AKF Market Report

ABLE America 2018: Saving for the Future of Americans with Disabilities

March 2018

Overview

Since June 2016, ABLE plans have provided a tax-advantaged way to save for the care and independence of individuals with disabilities, without jeopardizing certain means-tested federal benefits. They're structured and modeled after 529 college savings plans.

We've been tracking these new savings plans since the passage of Section 529A of the Internal Revenue Code of 1986, as amended, in December 2014. Since then, we have accumulated data and trends related to how states offer these new plans, the functionality and cost for families participating, and legislative changes needed for future growth.

Method

Data for this AKF Market Report was aggregated through a review of official offering documents for 35 ABLE Plans open to enrollment as of March 5, 2018.

Snapshot of States Offering ABLE Plans

ABLE plans, like any new investment plan, are expensive to start up due to uncertainty about future growth as well as uncertainty as to how participants would actually use the accounts. As a result, private sector companies that would otherwise embrace new opportunities to work with states, have generally resisted the launch of unique, state-specific ABLE plans. Recognizing the need to make ABLE plans affordable to participants at the start, States have worked hard to identify ways to reach scale sooner. Some Plans are offered nationally to attract more participants, while other States partner either through a national alliance or through direct relationships with each other. The key point is that the States have recognized that reaching scale sooner rather than later is the surest way to attract private sector interest in these important Plans.

In June 2016, Ohio launched STABLE Account, the first ABLE plan in the nation. Today, 35 States offer an ABLE Plan either through the National ABLE Alliance led by Illinois, as an independent plan, or as a partner to Nebraska, Ohio or Oregon. The chart on the top of the next page shows the breakdown of how each State offers its ABLE Plan:

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National ABLE Alliance	Independent Plans	Partner States
Alaska Colorado District of Columbia Illinois Indiana Iowa Kansas Minnesota Montana Nevada North Carolina Pennsylvania Rhode Island	Florida Louisiana Massachusetts Michigan New York Tennessee Virginia	Nebraska Alabama Ohio Arizona Georgia Kentucky Missouri New Hampshire New Mexico South Carolina Vermont West Virginia Wyoming Oregon Maryland
13 States	7 States	15 States

We expect several States to join the National ABLE Alliance in the first half of 2018. California and Texas will likely launch independent plans during the same time period, and at least two additional partner arrangements could be created through Ohio and Oregon. We will continue to track these plan developments and capture all information in our proprietary ABLE Industry Compilation.

What Investors Need to Know about ABLE

While there are some challenging concepts in opening ABLE accounts, the States and their program manager partners have worked hard to make them accessible and easy to use. In fact, some even have ATM cards to simplify and accelerate access to the funds, an important feature for participants who use the accounts for every day, qualified expenses. Here are our key findings on the use of ABLE Plans and the investment choices and cost for investors:

- **Use of ABLE Account.** Each disability is different as to when money might need to be withdrawn. Thus, the Plans don't generally offer investment options based on age or a target date far into the future. In fact, as described below, each Plan today offers a very short term, riskless investment option like an FDIC-insured savings or checking account for ready access to account funds, as well as a manageable number of target-risk investments geared to one's investing outlook.

- **Investment Options.** Every Plan offers a short-term or cash account and generally five or six target-risk investment options. These options are commonly invested in low-cost passively-managed funds largely from Vanguard, Blackrock and Schwab, with Fidelity passively-managed funds in the Plan it offers through Massachusetts. Several Plans use a single underlying target-risk fund (e.g., Vanguard LifeStrategy Funds), while others actually customize a static asset allocation option.

- **Investment Option Fees.** Underlying fund fees in most Plans range from 2 to approximately 15 basis points (0.02% to 0.15%) and program management fees are no greater than 50 basis points (0.50%). Total fees paid by an account owner are generally below 100 basis points (1.00%), with most investment options coming in under 60 basis points (0.60%). It is worth noting that given the scale of the ABLE industry, these all-in fees are well below fees for 529 college savings plans at a comparable point in time.

- **Maintenance Fees.** Notwithstanding relatively low investment option fees, we do find relatively high dollar-based account maintenance fees (ranging from $30 to $60 annually). These fees (which typically are charged monthly) are often used by program managers to help recoup their start-up costs before assets under management are large enough to generate significant revenues from asset-based fees on investment options. We note that most 529 Plans included similar account fees until the Plans reached financial viability.

- **Debit and Prepaid Cards.** Most ABLE Plans offer debit or prepaid cards for transactions. We note that this feature accommodates the need for quick access to ABLE funds and has no equivalent mechanism in 529 college savings plans.

What's Needed for ABLE Growth

We expect to see more state plans established in 2018. That said, total assets and accounts are low, even by early 529 standards. Strategic Insight reports only $71,978,679 invested across 17,314 accounts, as of December 31, 2017. We believe growth opportunities for ABLE plans depend on the following federal legislative changes:

- **Increasing the Age Limit for ABLE Accounts.** Currently, ABLE accounts may only be established for individuals whose disabilities were diagnosed or onset prior to age 26. This precludes individuals with disabilities that occurred later in life, including, for example, veterans or adults who suffer from catastrophic accidents. Growth potential is important to keep these Plans economically viable, both for the private sector providers that manage the plans and for the individuals who invest in them.

- **Eliminating the Medicaid Clawback.** We believe that the potential for a Medicaid claim upon ABLE funds when an ABLE beneficiary dies has stopped otherwise eligible individuals from opening ABLE accounts. California, Oregon and Pennsylvania have each passed legislation prohibiting the Medicaid programs in those States from seeking recovery of previously advanced moneys but this provision must be eliminated at the federal level to resolve participant concerns nationwide.

- **Allowing the Flexibility Found in 529 Accounts.**
    - ***Account ownership.*** Today, ABLE eligible individuals can only have one ABLE account, for which the ABLE beneficiary must be the account owner. In contrast, 529 beneficiaries can have multiple accounts (subject to an aggregate maximum account balance limit), and the account owners can all differ, which is a handy feature for divorced parents or for other family members who want to help an eligible individual save.

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- ***Contribution limits.*** With some limited exceptions created through the Tax Cuts and Jobs Act of 2017, the ABLE annual contribution limit is $15,000. In contrast, 529 annual contribution limits allow for the gift tax exceptions set for married couples (e.g., $30,000), and there is even an allowable five-year acceleration of gifts so that individuals or married couples could contribute up to $75,000 or $150,000 in one year. For ABLE beneficiaries, this provision would enable lump sum contributions from court-ordered judgments, insurance settlements or even early retirement payouts due to disabilities.

- ***Account transfers.*** Once an ABLE account is established, a change in the beneficiary is essentially limited to siblings. In contrast, 529 accounts can be rolled over to a broadly defined “member of the family,” which even includes first cousins. A broader definition of “member of the family” for ABLE accounts would enable more account transfers, which would appeal to grandparents or even to married couples where each spouse has a disability.

Find Out More

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About AKF Consulting Group

The AKF Consulting Group is the leading Municipal Advisor to State administrators of 529 and ABLE Plans, counting 37 governmental entities across 33 States as current or past clients. Specifically, AKF Consulting assists in structuring and advising upon all Plan aspects, including governance, administration, investment options, marketing and performance evaluations. AKF Consulting also now serves as the Program Consultant to the California Secure Choice Retirement Savings Investment Board in connection with its expected 2019 launch of the California Secure Choice Retirement Program, bringing our client count to 38 governmental entities. For more information, please visit www.akfconsulting.com.