

Combining the benefits of 529 and ABE (529A) accounts

October 10, 2023

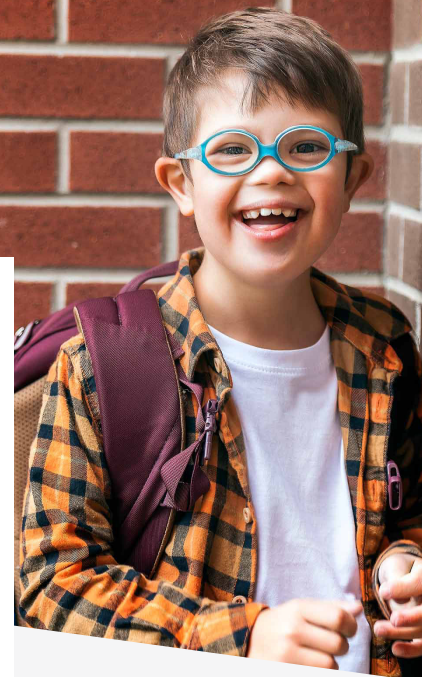
Families that qualify can benefit from using both ABE and 529 accounts to support the immediate and longer term needs of children with disabilities. Here's how.

Caring for the immediate and long-term needs of a family member with disabilities can pose a financial challenge. Fortunately, there are tax-advantaged savings vehicles that can help.

ABLE accounts — offered under Section 529A of the Internal Revenue Code — were created as a result of the Achieving a Better Life Experience (ABLE) Act of 2014.¹ ABE allows states to create tax-advantaged savings programs for people with disabilities, from which funds can be used tax-free to pay for qualifying disability-related expenses for the designated beneficiary. Funds in ABE accounts are generally disregarded for purposes of determining eligibility for important means-tested federal and state benefits, including Supplemental Security Income (SSI) and Medicaid.

There are some important features families should consider in opening an ABE account:

- **Eligibility.** The designated account beneficiary must have a disability that was present prior to the age 26, although eligible individuals can open an ABE account at any age. Individuals who meet the age requirement and receive SSI or Social Security Disability Insurance (SSDI) benefits are automatically eligible. Other individuals may be eligible if they meet the Social Security Administration's definition of disability subject to additional qualifying criteria.
- **Contributions.** Contributions are limited to the annual federal gift tax exclusion (\$17,000 for 2023). Through December 31, 2025, the ABE to Work provision allows individuals who are employed to contribute up to an additional \$13,590 per year, subject to certain restrictions¹.
- **Supplemental Security Income considerations.** Balances up to \$100,000 in ABE accounts are exempted from the SSI \$2,000 individual resource limit. When an ABE account exceeds \$100,000, SSI benefits may be suspended until the account balance falls below \$100,000.²
- **Qualified expenses.** For ABE accounts, qualified disability-related expenses are broadly defined as those that benefit the health, independence and quality of life of the beneficiary. These include, but are not limited to housing, food, education, basic living expenses, medical expenses, transportation, assistive technology and financial



Ryan White, CFP®, CIMA®
Director of Product Management

assistance.

While both ABLE and 529 accounts provide tax-advantaged savings vehicles for dedicated purposes, there are some important differences:

- **Ownership.** Unlike a 529 account — which is usually owned by an account owner (e.g., parent or grandparent) that is not the beneficiary — ABLE accounts are owned by the designated beneficiary. If desired, ABLE accounts may also be managed by an authorized legal representative acting on behalf of the account owner.
- **Funding.** Funding the ABLE account is also more restricted than 529 accounts, with aggregate annual contributions capped to the annual federal gift tax exclusion with no five-year accelerated gifting provision.
- **Survivorship beneficiaries.** When the account beneficiary passes away, the ABLE beneficiary's state of residence may file a claim to all or a portion of the remaining account balance equal to the state's expenditure for that beneficiary through their state Medicaid program. However, prior to estate recovery, funds may be used to pay for outstanding qualified disability expenses including funeral and burial expenses.
- **Rollovers.** Unlike 529 accounts, designated beneficiaries may have only one ABLE account. Funds may be transferred from one account to another via an ABLE-to-ABLE account rollover. Additionally, the Tax Cuts and Jobs Act currently allows 529-to-ABLE account rollovers subject to the annual contribution limit.
- **Qualified expenses.** Tax-free withdrawals of 529 plan assets are limited to the funding of a wide variety of qualified education expenses.

Families that are considering ABLE accounts could potentially benefit from using both account types together. Let's look at an example:

Priya and Carl have a 529 college savings account for their five-year-old son, Ben, who also qualifies for an ABLE account. They would like to use some of the funds from the 529 account to pay for qualified disability expenses for Ben. To do this, they could roll up to \$17,000 per year (the annual federal gift tax exclusion) from the existing 529 account to the new ABLE account, to be used tax-free for a wide variety of disability-related expenses. At the same time, the remaining assets in the 529 account stay exempt from the SSI individual resource limit regardless of balance, and the more generous funding capabilities offered by the 529 account create an opportunity for larger contributions and greater asset accumulation than the ABLE account alone. Funds in the 529 account can also be redesignated to a new beneficiary at any time. When combined, use of the 529 account along with the ABLE account provides Priya, Carl and Ben with more benefits than either account on its own.

Bottom line

Families that are eligible for both ABLE and 529 accounts could benefit from the opportunities they provide to address their relatives' immediate and longer term needs. However, given some of the complexities regarding funding, ownership and expenses, financial advisors could have an important role in helping families make the most of the support provided by both accounts.

¹ IRS.gov ABLE Accounts – Tax Benefit for People with Disabilities. <https://www.irs.gov/government-entities/federal-state-local-governments/able-accounts-tax-benefit-for-people-with-disabilities>.

² Generally, SSI beneficiaries may have no more than \$2,000 in assets for individuals and \$3,000 for couples, with certain exceptions. Source: Social Security Administration.

DISCLOSURES

Columbia Threadneedle Investments and its affiliates do not offer tax or legal advice. Consumers should consult with their tax advisor or attorney regarding their specific situation.

Withdrawals from 529 and ABLE accounts not used for qualified expenses will be subject to federal and possibly state and local income tax and may be subject to an additional 10% federal penalty tax.

To find out more, call [800.426.3750](tel:800.426.3750)
or visit columbiathreadneedle.com



Columbia Management Investment Advisers, LLC is an investment adviser registered with the U.S. Securities and Exchange Commission.

Columbia Threadneedle Investments (Columbia Threadneedle) is the global brand name of the Columbia and Threadneedle group of companies.

The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Management Investment Advisers, LLC (CMIA) associates or affiliates. Actual investments or investment decisions made by CMIA and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be appropriate for all investors. Past performance does not guarantee future results, and no forecast should be considered a guarantee either. Since economic and market conditions change frequently, there can be no assurance that the trends described here will continue or that any forecasts are accurate.