CalABLE Webinar:
Selecting Investment Options for Your CalABLE Account

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SANDRA KENT: Good morning and welcome to CalABLE's webinar on Selecting Investment Options for Your CalABLE Account. My name is Sandra Kent and I am an analyst with CalABLE.

I would like to go over a few things, this morning, before we get started with the presentation. And Dante, if you could forward the slide for me. Can you forward it one more? There we go. Okay.

I want to talk about the webinar set up. We do have live captioning available for those who prefer to view the captioning and that option is in your webinar control panel. Also, if you prefer to use the telephone, you can use the telephone number 669-900-6833, and you would need to enter Webinar ID 950 7706 3237. So those are your audio options if your computer speakers are having difficulty today.

Dante, can we go one more? Another slide. We also have the option for you to submit questions that we will handle at the end of the webinar. Please use the Q&A box to submit the questions, and we will direct them to speakers accordingly. If you are listening by phone and you are not logged via computer, you can submit questions by e-mailing us at calable@treasurer.ca.gov.

This webinar is being recorded and we will post it to our website and onto our YouTube channel in about two weeks. We have a few administrative things we need to do before we can do that, but it will be available in replay.

And to begin the webinar, the California State Treasurer, Fiona Ma, has prepared some remarks for us, and we will get the webinar underway.

CALIFORNIA STATE TREASURER FIONA MA: Good afternoon, everyone. I am California State Treasurer Fiona Ma, and I would like to welcome you to the CalABLE webinar series. Today’s program will focus on selecting savings and investment options to help you make the most of your CalABLE account. The presenters will guide you through the available options and discuss how they differ so that you can make the best choices in meeting your financial goals.

CalABLE is committed to providing financial tools so our community can make informed investment decisions. This program is a critical step toward ensuring that people with disabilities have access to resources that can help put them on the path toward financial stability. As State Treasurer, I focus on improving and expanding CalABLE as one of my top priorities.

Thank you for taking the time to join us. I hope you will find today’s information useful. Though this is our final webinar for the year, we know based on audience participation and feedback that this is an important service, and we will continue to provide these types of programs in the new year. Now, I would like to turn things over to CalABLE Executive Director Dante Allen.

DANTE ALLEN: Thank you, Treasurer Ma, this is as the Treasurer mentioned our final in our webinar series for 2020. And I really want to thank everyone for taking the time to join us today. We are very excited to have you here. And I just wanted to say that we started this webinar series in the beginning of 2020. Our first presentations were before the pandemic and the subsequent shut downs, and what we learned really quickly was that communicating to folks through these types of webinars were hugely effective.

And the other thing that we recognize is that as we continued, our questions became more specific and detailed, and that you were seeking more than just the basic information about how CalABLE works. And so, we have worked diligently to be able to provide that information for you. Now, I want to remind folks that even as we get more specific in these presentations, there are still plenty of resources for you to get the very basics of information, including who is eligible, how the program works, and what it takes to sign up. And those things are available on our website at https://www.treasurer.ca.gov/able/.

As Sandra mentioned, our previous presentations are available on our YouTube channel. If you go to YouTube and search CalABLE, you should have no problem finding those.

Today, as we get into a little bit more detail in selecting investment options, there is one thing that I want you to be aware of and that is that neither CalABLE or our program administrator TIAA-CREF are intending to provide you with financial advice. There are plenty of professional resources out there if you are seeking specific advice to your situation on how you should either choose your investments or making plans for your financial future. Those are resources that we highly encourage you to seek out and explore.

The aim of our presentation today is to provide you with a little bit more education on some of the thought that went behind our investment portfolio options so that you'll have the opportunity to make for yourselves, wise financial decisions.

So, to give you an idea of what we are going to be covering. I will give you a little bit of information about CalABLE accounts. Again, this is not meant to be a full over view on how the program works – there are other resources available for that – but I did want to give you some tips as we get close to the end of the year, on ways to take best advantage of using your CalABLE account.

I have my partner in CalABLE business, Glenn Friedman, here from TIAA, and we will talk through selecting investment options, we will go over some CalABLE account details, as always provide you with places where you can go for additional resources, and finally, and what is often the most informational portion of today's presentation, we'll have plenty of time left over for Q&A, so please tee those up. We will try to answer as many questions as we can, but just to let you know, we will give priority to those questions that are directly related to the topic today. So, with that in mind, let's go into element one and talk about CalABLE account information.

So, especially as we talk about saving and investing, I think it's important that we really point out to you, our program administrator and partner TIAA-CREF. TIAA-CREF is one of the world's largest financial investment firms. They manage globally over a trillion dollars in assets, and they have designed the savings and investment options that are available for CalABLE.

Now, the way that you can make these choices within CalABLE is, your money can be put into an FDIC-Insured portfolio, which operates very similarly to checking or a savings. It builds on simple interest. Or you have option of investing in any one of our three target risk investment options, and Glenn will go over those choices are and how they may vary.

Now, fees for these options vary based on what you choose, and we can talk about that with a little bit more detail. And the important thing that you should know is that each time you make a deposit into the CalABLE account, you can make the choice of how you want that money saved or invested. But once that money is in the account, you can only move between the investment portfolios two times per calendar year. So, you have that opportunity, if your circumstances have changed, and once you decide that once you have money in the account, you can move that money around two times per year, but it’s important to know that every time you make a deposit, you can make a new decision about where you want that deposit to go as far as your savings and investment options.

We gave a webinar about this last month, and it is year-end contributions. One of the most consistent questions that we receive about CalABLE are: is there a way around that $15,000 annual contribution limit? Let's say we have a lump sum payment that we want to make, and it's more than the annual $15,000 contribution. And the reality is that there is no way around that contribution limit. There are a few people who actually can contribute more than the $15,000 per year – it’s called ABLE to Work and I will talk about it in just a moment – but are really the only folks that in a calendar year can contribute more than $15,000.

Now, here is something that may be helpful to you in that the contribution limit is a January 1 to December 31 time span. So, each year between January and December, you can put into your ABLE account $15,000. Now, as we get close to the end of the year, you may have an opportunity, let's say if you are receiving some type of lump sum, whether it is inheritance or a significant payment of any kind, where you have the ability to contribute a portion of that lump sum between now and December 31st, and then on January 1 you have a full $15,000 that you contribute all over again. Again, it’s not changing the rules, it’s not skirting the intent of the ABLE law, it’s just using the calendar to your advantage, and so that’s something that you may want to consider in the future.

