

ABLE America 2021: States Challenge the Status Quo

An Update on Growth of the ABLE Market

March 2022

Overview

This AKF Market Report provides an update on recent trends and developments across the 529A (“ABLE”) industry. While the industry is still relatively young, significant progress this past year seems to augur ABLE’s shift from an uncertain, developing industry to an established one.

Recent market developments lead us to the following observations and considerations:

Observations

- 2021 was a big year: the ABLE market hit \$1 billion,¹ three new States launched Plans, and collaborative partnerships continued to expand.
- The first cash-only Plan structure launched last year in Maine. It will be one to watch and learn from.
- Thirty-six States sought new service providers between 2020 and 2021. This explosion of bids resulted in several major Program transitions, the exit of some providers, and the expanded presence of others.

Considerations for States

- States have just over eight months to finish implementing the IRS’s Final Regulations for ABLE. Programs should ensure they have a timely and comprehensive plan in place with their service providers; there is a lot of ground to cover.
- Strong markets have propelled Plan asset growth in recent years. But States should also look to grow assets by driving new contributions. States might explore (i) partnering with employers to leverage ABLE to Work contributions, and (ii) leveraging financial planners as a distribution channel.
- State and Plan Administrators should consider enhancements designed to attract professional disability service organizations. Businesses (as opposed to individuals) that serve as guardians or Representative Payees for individuals with disabilities can often open and manage large numbers of accounts, potentially propelling Plan growth.

Method

Data for this AKF Market Report has been compiled from available disclosure documents and Program websites as of March 1, 2022. Asset and account data are sourced to ISS Market Intelligence as of December 31, 2021.

¹Source: ISS Market Intelligence as of December 31, 2021



Findings and Observations

ABLE Plans are now prolific across the United States. Currently, 46 States and the District of Columbia offer 15 distinct Plans. Most States offer a single Plan. Oregon and Virginia, however, each offer two separate Plans: Oregon has a single-State offering and a national offering; Virginia has two national Plans, one is direct-sold and the other is advisor-sold.

Today, 21 States offer ABLE-related State tax benefits to their taxpayers. This includes four States that recently added tax benefits in 2021: Alabama, Arizona, Oklahoma, and Utah.

The majority of ABLE Plans function as part of a larger coalition, allowing States to share resources to achieve economies of scale sooner. Currently, 36 States and the District of Columbia participate in a partnership structure, while ten States operate independent, stand-alone Plans.

In 2021, we saw a number of collaboration shifts nationwide: Nebraska and Alabama dissolved their partnership, and the existing Alliance, STABLE, and Oregon structures all added new States. The following chart provides a current snapshot of ABLE Plans and coalitions as of December 31, 2021:

	Collaborative Structures			Independent Plans
	National ABLE Alliance	STABLE Account Partnership	Oregon Partners	
46 States and DC	<u>18 States and DC</u> Alaska Arkansas Colorado Connecticut Delaware District of Columbia <u>Illinois</u> Indiana Iowa Kansas Michigan Minnesota Mississippi Montana Nevada New Jersey North Carolina Pennsylvania Rhode Island	<u>13 States</u> Arizona Georgia Kentucky Missouri New Hampshire New Mexico <u>Ohio</u> Oklahoma South Carolina Utah Vermont West Virginia Wyoming	<u>5 States</u> Alabama Hawaii Maryland <u>Oregon (2)</u> Washington	<u>10 States</u> California Florida Louisiana Maine Massachusetts Nebraska New York Tennessee Texas Virginia (2)
15 Distinct Plans ²	1 Plan	1 Plan	2 Plans	11 Plans

