Introduction: Welcome to the Paragon Financial Partners podcast, where we discuss the markets, our strategies and how to live better today while planning for tomorrow.

Elean: Hello, and welcome to the Paragon podcast. I'm here with Evan Shorten, the firm's founder and principal.

Evan: Hello, this is Evan Shorten and I want to thank everyone for tuning in to this episode. If you would like to listen to our previous episodes, you can do so at paragonfinancialpartners.com/media. To subscribe to our podcast, you can find us on iTunes or Stitcher Radio.

Elean: Today, we want to discuss a unique topic regarding a new type of savings vehicle for families who have members with disabilities. 529 Able, or 529-A plans, are newly developed, tax-free savings accounts, that help families save funds for the financial needs of a disabled family member. 2016 marks the first year of availability for the 529 Able plan, which originates from the achieving A Better Life Experience Act of 2014, also known as the ABLE Act.

The Able Act allows an individual to establish a 529 Able plan if they have a disability that started before the age of 26. Our purpose with this episode is not to recommend any specific solution. But to educate and update you that any type of savings plan for individuals with disabilities has become available. Our hope is to pass news on that may be relevant to our listeners and perhaps provide you with new resources or something to consider. As always, it's important to speak with your financial planner and estate planning attorney to see how any type of plan or strategy fits into your family's goals and your family's unique circumstances. So, now that I've given you a little bit of a brief intro, Evan, could you elaborate more on the 529 Able plan?

Evan: Yes, of course. Able plans were established to fill long-term savings void for individuals with disabilities. Up until now, there has not really been a method available to help build savings for an individual with disabilities, other than special needs trusts, and special needs trusts have their own limitations. The 529 Able plan shares a similar name to the 529 college savings plan. And that's because the Able savings plan is modeled after the college savings plan. In that, it is established by individual states and shares many of the same features and contribution limits.

It is important to note, however, that while the two account types are similar, they are not the same and the funds held between them cannot be combined. The 529 Able and 529 college savings plans serve and provide for different aspects of a disabled individual's needs. Some of the characteristics of a 529 Able plan are as follows. As mentioned, 529 Able plans are state-sponsored, and accounts would be set up through the state in whose plan you would like to participate in. Like college savings plans, you are not limited to your state's plan and can open an account with any state that allows outside residence. The 529 Able plan is established and owned by the individual who has a disability.

This differs from a 529 college plan where the account owner does not have to be the beneficiary of the benefits. Anyone may contribute to the 529 Able plan on behalf of the beneficiary, up to $14,000 a year, without triggering a gift tax consequence or counting toward your annual lifetime gift exclusion. While there is no limit to how many people can contribute, each state does establish a maximum lifetime contribution limit to their respective plan. You will have to check with your state's specific plan to see what your limitation would be. Additionally, the account can reach a maximum value of $100,000 without putting federal benefits at risk.

If the account grows beyond $100,000, Supplemental Security Income payments different from social security would be temporarily suspended until the account fell below $100,000 again. The account is exempt from tax and the earnings grow tax-free. If funds are distributed for qualified expenses, the distributions are tax-free as well.

Elean: And just to be clear, Supplemental Security Income or SSI is a government program that provides stipends to low-income people who are either aged 65 or older, blind or disabled, which is different from Social Security retirement income. It's also interesting to note that SSI is funded through U.S. Treasury general funds and not the Social Security trust fund.

Evan: Great. Thank you, Elean. One of the notable differences between a 529 Able and a 529 college savings plan is the scope of the items that count as a qualified expense. Whereas, the 529 college savings plan limits qualified expenses to those surrounding the process of obtaining an education, the 529 Able account encompasses much more for the individual with disabilities. Qualified expenses can include the following; education, housing, transportation, employment training, personal support services, health, financial management, legal fees, and funeral and burial expenses.

Please note, this is not a complete list of cover expenses and to learn about what additional items are covered. It is important to consult with the plan document for the specific state that sponsors the 529 Able plan you are looking at, but as you can see a 529 Able plan is designed to help provide for many day-to-day expenses.

Elean: Okay, great. So Evan, why have a 529 Able plan? I mean, what's the purpose of the plan?

Evan: So, as I briefly mentioned in the beginning, up until now there has not been a way to help an individual with disabilities build long-term savings while being able to receive government benefits to assist them with their expenses. The individual asset limit for an individual to qualify for Medicaid and Supplemental Security Income is ridiculously low, currently $2,000. Any individual, who saves more than that amount, may lose Medicaid and their Supplemental Security Income benefits. It hampers the ability for someone with disabilities to financially overcome a short-term emergency. The work around that individuals have typically used is to establish a special needs trust, and these types of trust have had their advantages.

However, special needs trusts are expensive to establish as they require an attorney, and they may have annual maintenance fees associated with them as well. It all depends on how the trust is managed. Typically, there will also be a tax return that would need to be filed. Essentially, the costs of a special needs trust prohibits them from being a viable options for many individuals and their families. Additionally, for those that do have a special needs trust, distributions from the trust must be for supplemental needs to avoid interfering with Medicaid or Supplemental Security benefits, whereas we mentioned distributions from a 529 Able account can help cover a wide range of things.

The establishment of the 529 Able plan now allows an individual with disabilities to save on their own behalf beyond the $2,000 individual asset limit without interfering with their government benefits. However, we have to note there is one potential drawback of the 529 Able account. If and when the account owner passes, any remaining balance in the Able account equal to the amount of medical assistance paid after the account is established, will be distributed to the state with the remaining amount going to the designated beneficiary.

This is referred to as the Medicaid payback. I know that was kind of a mouthful and probably sounded a little confusing. So, let me give you an example of what that means. Let's say an individual establishes a 529 Able plan today, and over time saves $100,000 in the account. Let's say, this individual also received medical assistance through Medicaid, to the tune of $20,000 after having established the 529 Able account. Upon the account owner's death, the account will return $20,000 in Medicaid payback to the state, and the remaining $80,000 would then be passed on to the listed beneficiary on the account. It's important to note that only Medicaid funds provided after the account owner established the 529 Able plans, are returned to the state. Anything received prior to establishing the account, does not need to be paid back.

Elean: Okay. Wow, that's a pretty big drawback for this type of account then.

Evan: Well, maybe. It could be more of a theoretical drawback than one that may actually happen in practice, and I say that because any Medicaid payback gets assessed against the value of the account only. It doesn't include any other assets the individual might have in a retirement account or a trust. Given the large number of expenses that count as qualified expenses, it really just means that this account should be one that gets drawn down first. Your financial advisor and legal counsel should take this into consideration as they create your long-term financial plan.

Elean: Okay, thanks for pointing that out. We also want to mention that 529 Able plans are new; they're very new. The oldest account was established on June 1st of this year, 2016. At the moment, there are only four states with active Able plans; Ohio, Tennessee, Nebraska and Florida; with ten other states in the process of establishing their own plans. This also means that while the IRS created general guidelines for this type of plan, many states are still figuring out the details of their own programs.

Evan: Yes. I also want to stress, given how new these types of plans are, it is the utmost importance to discuss your interest in this type of plan with your financial planner and estate planning attorney.

Elean: With that, we want to thank you for tuning into this episode of the Paragon podcast. To subscribe to our podcast, you can visit us on iTunes and Stitcher Radio. If you want to subscribe to our email updates, please follow the link below. New email subscribers will receive a sheet filled with key financial data for 2016. Thanks again for listening.

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