Contributions to an ABLE account can be made by any person, which includes an individual, a trust, an estate, partnership, association, company, or corporation. And the great news if you are benefits recipient, those contributions by anyone other than the person with the disability, those don't count as income against your benefits. They are essentially a completed gift, and those gifts are not counted as income against benefits.

I mentioned that you do have the ability to expand your annual contribution with the ABLE to Work program, which I am going to go over in just a moment, and you also have the ability to roll over from a 529 College Savings Account into an ABLE account, which I will talk about in just a moment.

I did mention ABLE to Work. This is a provision that was introduced with the Tax Reform Act of 2017, and it allowed individuals who are working – account holders, people with disabilities that have CalABLE accounts or any other ABLE accounts – to contribute in excess of that $15,000 annual contribution limit if they are contributing a portion of their own earnings and they are not actively contributing to an employer-based retirement plan.

Now with this provision, an individual who is working and not contributing to a retirement plan can contribute the lesser of an amount equal to their annual gross salary or the federal poverty level for the state that they live in. Here in California for 2020, that is $12,490 that you can put in in addition to the $15,000 from all contributors. So, you have potential to contribute up to $27,490 – that's if you live in California or the 48 contiguous states. If you live in Alaska or Hawaii, you could actually contribute up to $15,600, or $14,280 for Hawaii residents. So, that money is in addition to your $15,000 and so it's a way you can really quickly build an ABLE account. And remember the caveats are: you must be working and contributing your own income, and you cannot be participating in an employer-based retirement program.

I also mentioned that there is the ability to roll over from a 529 College Savings Plan into a CalABLE account. Now, why would someone ever want to do that? First and foremost, there is a lot more flexibility with an ABLE plan on how you can use the money without taxes or penalties. If you recall that money in an ABLE account can be used to pay for Qualified Disability Expenses, which are any expenses that help to improve or maintain the Beneficiary's health, independence, or quality of life.

Now, 529 College Savings Plans are meant to cover Qualified Educational Expenses, and so they are really directly related to those expenses of a student. Now, there is some flexibility in how you can use that. You can use it to pay for tuition and books and some other things, but everything that is considered a Qualified Educational Expense would also be considered a Qualified Disability Expense in an ABLE account. Plus, there are so many other things like health care expenses, just about anything that you could imagine, including vacations, could be considered Qualified Disability Expenses.

So, if you either have a change in circumstances where you may have been planning for higher education and that doesn't turn out for whatever reason, or you just want the additional flexibility of being able to use the money you originally placed in a college savings account, if you want additional flexibility that an ABLE account affords, you could consider doing the roll over. One thing that I will say is that roll over is limited to the annual contribution limit of the ABLE plan. So, you can only move over up to $15,000 per calendar year. Again, this may be one of those opportunities where if you do have more than $15,000 in a college savings plan and you wanted to roll it over into an ABLE account, you might consider doing a portion of it between now and December 31st, and then doing addition money after January 1. That is something to consider.

These rollovers can be for the same Beneficiary or from a 529 College Savings Account belonging to any member of the CalABLE account Beneficiary's family. So, family in this circumstance is the broader college savings program family member, which can include parents and siblings and the vast array of family members.

With those tips and hints in mind, I would like to turn things over now to Glenn Friedman. Glenn is the manager of asset allocation at TIAA-CREF Tuition Financing, Inc. Glenn has been with TIAA-CREF since 2013 as a manager of asset allocation. He creates investments and designs for state clients, including CalABLE and for our ScholarShare Investment Board. He conducts due diligence and evaluates portfolio risk and return characteristics, delivers presentations to clients like he is doing today. Before Glenn was with TIAA, he managed over $10 billion in active equity projects and implemented daily trading decisions for stocks, futures, and currency overlays.

Glenn, I will turn things over to you and keep driving your slides, so you just let me know when you are ready to go forward.

GLENN FRIEDMAN: Thank you very much, Dante. That was quite an introduction. So, you're right. My background is in investments, so I specifically worked in portfolio management and asset allocation and portfolio construction. I have actually been involved with the CalABLE program since its inception back in 2018. Actually, I was involved before then. I was part of the team that initially launched the program. I was kind of working behind the scenes to do everything that was needed to sort of get the program off the ground, so to speak. So, I have some experience with the program. I helped put it together and I am happy to be the de facto investment person for today's presentation. So, with that, I'm going to go over just a few high-level concepts and then go down into further detail about the investments in the program. So, Dante, if you want to move to the first slide.

Okay. Perfect. So, to start off, there are a few core beliefs that sort of guide our thinking when it comes to constructing the investment menu for CalABLE. And I will go through them one by one – I have in previous webinars – but I think this is an important point because this is sort of the genesis of our thinking and just sort of sets the guidelines for how we actually go about thinking about the investment menu.

So, the first is Diversification. Investment options that contain multiple components should be highly diversified and capture all relevant asset classes. And this is a general idea, but it also follows trends in college savings plans like other 529 plans as well as other investment programs like defined contribution plans. Back in the day, there used to be one risk on fund and one risk off fund, like one equity fund and one fixed income fund. You really don't see that very often nowadays. Investment options and investment portfolios have grown into a much more diversified lineup so that you have exposure to multiple classes at one time when you just made one investment decision, which is great for the account owner because you get more diversification just from making one selection, essentially. So, diversification is one of the main tenets that we have.

Number two is Simplicity. Investment options should not be overwhelming to plan investors and should be easily identifiable and distinct from one another. And that's also pretty straightforward. What we try to achieve is that simplistic decision-making, something that allows for good decision-making. An option name should reflect the objective of that particular option. As we get to later in my segment here, we tried to name all of the investment options after the risk they take, but also just what that investment option comprises of. It should not be confusing to the end user. That is something we think a lot about. It should not be confusing to participants who are choosing between them, and that really just speaks to the naming convention that we have chosen to identify these investment options.