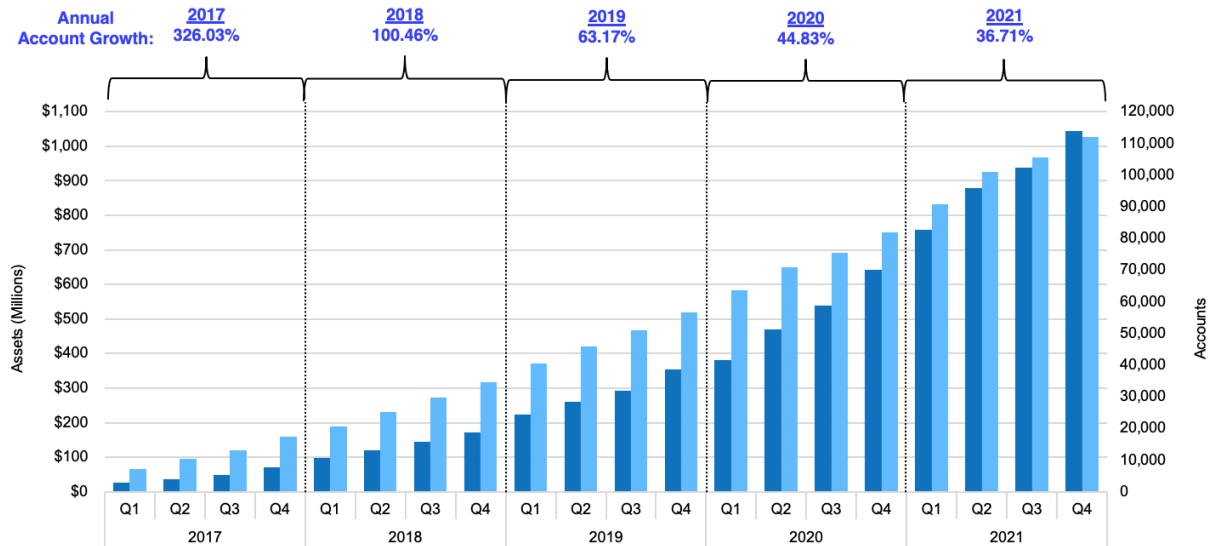
Note: **Blue** represents the lead State for each Collaborative Structure

² Each State Plan offered in the National ABLE Alliance is identical in terms of investments, asset-based fees, and account platform, which is why we characterize the Alliance as “1 Plan”. Similarly, the States included in the STABLE Account Partnership all invest in the Ohio Plan but each State’s Plan is separately branded, with a slight dollar-based fee break for residents of lead State Ohio. Finally, in the Oregon Partnership, each State Plan design and account platform is essentially the same, with just slight differences in fees and some operational details.



Observation 1: Expansion of Market and Partnerships

The ABL market has come a long way since June 2016, when the first Plan was launched. Over the past five-plus years, we have witnessed impressive growth and development. By the end of 2021, the industry had surpassed 100,000 accounts and reached a major milestone: \$1 billion in assets under management, as illustrated by the chart below.



Source: ISS Market Intelligence as of December 31, 2021

In the early years of 2017 and 2018, Plans were still building and launching. Growth was steady, but slow. During the most recent three years, however, we have seen particularly impressive market growth, as detailed in the table below.

2019 Q1 – 2021 Q4 ³	Average Quarterly Increase	Average Annual Increase
Assets	\$72,731,296	\$290,925,184
Accounts	6,452	25,808

New Plan launches further helped to propel the market in 2021. Three States – Hawaii, Maine, and Utah – joined the industry, underscoring the success of ABL and reinforcing the public sector’s commitment to an important market segment. Today, just four States (Idaho, North Dakota, South Dakota and Wisconsin) lack an ABL Plan.

We also saw significant growth amongst Partnership models over the past year. Hawaii and Utah (part of Oregon’s national ABL for ALL, and Ohio’s STABLE, respectively) both launched directly into partnerships in 2021, benefitting from the economies of scale and ease of launch that have made collaborative structures a popular choice for State administrators. Michigan, an early ABL adopter, also left behind independent administration in 2021 and joined the National ABL Alliance. The National ABL Alliance is now the country’s largest ABL partnership on all key metrics: number of State partners, number of accounts, and total assets under management.

³ Represents the period January 1, 2019 – December 31, 2021



Today, more than 75%⁴ of all States belong to a multi-State coalition. Combined, these coalitions hold nearly 60% of industry assets and 60% of industry accounts.⁵

The past year's growth shows that ABLE Plans are gaining both stability and credibility. Regardless of what the markets do in 2022, we will be watching account numbers closely to track industry health – and we expect to see great things.

