished. An ABLE account is usually not a financial "answer" for families with mentally or physically challenged children, but a part of a greater financial strategy that might include a supplemental needs trust or other savings vehicles.

These accounts do have their shortcomings. The biggest drawback of ABLE accounts is that they do nothing for people who become disabled after age 26. You cannot open one for someone older than 26, unless the individual became disabled prior to reaching that age. Another little-known demerit: states sponsoring ABLE accounts can seek repayment from those accounts for the cost of care covered by Medicaid if the beneficiary dies.

ABLE account contributions are not tax-deductible at the federal level (some states do permit deductions). This tradeoff is made in exchange for tax-deferred earnings and tax-free withdrawals. Withdrawals go untaxed, so long as the money is spent on "qualified disability expenses," which can range from education, housing, and transportation costs to job training and health care. Nonqualified withdrawals, naturally, are taxable.

The bottom line? ABLE accounts give families with children who have special needs a new way to save and invest for future needs and expenses.

Participating in an ABLE account may involve investment risk, including the possible loss of principal, and there can be no assurance that any investment strategy will be successful. Carefully consider a portfolio's level of risk, charges, and expenses before investing. Read the program's official disclosure statement and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company. Before investing in an ABLE plan, consider whether your state offers an ABLE program that provides residents with favorable state tax benefits. Consult a tax professional for more information. ABLE accounts may be protected from creditors if you invest in your own state's program, depending on the state.

Sources available upon request

Ways to Fund Special Needs Trusts

If you have a child with special needs, a trust may be a financial priority. There are many crucial goods and services that Medicaid and Supplemental Security Income might not pay for, and a special needs trust may be used to address those financial challenges. Most importantly, a special needs trust may help provide for your disabled child in case you are no longer able to care for them.

Using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional who is familiar with these rules and regulations. We would be happy to refer you to a professional in our network if needed.

In planning a special needs trust, one of the most pressing questions is: when it comes to funding the trust, what are the choices?

There are four basic ways to build up a third-party special needs trust. One method is simply to pour in personal assets, perhaps from immediate or extended family members. Another possibility is to fund the trust with permanent life insurance. Proceeds from a settlement or lawsuit can also serve as the core of the trust assets. An inheritance can also provide the financial footing to start and fund this kind of trust.

Families choosing the personal asset route may put a few thousand dollars of cash or other assets into the trust to start, with the intention that the initial investment will be augmented by later contributions from grandparents, siblings, or other relatives. Those subsequent contributions can be willed to the trust, or the trust may be named as a beneficiary of a retirement or investment account.

When life insurance is used, the trustor makes the trust the beneficiary of the policy. When the trustor dies, the policy's death benefit is left to the trust.

With a structure in place that guides the trust, there is less likelihood of mismanagement, and funds may come out of the trust to support the beneficiary in a measured way that does not risk threatening government benefits.

Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

The trust may also be funded with tangible, non-cash assets. Examples include real estate, securities, collections of cars or art or antiques, or even a business. These assets (and others like them) can be left to the trustee of the special needs trust via a revocable living trust or will. Just remember that the goal of the trust is to provide the trust beneficiary with cash. Those tangible assets will need to be sold or liquidated to meet that objective.

Currently, it costs about $3,500 to design a basic special needs trust. Given that initial expense and ongoing administrative costs, most families aim to place at least $100,000 inside these vehicles. The typical trustee is a corporate fiduciary (generally a bank or independent trust company) and annual administration fees commonly range from 0.5% to 1.5%. If the trustee is a relative of the child or a close friend of the family, administration may be done for free or at minimal cost.

Care must be taken not only in the setup of a special needs trust, but in the management of it as well. This should be a team effort. The family members involved should seek out legal and financial professionals who are well versed in this field, and the resulting trust should be a product of close collaboration.

Again, trusts are a complex financial construct. On top of dealing with the medical needs of your dependent, you must also be on top of the financial needs as well, which can become overwhelming. Having people on your team to help answer your questions and decode the complex information can be very helpful, and we would be happy to help your family.

Sources available upon request

AROUND THE OFFICE

Community Involvement

The opportunities to serve might seem restricted due to social distancing and stay-at-home recommendations, but the needs do not cease. Some of our team members have enjoyed finding new ways to stay involved in helping the community.

Jessica and her family are regular contributors to The Joy Bus, and while the restaurant portion of The Joy Bus has been closed, the organization is still delivering medically tailored meals to individuals with cancer. Jessica's family made more than 100 cups of bone broth at home to contribute to the patients' meals.

Mike and his Leadership Collier class raised money (virtually) for the community. Half of the funds were funneled to a non-profit caterer who created meals for first responders at the Sheriff's department. The other half of the funds went to buy fresh vegetable boxes for firemen and EMS first responders. The vendor of the vegetable boxes generously donated the proceeds to the local food bank.

Our Continued Commitment to Safety and Service

We are committed to maintaining our business operations to ensure that our clients continue to receive the highest quality service without disruption. We have advisors and team members spread across the country and are accustomed to working remotely. If you wish to meet with us, we will gladly setup a virtual meeting for you.

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