Number three: Choice. Investment options should span the risk spectrum and offer plan participants the ability to achieve different investing goals. We fully recognize that everyone may have a different goal when it comes to investing. For some, they may just want a bank account to have some sort of credited interest rate that they can use for transactional purposes. They might use this account every day for their needs. For others, it might be viewed as more of a long-term savings vehicle, and they might be more comfortable with higher volatility products in their portfolio. They might be looking for that growth potential. We have to suit the needs from one side of the spectrum to another. So, that is what we try to do. We try to make sure that there is enough selection to kind of cater to the individuals who want this as a long-term growth potential, but also those who are not as comfortable with that and want something safer. So, we like to span the risk spectrum in terms of the choice that we offer.

Then finally: Cost. Investment options should be inexpensive. All else equal, an investment option that is cheaper is more attractive. Right? Lower cost just happens to be better than higher cost, all things equal. There is an old saying is that the one thing you can be sure of in investing is that there is be a fee. Over time, more expensive options will eat into the returns that you are generating. Like I said, we try to minimize that and choose investments and underlying funds that have very low costs.

So, why don't we move to the next slide, and we can go over the four investment choices that are available to CalABLE participants.

The first one is the FDIC-Insured Portfolio. This seeks a stable, conservative return by investing in a low-risk, interest-bearing deposit account. This is a bank account. It looks, feels, and smells just like a bank account, but it's just within the ABLE program, so you are getting the ABLE benefit that comes with investing in this without anything else. Right? So, you are not – and I will say this probably a few times – you are not investing in the capital markets by investing in the FDIC-Insured Portfolio. That is going into a bank account. This is the one investment option where you are not going to have capital market risk. The other three, you do.

The other three are known as target risk investment options. There is the Conservative Portfolio, the Moderate Portfolio, and the Aggressive Growth Portfolio. Again, the naming convention speaks to the simplicity that we are trying to achieve, but also is informative to the end user when you are trying to select different types of investments. And they are named for – really the way we thought of it was – the level of equity in each of those portfolios. The Conservative Portfolio has the least amount of equity or risk assets, the Moderate Portfolio has a middle amount of equity, and the Aggressive Growth Portfolio has the most equity. So, the Conservative has 20% equity and 80% non-equity, the Moderate 50% equity, and then, Aggressive Growth 80% equity for those individuals who want more of a higher returning potential type of portfolio.

The one thing I'll mention, and Dante actually already mentioned this, and I will say it again is that there is a limit of two investment changes per year. That's not a limit of CalABLE. That's not a limit of ABLE actually. That's a limit for the 529 industry, and that includes ABLE products as well as other 529 accounts such as college savings accounts. So, that was formed, that just had to do with the initial statutory language with how Section 529 of the Internal Revenue Code was created. But again, that is a governing statutory law for 529s.

DANTE ALLEN: Hey, Glenn, if you don't mind me interrupting for a second. I saw a raised hand so I am wondering if that is an individual who might need clarification on something you've already said. If you have raised your hand, do you have a question? And if you are asking the question, you may be muted so we can't hear you.

Okay, I do see a couple of other folks have raised their hands. We will have Q&A in the end. The reason why I'm stopping the presentation right now is in case there was some additional clarification you might have needed about something that has already been said. If you feel like it can wait until the end of the presentation, I would encourage you to do that. If you do need clarification, please unmute and ask your question now. Okay, Glenn.

GLENN FRIEDMAN: Okay. You know what, I will try to answer as many questions, and I know I should have mentioned this earlier. We received a few questions before we started, and I am going to try to answer them throughout my segment, so if I don't get to your question, please ask in the Q&A session we will have afterwards.

So, Dante, if you want to advance the slide one more. This next page really is just a visual of everything that I just discussed. So, these are the four investment options that are available to all CalABLE participants. There is the FDIC-Insured Portfolio, which again is 100% interest-bearing and a bank account. Then, there are the three target risk investment options: Conservative, Moderate and Aggressive. The Aggressive as the most octane potential. There is the most percentage of stocks. The Conservative has the least percent in stocks, and the Moderate right in between. We made them different so you can choose between them – 80% stocks, 50% stocks, and 20% stocks for the Conservative Portfolio. I am actually going to go through that in greater detail right now. So, Dante, if you want to move the slide one more, I will speak a little bit in further detail about what all of that encompasses.

The interest-bearing account is probably the most straightforward. It is a bank account and it is from TIAA Bank, and it is guided by an annual interest rate. It is FDIC-insured, which is actually one of the main kind of objectives for an account like this. We were seeking an interest-bearing account that was FDIC-insured up to the FDIC permitted limits, and that's $250,000. So that is what this is. It is a bank account within the CalABLE program that people can use as either a cash-like investment if they are using it for more transactional purposes, or for those who are a little bit more risk averse. This is not – again, not – in the capital markets. So, no market risk there.

The other three I want to speak a little bit in further detail. Stocks. So, when I talk about equity, or stocks, what I am talking about is the different mutual funds that are invested in corporate shares of publicly traded companies. So, for stocks, they are diversified mutual funds from TIAA, and they have targeted asset allocations.

The first one is the TIAA-CREF Equity Index Fund. This is an index fund that tracks the Russell 3000 Index in the U.S. This is a very broad-based index that captures approximately 98% of the publicly-traded stocks in the U.S. So, very broad-based. It fully captures the U.S. market, and that is a really efficient and simple way to gain exposure to the U.S. stock market.

The other component for the stocks are the international funds. There are two international funds. There is the TIAA-CREF International Equity Index Fund and the TIAA-CREF Emerging Markets Equity Index Fund. Each of those target a different segment of the international stock markets. So, the International Developed Equity Index Fund targets developed markets outside of the U.S. – so primarily mainland Europe, the U.K. and Japan. And then the TIAA-CREF Emerging Markets Equity Index Fund targets developing countries outside the U.S. – so places like China, India, and Brazil. But again, what I want to highlight is that each of these three funds are index funds, which means they track as closely as possible their respective market segment. They are doing their best with what we call approaching full replication. They are buying each respective stock in each index at the index weight to replicate the specific return for that target market. By doing that, they keep costs very low because they are not doing what is known as fundamental research into various companies. They are just tracking an already preconceived or predetermined benchmark. So that's the sort of equity index portion.