Observation 2: A New Model Emerges in Maine

Make no mistake: it is never too late for industry innovation. Maine proved this in 2021 when it launched the Maine ABLE Benefit Checking Plan. Maine's model is unique in the 529A space: instead of offering a collection of risk-based investment options as most existing Plans do, Maine offers just an FDIC-insured checking account with Bangor Savings Bank. The Maine Plan is currently the sole checking-only Program in the nation. Although the structure comes with some limitations (accounts do not earn interest, online enrollment is not available, and the Plan largely cannot accept rollovers), the benefits are noteworthy: there are no monthly or asset-based fees, account holders receive a tap/chip-enabled debit card with free ATM access, and individuals can receive in-person assistance at any bank branch.

While distinctly structured, Maine's offering is nevertheless a continuation of several ABLE themes: simplicity, a desire for short-term spending, and a preference for no-risk investment options. This Plan will no doubt appeal to the needs and preferences of many ABLE investors, especially those who use their accounts for transactional purposes or current expenses. We know this is a significant portion of ABLE users; over one-third of account holders choose to invest in FDIC or Money Market options.⁶

Although the checking-only model does not provide market growth and thus will not be as useful to those saving for the long-term, it does offer the combination of comfort and trust that comes from working with community-based financial institutions. The trajectory of the Maine Plan over the next few years will be an important arbiter of what features ABLE participants truly value most. We look forward to watching and learning.

Observation 3: The First RFP Re-bids Result in Provider Shake-ups

Between 2020 and 2021, we saw a number of Plans issue Requests for Proposal ("RFPs") for recordkeeping and program management services. Most were rebids, the result of contract maturations. These RFPs ultimately resulted in several provider changes, as summarized in the following table:

⁴ Thirty-seven of 47 ABLE States (including DC), or 78.7%, participate in a collaborative structure

⁵ Figures derived using data from **ISS Market Intelligence** as of December 31, 2021

⁶ According to **ISS Market Intelligence** as of December 31, 2021

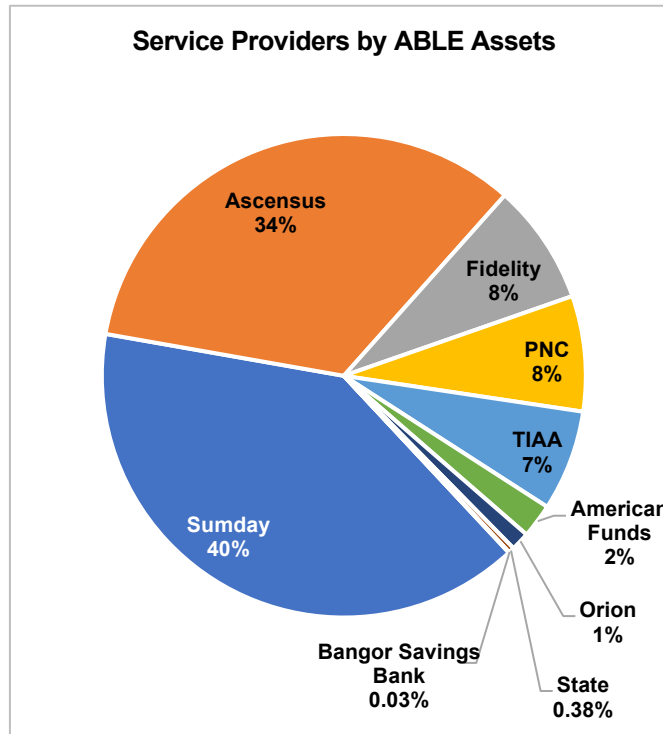


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Program	RFP Release Date	Result of RFP
STABLE Account Partnership	January 2020	Transition from Intuition ABLER Solutions to Sunday Administration ⁷ in July 2021
Hawaii	January 2020	Joined Oregon Partnership in October 2021
Nebraska	July 2020	Transition from First National Bank of Omaha to Nebraska Treasurer's Office with Ascensus as recordkeeper in July 2021
Alabama	July 2020 (part of Nebraska)	Transition from Nebraska Partnership to Oregon Partnership in May 2021
Michigan	October 2020	Transition from TSA Consulting Group to National ABLER Alliance in December 2021
Texas	November 2020	Orion Advisor Solutions selected for renewal; final contract pending
National ABLER Alliance	December 2020	Pending
Tennessee	November 2021	Pending

⁷ Effective January 31, 2022, Sunday Administration, a Bank of New York Mellon subsidiary, is now Vestwell State Savings, a subsidiary of Vestwell Holdings

As a result of these RFPs and provider changes, we see significant market consolidation across a smaller group of administrators, as illustrated by the chart below.



