2 options for families with disabled loved ones: ABLE accounts and SNTs

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If you have a family member who's disabled, you likely know that financial and estate planning can be tricky. You don't want to jeopardize his or her eligibility for means-tested government benefits such as Medicaid or Supplemental Security Income (SSI). A special needs trust ("SNT") is one option to consider. Another is to open a Section 529A account, often referred to as an ABLE account, because it was created by the Achieving a Better Life Experience ("ABLE") Act.

ABCs of an ABLE account

The ABLE Act allows family members and others to make nondeductible cash contributions to a qualified beneficiary's ABLE account, with total annual contributions limited to the federal gift tax annual exclusion amount (currently, $15,000). To qualify, a beneficiary must have become blind or disabled before age 26.

The account grows tax-free, and earnings may be withdrawn tax-free provided they're used to pay "qualified disability expenses." These include health care, education, housing, transportation, employment training, assistive technology, personal support services, financial management and legal expenses.

An ABLE account generally won't affect the beneficiary's eligibility for Medicaid and SSI — which limits a recipient's "countable assets" to $2,000 — with a couple of exceptions. First, distributions from an ABLE account used to pay housing expenses are countable assets. Second, if an ABLE account's balance grows beyond $100,000, the beneficiary's eligibility for SSI is suspended until the balance is brought below that threshold.

ABLE vs. SNT

Here's a quick review of the relative advantages and disadvantages of ABLE accounts and SNTs:

Availability. Anyone can establish an SNT, but ABLE accounts are available only if your home state offers them, or contracts with another state to make them available. Also, as previously noted, ABLE account beneficiaries must have become blind or disabled before age 26. There's no age limit for SNTs.

Qualified expenses. ABLE accounts may be used to pay only specified types of expenses. SNTs may be used for any expenses the government doesn't pay for, including "quality-of-life" expenses, such as travel, recreation, hobbies and entertainment.

Tax treatment. An ABLE account's earnings and qualified distributions are tax-free. An SNT's earnings are taxable.

Contribution limits. Annual contributions to ABLE accounts currently are limited to $15,000, and total contributions are effectively limited to $100,000 to avoid suspension of SSI benefits. There are no limits on contributions to SNTs, although contributions that exceed $15,000 per year may have gift tax implications.

Investments. Contributions to ABLE accounts are limited to cash, and the beneficiary (or his or her representative) may direct the investment of the account funds twice a year. With an SNT, you can contribute a variety of assets, including cash, stock or real estate. And the trustee — preferably an experienced professional fiduciary — has complete flexibility to direct the trust's investments.

Examine the differences

When considering which option is best for your family (or whether you should have both), remember the key differences: An ABLE account may offer greater tax advantages, while an SNT may offer greater flexibility. We can help answer any questions.

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