But I'll also mention that because they are so diversified, they have broad-based exposure to both value and growth segments of each market. They have various sector exposure, and they are balanced with regard to cyclical stocks, defensive stocks, growth stocks, information technology, healthcare, consumer discretionary – all the sectors that encompass the entire industry they have exposure to as they are represented in a market capitalization weighted manner. Again, an efficient way to capture the publicly-traded growth markets.

For bonds, there are two additional funds that capture bond markets. There is the TIAA-CREF Bond Index Fund and the TIAA-CREF Inflation Linked Bond Fund. They are diversified fixed income funds that each have their own target market. The Bond Index Fund has three primary fixed income areas that they target. Number one is government issued bonds, also known as Treasuries. This is the largest segment of this particular fund and represents between 30% and 40% of the fund. And they are a very safe investment. They are backed by the full faith and credit of the U.S. government. And what they like to say is that, that is virtually default-less in the sense that the U.S. government can continue printing money. So, there is very low risk of any kind of bond default of the U.S. government and agencies related to the government.

And other components of this index fund are things like high-quality corporate funds, as well as securitized assets – so high-quality mortgage-backed securities as well as asset-backed securities. The one thing I'd emphasize is that they are all high-quality bonds. They are all what's known as investment grade, meaning they are receiving high-quality ratings from independent rating agencies that look into the probability of any kind of default from all of these bonds and all of the issuers of these bonds. So, that's really the main takeaway, is that the first kind of primary bond components, the TIAA-CREF Bond Index Fund, covers a number of different segments in the U.S. bond market, all very high-quality.

The other bond fund that I mentioned is the TIAA-CREF Inflation Linked Bond Fund. This is a unique fund in the sense it owns TIPS only – so Treasury Inflation Protected Securities, or TIPS. These are, again, government issued bonds, and the unique feature they have is that they contain a characteristic that their principal and interest payments adjust to changes in inflation. We hold, as a program manager, that inflation is one of the biggest risks to long-term growth of capital. A lot of long-term savings vehicles, contain some kind of allocation to TIPS – again, Treasury Inflation Protected Securities – with the recognition that price erosion is not just a possibility, but a probability. So, that having that TIPS component is helpful to be included in this bond allocation.

Again, costs are kept incredibly low. There is what's known as a stratified sampling technique that is done for the TIAA-CREF Bond Index Fund to help ensure that it is tracking a broad-based bond benchmark in a manner that is low-cost and efficient. So that is, again, a way to achieve a low-cost program. It's through the use of these index funds.

Finally, the Funding Agreement, and I will speak a little bit about this. The Funding Agreement is really a unique type of investment. We like to refer to it as a cash-like investment because that is how it is used. It is actually an insurance product that's a contract that's formed between TIAA-CREF Life Insurance Company and the State, and it guarantees a minimum rate of return between 1% and 3%. So, that's really – and this is what I like to highlight here – that is actually a really attractive type of offering because in the current low interest rate environment, many interest rates are paying below 1%. This product pays a minimum – in other words, it's a floor – of 1% per year. That is sort of in the contract that is formed. So, a 1% floor in this environment is very, very attractive. The other really attractive part is that this is backed by the full faith and quality of TIAA Life as an insurance provider. And TIAA Life has very strong financial strength ratings from the four major rating agencies, and that AM Best, Fitch, Moody's Investors Service, as well as Standard and Poor’s. They continually reaffirm TIAA Life as a very strong issuer for this product and give them the highest ratings in nearly all categories. So that’s one other thing I’d like to stress.

Some additional benefits that come with this type of an investment is principal protection of your assets, so you can be assured that your asset level will not go down if you invest in this particular investment. Also, there is the potential for additional interest above the guaranteed rate. So, each year – this is an annual process – TIAA-CREF Life resets the rate for investment in this product. In addition to that rate, what's built into that rate, I should say, is the potential for additional interest above the guaranteed rate. Again, there is a guaranteed floor of 1% but I’m not saying that has to be the rate going forward. There is that potential for additional interest above that rate, but within this type of investment there is stability and insulation from market risk. Account owners have full liquidity to move out of it, again, just subject to that two times per year investment changes. And again, that solid financial ratings from TIAA-CREF Life. Where this is actually located if you are looking for this type of investment, it is in the conservative – sorry, let me get the actual wording right. The Conservative Portfolio has a 25% allocation, and the Moderate Portfolio has a 5% allocation. So, I highlight that as unique product because it is favorable in this challenging interest rate environment, and it is something that people might see so I wanted to highlight that.

Just a few other points I want to make before we turn it back over to Dante – and you can move to the next slide – is just the process for actually enrolling in a CalABLE account online. So, when you come to this page online, you will be asked how you would like the money in your CalABLE account invested, and you have your choice of those four investment options. I encourage you, if I have not already said so previously, to read the program Disclosure Statement. That has a lot of really good information that you should read before making an investment decision. But you will be asked how do you want to allocate your money. And again, this is in part just a self-assessment. I received a question earlier saying, how do I choose what I want to invest in? Obviously, we don't give financial advice, but I think part of the explanation is that you have to do a self-assessment. What is your own risk profile? Are you risk averse? Do you want something for more growth potential? Do you want something that just has the benefit of a guaranteed interest rate? That's something that you sort of have to answer on your own, so I would encourage you to do your own self-assessment to clarify your own risk profile before going through with this.

But essentially, you would put in your percentage allocations on this page and make sure that they add up to 100%. You cannot invest more than 100% of what you are trying to. There is no leverage. This is just a very clean program. So, once they add up to 100%, you will be able to move on to the next step in the process. But just so that people are not shocked by this, this is where you will have to make that decision as to what you want to select for your investment in the CalABLE program.

And then finally, if we move to the last slide I have to speak on here, investing comes with risks. And this is another thing I wanted to stress because people might not be aware of this, but except for the FDIC-Insured Portfolio which, again, does not carry with it market risk, you are going to be investing in the capital markets, and your account value may go down for variety of reasons. There are risks that come with investing, some that you may not have thought of off the top of your head.

For example, when you invest internationally, currency risks to think of, the fact that currencies around the globe might go down relative to the U.S. dollar. When you invest in fixed income, in bonds, there is credit risk, the fact that there are certain bonds that might be subject to a probability of default. I would say that it's a lower probability, but credit risk is still something that you have to consider when you are making an investment selection.