Source: ISS Market Intelligence as of December 31, 2021

As shown by the chart above, nearly 75% of market assets are now spread among just two administrators, which serve a combined 41 States. The remaining 25% of industry assets are spread across seven independent providers. Impressively, each of these independent providers only serve a single 529A Plan – and yet collectively represent a quarter of the industry’s assets. This suggests that, despite increasing consolidation, independent providers tend to have more assets per Plan than the two largest providers in the industry. We think this speaks to the strong presence, reputation, and distribution channels leveraged by these independent Plan providers.

With RFP decisions by the National ABL Alliance and Tennessee set to be announced soon (and potentially more RFPs to come in 2022), the next year promises to be an exciting one for States and private administrators alike.

Future Considerations

ABLE Programs have expertly navigated a myriad of recent market, service provider, and overall societal changes. As we look to the future, we note three additional considerations for ABLE Plans as they continue to establish and grow.

Consideration 1: Deadline for Regulatory Implementation Looms

On October 1, 2020, States and Plan Administrators woke up to a much sooner-than-expected challenge: the IRS's Final Regulations for Section 529A Plans. The Regulations are voluminous and have imposed a significant number of new rules for ABLE administration. Plans were given two years to implement these new regulations – and time is almost up. The deadline for implementation is November 21, 2022,⁸ just eight months away.

Perhaps the most significant lift for ABLE Programs will be compliance with the new prioritized list for account authorized representatives. Under the previous Proposed Regulations, only parents, legal guardians, and agents with a power of attorney were permitted to act as an account administrator for an eligible beneficiary. The Final Regulations expand this list and require it to be implemented in a specific order of priority, along with additional questions and certifications. This change will require updates to enrollment applications (both paper and online), core recordkeeping systems, documentation requirements, and more.

States should already be working closely with their service providers to plan a schedule for testing and implementation of new system features associated with the Final Regulations. Since system architecture is now open for revision, States should also consider whether this is the right time to request other platform or website changes. Items such as the gathering of additional demographic information (e.g., veteran status) may be easier to add now, during a larger system re-design, rather than afterwards.

Additionally, States will need to make internal decisions regarding whether to implement several optional features (such as co-signatories and subaccounts) that are allowed by – but not required by – the Final Regulations. Programs also should review their State enabling legislation to ensure that laws and rules do not need to be updated to accommodate the IRS's new guidance. Finally, all Programs will need to update Plan Disclosure Statements if they have not already.

The volume of this work is significant, so State Administrators and their service providers should be sure not to delay. The clock is ticking, and November 21st will be here before we know it.

Consideration 2: Seize Opportunities for Asset Growth

Over the past two years, Plan assets have been buoyed, at least in part, by strong market performance. This year, as the world heads into a new period of potential global financial uncertainty, States should consider increased efforts to grow assets apart from market performance – specifically by increasing contribution activity.

⁸ Some Plans may have a later implementation deadline, depending on their State legislative schedule. Specifically, the final implementation date is the later of (i) November 21, 2022; or (ii) the day immediately preceding the first day of the qualified ABLE program's first taxable year beginning after the close of the first regular session of the State legislature that begins after November 19, 2020. If a State has a two-year legislative session, each calendar year of such session will be deemed to be a separate regular session of the State legislature for purposes of this paragraph. See 1.529A-8(b)(2).



One well-known but still untapped way to do this is by utilizing the power of ABLE to Work, which became effective January 1, 2018. Under ABLE to Work, employed individuals who do not already participate in an employer-sponsored retirement plan can contribute additional funds to their ABLE account each year. For eligible individuals across the continental United States, this means up to \$12,880 additional contributions to an ABLE account; eligible Hawaii and Alaska residents may contribute up to \$14,820 and \$16,090, respectively, to their ABLE accounts. Essentially, ABLE to Work contributions allow eligible employees to use their ABLE accounts as retirement savings vehicles.⁹ Normally, ABLE contributions are capped at \$16,000 per year, so ABLE to Work could nearly double an eligible individual's yearly contribution.