And when you invest internationally, there is geopolitical risk and there is economic risk. There are a number of risks that are listed in the Disclosure Statement, so I urge you to read that and just become comfortable with them before making any kind of investment option decision. And I think our partners in law would agree that that would be a good first step. Just become familiar with this type of a program before going forward.

Obviously, I would be remiss if I did not mention that past performance is no guarantee of future results. There is performance listed in the Disclosure Statement. There is performance listed on the website that is publicly available. I hope you review that as well. There is no guarantee that it is going to be repeated in the future, but it is something to sort of consider when you are thinking about the return potential, possibly the volatility that comes with investing. So, all good information to know before you make that decision.

And with that, I think that I will end my segment there. Dante, I will turn this back over to you.

DANTE ALLEN: Thank you so much, Glenn, for that presentation. Very informative. I can let you know we already have a number of great questions for you. But before we turn things over to the full Q&A, I want to give you a couple of reminders. I see that a few of you are asking questions in the Chat section, which is fine. We are seeing those questions, and we are taking account to them. Some of the questions, if you post in the Q&A section rather than in the Chat section, I can respond a little easier directly to you. That will give you the indication which question I am answering when I provide an answer. So, if you have the opportunity to ask questions in the Q&A rather than the chat, that would be great.

The other thing I will say is, again, we are into a little more specifics with the investments and will give priority to answering those questions that are directly related to investments. But like I said, we will stick around as long as we can to be able to answer all of your questions.

So, before we go to Q&A, let me just give you a few additional details about CalABLE. And the fees are among the most important thing that folks tend to have questions on, and I like to describe the fees in all of the ways in which you will be charged. And there are essentially three categories of fees.

The first are time-based fees. You are charged a particular amount per month. So, for example, our annual account fee is $37. That is taken out in monthly installments of just over $3 per month. And then there are percentage-based fees that are linked to the choices you make and how much money you have in your account. And so, if you have an average daily balance of a certain amount and you make a certain investment choice, you are charged anywhere between zero percent to 0.09%. The same for the state administration fee. Depending on your account balance, you will be charged, depending on your choices, less than one-half of one percent.

And then there are occasional fees, and these are fees that if you make a particular choice, you will be charged for these things. So, the example I'll give is, if you choose to receive your quarterly statement via the U.S. Postal Service, there is a $10 annual fee that is charged for receiving paper statements. If you choose to receive those same statements via email rather than through the mail, that fee is waived entirely. There is an insufficient funds fee. If you ever overdraw your account, there is a $20 per occurrence fee for this. Good advice is, please endeavor not to overdraft your account, and you will never be charged that $20 fee. Same for check issuance fee. If you elect to have a check cut by CalABLE and sent to the Beneficiary, the Authorized Legal Representative or to a third-party payee, there is a $5 per check charge for that, but if you link your checking or savings account to your CalABLE account, you can transfer money back and forth with no fee. There is no fee for transferring money, and you can make payments directly from your commercial checking or savings account.

I will say that enrollment is free. It's done online. All you need is a $25 minimum deposit, and that's not a charge. That money goes directly into your account to get your enrollment started.

I gave you the theoretical. Here is an example of an individual account with an assumed balance of $3,000. And so the columns represent either investment choices or the FDIC-Insured Portfolio. So, if you had $3,000 in your CalABLE account and you chose the FDIC-Insured Portfolio, the most to operate that account for a year, it would cost $37. And again, that is taken out in monthly installments of over $3 per month. If you chose any of our investment portfolios, anything other than the FDIC-Insured Portfolio, you would be charged the $37 per year. In addition, you would be charged anywhere from $2.40 to $2.70 for your underlying investment fee. You would also be charged an additional $13.20, which was waived if you chose the FDIC-Insured Portfolio. That's the State Administrative Fee. So, the maximum that it would cost for you to operate your CalABLE account if you chose any one or any combination of our investment portfolios is $52.60 to $52.90. So, we see these as very affordable ways to able to save and even potentially grow your money with a CalABLE account.

I also mentioned that I would share with your resources and ability to contact folks. The first I want to talk about is AchievABLE Corner. This is based on the partnership that CalABLE has made with the National Disability Institute. You can link right to AchievABLE Corner at the bottom of each page on the CalABLE website. And this is a great resource where you can ask yourself questions of how can I make the most out of my CalABLE account? It can even help you in making the decision process of "I think an ABLE account may be good for me but I'm not exactly sure." Those are great resources available on AchievABLE Corner.

Additionally, I mentioned the CalABLE web wages on the State Treasurer's website. That's https://www.treasurer.ca.gov/able/. There are a number of resources that are available there, including information about our board meetings, which are open to the public and you can attend at any time.

The ABLE National Resource Center is a great website for comparing and contrasting the various ABLE programs. Forty-two states plus the District of Columbia offer and ABLE program. Many of those programs are national, meaning that you don't have to live in that state in order to open an ABLE account from that state's program. California is one of those national programs, meaning that you can live anywhere in the United States and still open a CalABLE account. So, this will highlight the differences between the programs.

Because it is based on federal law, I can tell you that many aspects of the programs are the same – the eligibility, who is eligible to open an account is the same no matter what program you go to. The general features and benefits of these programs are the same – contribution limits, how you can use the money, what is considered a Qualified Disability Expense – all of those things are the same. But there are a number of things that are different from program to program, including the investment choices. Glenn talked about how we have four investment choices. Other programs offer more investment choices and greater variability, so that may be part of your decision-making process as you go through.

Additionally, each state may have passed additional laws that further enhance the ABLE program. Here in California, we made CalABLE accounts for Californians free from monetary judgments. If you are ever sued, the courts can't go into your ABLE account in order to satisfy those judgments against you. The same for Medicaid recovery. Medi-Cal has said they will not collect or will not try to reimburse themselves for any health care spent on behalf of a CalABLE Beneficiary from their CalABLE account when that Beneficiary passes away. So, there are laws that you may want to be aware of. And then the fees vary based on what ABLE program you choose. I walked you through our fees, and there is a table on the ABLE NRC website where you can do a comparison across ABLE programs.

The final resource that I'll point you to is [Disability Benefits 101](). Our friends over at the World Institute on Disability developed this website, and it's a great resource that gives you good information about ABLE as well as it gives you great information about the various benefits programs that assist people with disabilities and even the eligibility requirements for those various programs. So, please take a look at those things.

If you need help with your CalABLE account, whether it's an enrollment or you need them to take a look at your account and address something that you're having a problem with, our CalABLE customer engagement center is available Monday through Friday, 9 a.m. to 5 p.m. You can call them at 1-833-Cal-ABLE, or you can send an email to CalABLESupport@calable.ca.gov. And they are always available to you.

You can connect with CalABLE across social media – Facebook, Twitter, YouTube, LinkedIn. You can also join our email distribution list. It's available for sign up at the Treasurer's Office website I mentioned previously. And all of the social media platforms are managed by the CalABLE staff within the State of California.

And now I will turn things over to questions, but I want to reiterate the fine print that Glenn has already provided. But I want to make sure you are aware that CalABLE is an investment program. As with any investment program, there is potential for risk. There is a possibility that you could lose money, and so I wanted you to be aware of that. With that said, I am going to stop sharing the screen. I am going to turn things over to Anne because I am sure she has been paying a lot more attention to the questions that were coming than I have had the ability to. And Glenn and I are here to answer your questions.

ANNE OSBORNE: Okay, yes, we have had several questions. The first question I have is, how are the investment options selected? We have had a lot of questions regarding the investment options, how they are selected by the portfolios, and I know, Glenn, you can answer that question.

GLENN FRIEDMAN: How are they selected? So, I guess this kind of goes back to just the initial kind of framework set for the CalABLE program. When we responded to the Request for Proposal back in 2018 or 2017, there was specific guidelines that were established for what the Board kind of wanted to see for the program. So, we came up with a list of these model portfolios – the Conservative, Moderate and Aggressive Growth Portfolios – again, to kind of span the risk spectrum from conservative to aggressive. The other requirement for the program was that they really wanted some sort of FDIC insurance. So, that was how we came up with the bank account investment option from TIAA Bank to serve as that FDIC-Insured Portfolio.

So, when all is said and done, those four investment options kind of fit the bill in terms of what we are trying to achieve, in terms of balancing choice with simplicity, and that was kind of what we landed on. It's possible we may think of future enhancements to either add to it or change it over time, the investment options, but for now that has been working pretty well for the program. So, I think we are happy with that, where it is.

DANTE ALLEN: And Glenn, just to give a little bit more detail on the underlying investment, there are a number of questions. Are there choices made to the companies that make up the underlying investments? There are a couple of folks that said, what about sustainable companies? Is there a thought that went into that when selecting the choices or is it something that could come along in the future?

GLENN FRIEDMAN: It is something that could come along in the future. I guess the one thing I would point out is that once we start making that decision to have, just for the sake of argument, an environmental, social and government option, or something that is more sustainable, there is more work that is involved in that type of an investment process for the portfolio manager, so it would be more expensive option. And again, the primary goal was to keep this very low cost, which is why we went with the index fund that we did. That really fit the objective that we were trying to achieve. That is something that is up for future consideration, but because we are for now maintaining a very low-cost program, we went with index funds to capture those markets very efficiently.

DANTE ALLEN: I will add to that. Part of our decision-making process before we launched the program, we did surveys across our potential communities for opening ABLE accounts, and one of the things that we learned early on was that many people who were considering opening ABLE accounts, they are often first-time savers. Very often first-time investors. And so, the idea of simplicity and the idea of affordability were very high priorities. And so, again, I mentioned that there are programs that offer more investment choices, but we felt like striking the balance with CalABLE around those two core principles, but still giving you enough options to feel like you have a choice is what really went into our decision-making processes. Any other questions, Anne?

ANNE OSBORNE: If someone has their money only in the FDIC-Insured option, is it likely the interest on that might cover the annual fees associated with the CalABLE account, or would that person be likely losing money annually?

DANTE ALLEN: I am happy to answer this one, Glenn, unless you want to.

GLENN FRIEDMAN: I will give you first crack.

DANTE ALLEN: Okay, the reality is, that FDIC-Insured Portfolio yields a very small amount of interest. As you are aware or you may be aware that we are in a historically low interest rate time. And low interest rates are great when you are borrowing money, and it's related to the amount that you will pay back in interest. That's a great thing. But when you are looking for a yield on your savings, low interest rates don't help you very much because it means you are not going to get very much money for placing your money in those interest-bearing accounts. As of today, I believe that the interest rate for our FDIC-Insured Portfolio is at 0.01%. That’s not zero, but almost as close as you can get to zero, which means that you are barely making any return on that money, and it certainly won't be enough to cover that $37 annual account maintenance fee.

But you have to keep in mind, there are additional benefits that you get from having an ABLE account. The biggest and most important is that you have the ability to exceed those resource limits for benefits programs like SSI or Medicaid. And so, just a return on your money is not the only benefit of an ABLE account to consider.

ANNE OSBORNE: Just a clarification on the underlying fee. Dante, is that a monthly fee or a yearly fee? Somebody would just like some clarification on that.

DANTE ALLEN: The fee is calculated monthly based on your daily average account balance, but those numbers that I gave you – the $52 per year – that is the annual cost of what it would have cost you to manage that account for a year. So, it’s not $50 a month. It’s $52 for the entire year.

ANNE OSBORNE: Great. Another one we have had a lot of questions about: the capital gains, are they taxable? Do they add to your balance? Just a little about the operations about how the ABLE accounts actually work.

DANTE ALLEN: I will let you answer, Glenn, if you would like.

GLENN FRIEDMAN: You can go ahead. I think you are probably in a better position to.

DANTE ALLEN: Okay, so the great thing about ABLE programs is that when you put the money into your ABLE account, your account can grow tax-free. As long as you hold the money in the ABLE account, there are no taxes related to any of the growth that you may have. When you withdraw your money from an ABLE account, it is also tax-free and penalty-free as long as you use that money that you withdraw for Qualified Disability Expenses. So, any expense that helps to improve or maintain your health, independence, or quality of life – whenever you withdraw money from an ABLE account, those things are tax- and penalty-free. It is tax advantaged. Very much like a college savings programs, it has those tax advantages. And yes, you can use money on an ABLE account for a number of Qualified Educational Expenses. Even when you roll that money over from a college savings program, you can actually expand what you can use the money for. So, I saw that as one of the additional add-ons to the question earlier. Just thought I’d would throw that out.