The best way to promote ABLE to Work contributions is through employer channels. The simplest model is to have businesses provide the ability for employee-account owners to make ABLE account contributions through payroll deduction. As we noted in our [July 2021 AKF Insight](#), research clearly shows that employees save most effectively when offered the chance to make workplace-facilitated contributions. Of course, this path requires a concerted outreach effort from the Plan Administrator and State to employers. To that end, we recognize the substantial progress made by the NAST ABLE Employer Outreach Subcommittee in developing materials to assist in the employer channel. We strongly encourage every State to work with this Subcommittee, its service partners, and local businesses to achieve success.

Certified Financial Planners (“CFPs”) are another potential source of growth. Although ABLE has been in place since mid-2016, our sense is that many CFPs continue to focus on savings vehicles such as special needs trusts due to their unfamiliarity with ABLE. We believe that CFPs could be a powerful force for ABLE growth once it is incorporated into their clients' future financial planning, even as a savings vehicle that is complementary to special needs trusts. Furthermore, CFPs typically are members of professional organizations that could facilitate outreach and education.

State Administrators also should consider the addition of product features that would assist financial professionals, such as separate, view-only account access. This would allow financial planners the ability to incorporate ABLE assets into a broad-based financial plan. Direct-sold ABLE Plans can provide this access by creating advisor-dedicated portals on Plan websites.

Increasing contributions can be difficult. But using ABLE to Work and comprehensive financial planning providers can help participants and their families better understand the value of ABLE accounts.

Consideration 3: Professional Organizations Can Accelerate Account Openings

In other State-run investments programs, accounts are primarily opened and managed by individuals – parents, grandparents, beneficiaries – all *people*. In the ABLE universe, things are a bit different. People with disabilities are often served by *organizations*. These tend to be businesses or non-profits that provide guardianship and financial services. The organizations frequently have responsibility for managing all types of accounts for ABLE-eligible individuals. Representative Payee organizations (which manage Social Security funds for individuals with disabilities) are a good example.

These organizations are prime targets for ABLE outreach. Not only do they directly serve ABLE-eligible customers, but they are also likely to be in a position to open and manage ABLE accounts for their clients. The potential for one organization to open dozens of accounts at a time is an exciting proposition.

⁹ The exact amount of additional ABLE to Work contributions is also limited to the account holder's total income for the tax year.



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Unfortunately, ABLE platforms (at least initially) were designed to be used by *individuals*, not *businesses*. Therefore, when these businesses first started trying to open ABLE accounts under their corporate name, they ran into technical difficulties. For starters, account platforms were largely designed to accept first/last names and Social Security Numbers, rather than business names and EINs. Second, standard identity verification procedures that worked for people did not work on businesses. Additionally, organizations became frustrated at the thought of having to manually enroll dozens of individual clients one at a time, maintain dozens of separate logins, and download, receive and review dozens of separate monthly statements.

Programs took note, and some are now working on implementing enhancements that make enrollment and account management easier for professional organizations. We encourage Plans nationwide to embrace this approach. Plans can consider features like business-based identity verification (offered through providers such as Lexis Nexis), acceptance of EINs rather than personal SSNs of organization employees, bulk enrollments, bulk reporting, and organization-wide login credentials.

Although these upgrades require time and investment, the potential upside is significant. A single professional organization could enroll potentially dozens of accounts in a short period, multiplying the efficiency and impact of State outreach efforts. ABLE Programs have traditionally grown “one account at time.” The prospect of “bulk” growth through organizations promises to be an untapped opportunity for Plans to embrace.

Find Out More

The ABLE Market experienced its first major wave of status quo disruptions in 2021. Providers came and went, partnerships rearranged, new Plans launched, and regulatory changes began to take shape. The full impact of these developments remains to be seen, but big changes often signal big opportunities. We are excited to watch and report on the inevitable shake-ups that 2022 will bring.

We would be delighted to discuss our findings in more detail with you. For more information, please contact:

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