ANNE OSBORNE: We have had a lot of questions concerning 529 accounts and rolling them over. Is it a tax-advantaged investment? Do you want to speak about that, Dante?

DANTE ALLEN: I think I just did. So, money is tax-advantaged in an ABLE account the same way as in college savings account.

ANNE OSBORNE: Okay, sorry.

DANTE ALLEN: You maintain those benefits even though you expand what the money can be used for in an ABLE account beyond what it can be used for in a college savings account.

ANNE OSBORNE: This is a new question. I have not seen this one before. If somebody would like to contribute to CalABLE account and they live outside the country, are there any currency conversion fees or bank transfer fees?

DANTE ALLEN: That is a question I have never received before. I don't know, Glenn, if you have an answer related to contributions that come from out of the country?

GLENN FRIEDMAN: Not off the top of my head. I don't know if that is a question specifically for ABLE or if it's more of a question from bank-to-bank transfer.

DANTE ALLEN: I would actually have to do some research into that. We will take down your information and get back to you. You have stumped us. That's one I have not heard before. I will say that it is no problem to receive payments even if it were from a…. There are a number of ways to contribute to an ABLE account. Probably the simplest is to mail in a check to our Customer Service Center, but there are additional ways. You can transfer from a linked bank account directly into an ABLE account, or you can use our eGifting portal, which allows you to create a link which allows you to contribute directly to the ABLE account. I am almost subject to a guess but I won't do that. I will research before I come back with an answer on what the foreign conversion might take.

ANNE OSBORNE: Okay. This is a really good question. Will the State Administrative Fee go down as the total money invested increases?

DANTE ALLEN: There is a potential for that, that the State Administrative Fee could lower over time. That is a decision that would be made at the Board level. I can say that one of the elements in building up the CalABLE program was that this program is designed to be a taxpayer neutral proposition, meaning that even though it is a program offered by the State of California, the expectation is the fees would cover the operational costs of the program. We have not reached that point yet, but there is likely to come a day where we will. And then at that time, there could very well be a Board decision to lower the cost of that State Administrative Fee.

ANNE OSBORNE: Okay, if the Beneficiary takes money from the CalABLE to use it for purchases of stock, does that count as a covered need?

DANTE ALLEN: Just to make sure I'm understanding the question. If a person has money in an ABLE account and they want to remove that money from and ABLE account to purchase stock somewhere else, would that be considered a Qualified Disability Expense? You guys are getting really creative with your questions because this is another one I have not heard. I will say two things: first and foremost, CalABLE doesn't make a decision on whether or not any expense, any time you take money from your CalABLE account, whether it's a qualified expense or not. That's the first thing to be aware of. The folks who would make that decision would be the IRS. They created the legislations regarding this, and the regulation says that any expense that helps to maintain or improve an individual's health, independence or quality of life is a Qualified Disability Expense. So, there is an argument that could be made that investing for your future could improve your independence or your quality of life, and it could be considered a qualified expense.

The time when that would be tested would be if you have an ABLE account, you took withdrawals from that ABLE account and used it to invest somewhere else, and then the IRS chose to audit you and ask you how you were using the money in your ABLE account. And that is the circumstance in which they would make a decision on if how you were using the money is qualified expense. That is a very remote possibility, but certainly have been no distinctions that saying that an investment would not be considered a Qualified Disability Expense. The thing I will add to this conversation is, remember you already have the possibility of investing your money when it is in CalABLE. You have numerous choices on how to do that, and you get in addition to the asset protection with a CalABLE account, you get the tax advantaged status.

So, when your money grows over time, you are not taxed with that. If you remove the money from a CalABLE account and go and invest it elsewhere, you'd be running into both a problem with the assets if you're receiving benefits and you would be taxed on any growth that account made.

ANNE OSBORNE: I think this is more for Glenn maybe. Could you provide an overview of the withdrawal guidelines on each of the investment groups?

GLENN FRIEDMAN: Withdrawal guidelines? Well, I think in terms of how you are going to use the assets in your CalABLE account, there are no guidelines on how you must withdraw. I don't think there are any rules that say you must withdraw within a certain time frame or at a certain time. But you know, it really depends on your needs. I am not sure if there is anything else that dictates how or when you need to use the assets in your account. If you are the person who is using it for more of a daily need, then you would be withdrawing more frequently. If not, it would be withdrawing much more gradually. Dante, did you have anything to add to that?

DANTE ALLEN: That sort of to me asks, are there restrictions to how frequently you can withdraw money from the investment portfolios? And I would say that they are more suited to maintain your balances in them because there is an exchange that happens. You can explain this better than I can, but there is delay between when you actually make a withdrawal and when the money is available to you.

GLENN FRIEDMAN: I think I also received a related question that I tried to answer earlier. Are the investment options available for withdrawal every day? And the answer is yes. There is a daily net asset value associated with each option that you can actually withdraw the funds from. You are right. There might be delay from the actual time at which you make that transaction to when you receive the money depending on that process, but I wanted to kind of add that there is a net asset value that goes into each investment option that facilitates that type of liquidity. That's important in an ABLE program.

ANNE OSBORNE: We have another question that says, can the CalABLE be used like an everyday checking or savings account, using a debit card for everyday purchases like dining out or getting expenses? And for most part, it can be very similar to a checking or savings account. There is sort of ease of convenience. We do offer a prepaid debit card where you can load money directly from your CalABLE account onto that debit card, and you can use that everywhere that Visa debit cards are accepted. So, there is an ease of use. There is also a convenience factor if you wanted to be able to link your checking or savings account and move money from that ABLE account to that checking or savings account to be able to withdraw cash or send checks. That is also a very simple and convenient way to do that.

ANNE OSBORNE: Another question I have. Can you please tell us how we can see the TIAA ticker symbol? I have not heard that one, Glenn.

GLENN FRIEDMAN: I can take that one. So, I actually just responded to that. Yeah, that's fine, there might be listeners out there who might want the answer to that as well. It is listed on the CalABLE website actually, so if you go to Saving and Investment Options where you can see all of the investment options, click on the link that says View Underlying Funds. You'll get additional window, an additional pop up with all the underlying funds, and those ticker symbols will be listed directly after each fund. That is where they are located.

ANNE OSBORNE: Great. Can we just let them know what kind of statement they will get at the end of the year, Dante? We've had several questions about statements.

DANTE ALLEN: So, there are a few statements that you will receive. The first is you receive a quarterly transaction statement from CalABLE. It will list all of the deposits, withdrawals and the fees that are charged on a quarterly basis. You also have that ability to see that information anytime you log into your CalABLE account. The other thing you'll receive are for tax purposes. You'll receive forms that indicate any growth or income that your account has earned related to investments or interest growth. I think that is it.

ANNE OSBORNE: Okay, do we have to explain the spending on a special IRS form?

DANTE ALLEN: So, again, the element of the money, as long as it is in the CalABLE account, any growth to that account is tax-free. The same when the money is withdrawn and used for Qualified Disability Expenses. And so, just having an ABLE account is not in and of itself requiring an individual who is not already filing taxes to do so, but I would caution you that you probably want to talk to financial advisor to talk about when and how you should be reporting any levels of income.

ANNE OSBORNE: This is a question we really haven't received. It's regarding a CPA who is not familiar with CalABLE accounts and long-horizon financial planning. Could you note anecdotally how CalABLE participants are obtaining financial advice, particularly for the CalABLE asset allocation? Any there any roster of CalABLE approved or recommended financial advisors?

DANTE ALLEN: So, we don't have or make any recommendations on who you should choose other than to say that it is a wise decision to talk to a professional. There are a number of state approved bodies. The California Professional Fiduciary Association is one of those. There are also licensing boards for those folks who offer financial advice that offer those sorts of things. So, CalABLE doesn't do that directly, but through the State of California, there are means for you to find those things. So, we aren't recommending any individual advisors. I am not sure if there is any aspect of that I did not cover.

ANNE OSBORNE: I think you got it. Will contributions to an ABLE account using earned income receive the Saver's Credit?

DANTE ALLEN: So, yeah, that was another element that was instituted with that Tax Reform of 2017. If you are a CalABLE account holder and you are earning money and placing a portion of your earned income into your ABLE account, the Saver's Credit is available to you.

ANNE OSBORNE: Last one. Is it possible to have options to self-drive investment within the CalABLE account without the need to take money out to invest?

GLENN FRIEDMAN: I am trying to understand the question. I'm going to try to rephrase it. Is it possible to choose investments in the CalABLE program without investing in it?

ANNE OSBORNE: Without the need to take money out to invest.

DANTE ALLEN: If I helps, Glenn, I can give you my interpretation of that question.

GLENN FRIEDMAN: You can go ahead, and then I will add to it.

DANTE ALLEN: So, my interpretation is, is it possible to choose investments other than the four investment portfolios? Say I want to invest in Apple. Could I use money in my CalABLE account to invest in Apple?

GLENN FRIEDMAN: Yeah, so the four investment options that we have listed in the CalABLE program are the only available investments within the program. If you have separate accounts like a separate brokerage account, if you work with financial advisor through other retirement accounts, you can obviously invest as you please in those, but specifically for CalABLE, it's those four investment options that are the available options for you here.

ANNE OSBORNE: That's it. We have one minute left, Dante.

DANTE ALLEN: There was a question that I saw….

SANDRA KENT: Dante, while you are looking for that, I just want to take a minute to remind everybody that this webinar has been recorded, and in a couple of weeks after we handle some administrative tasks, we will post it on the CalABLE YouTube channel so that you can have another chance to listen to it. I know Dante and Glenn have given a lot of information today, and so it may take a second round of listening to it for you to digest the information. It will be there in a couple of weeks, so please go to our YouTube channel to view the replay.

PHONE CALLER: Excuse me. I am a caller and I did not get my question asked. It's a quick question, which is: I just recently signed into CalABLE, and I understand that the calendar year is January 1 to December 31. If I just started and this is the end of 2020, does that mean the $15,000 still applies to me, does that roll over? And if I don't make the $15,000 maximum this year, does that mean I can put in $30,000 maximum in the next year? That's my question.

DANTE ALLEN: So, the answer is no. That $15,000 per year is a January to December contribution limit. There is no rollover. You only get $15,000 per year unless you qualify for that ABLE to Work and you can contribute the additional money like we said,

The question that I saw that I thought might be interesting, Glenn, is can you give any kind of historical returns on the investment portfolios?

GLENN FRIEDMAN: I think I responded to something similar just recently. There is historical perspective on returns for all of the investment portfolios, and that is actually listed on the CalABLE website. I would, again, encourage you to go there. Lots of good information. You will see a table of returns that show trailing one, three, five years as they are applicable here, just to give you an idea of performance that each of those investment options have achieved, Again, it's actually year-to-date, one-year, and we have not yet hit the 3-year mark so that is still missing. But it also has the unit values – I think there was a question about that – unit values for each of those four investment options, the daily change, the rate for the FDIC-Insured Portfolio is listed there and the inception for all the portfolios. So, lots of good information on the website.

DANTE ALLEN: With that in mind, we are at time and I want to be respectful to everyone's time. Glenn, thank you so much for your time and your knowledge that you shared with us today. This has been very useful information and like we said at the beginning, one of the most frequent questions that we receive are from folks who want to be able to make heads or tails of the investment choices for CalABLE. So, thank you for providing some additional insight on that, and thank you for continuing to be a resource to CalABLE. We greatly value your support and all of the support of TIAA -CREF. Thank you, everyone in our audience, for participating today. This has been an interesting year to say the least for the CalABLE program. We are very excited that the program continues to grow, and we will continue to grow with our offerings. And I mentioned previously that our board meetings are open to the public. If you would like to attend those meetings, we meet on a quarterly basis, and there is always time that is set up for public comment, and so you can communicate with the Board directly. And those are the folks that are making decisions on how the program changes and grows over time. So please use that as an additional resource to engage with us. Again, thank you very much and we hope to see you in the new year. Talk to you soon.

For more information, please contact CalABLE at (916) 653-1728 or calable@treasurer.ca.gov.