
OCTOBER 23, 2018

**AGENDA ITEM 3
ACTION ITEM**

CALIFORNIA ABLE ACT BOARD

Resolution No. 2018-08: Approval of the State Administrative Fee for the California ABLE Program

Action Recommended

Adopt Resolution No. 2018-08 approving the state administrative fee of forty four basis points, or 0.44%, for the California ABLE Program.

Background

The California ABLE Act Board (“the Board”) received a \$1.5 million loan from the General Fund to cover administrative and operational costs over two fiscal years—\$850,000 for Fiscal Year (“FY”) 2016/2017 and \$650,000 for FY 2017/2018. For FY 2018/2019, the Board received an additional General Fund loan of \$2 million for administrative costs, external contracts, and marketing.

Per section 4878(a)(3) of the Welfare and Institutions Code (the “Code”), the Board is to repay this loan within five years. Additionally, per section 4877(c)(11) of the Code, the Board may promulgate, impose, and collect administrative fees in connection with transactions of the California ABLE Program (“the Program” or “CalABLE”). Without an annual appropriation from the Legislature, the Board is responsible for both reaching sustainability and repaying the General Fund loan through a state administrative fee (the “Fee”) collected from Program participants.

ABLE programs are still fairly new and available data is insufficient to establish trends that determine projected growth rates in the number of participants, assets under management, and state revenues for California’s ABLE Program. Therefore, with assistance from the Board’s 529A program consultant, AKF Consulting Group, staff has devised a five-year projection for sustainability and loan repayment based on three different Fee structures—0.22%, 0.33%, and 0.44%.

Projections assume the need for additional General Fund loans, estimated at \$900,000 per year which is adjusted for inflation after Year 2, to cover ongoing administrative and operational costs. Assumptions also include a conservative account growth rate, starting at 50% in Year 2 and decreasing by 10% every year for Year 3, 4, and 5. Overall, these projections illustrated that with each of the Fee structures, sustainability

and repayment of the General Fund loan(s) is not projected within the five-year period anticipated by the Legislature and is expected to extend beyond that period.

As a result, staff is recommending the collection of the Fee of 0.44% at the Program's launch. Although the Fee at 0.44% is not anticipated to allow for immediate sustainability or repayment of the General Fund loan(s), it does allow the Program to remain competitive in the ABLE industry without being overly burdensome to participants.

Attachments

- Attachment #1 – Resolution No. 2018-08
- Attachment #2 – CalABLE in Perspective: Landscape, Fee and Cost Analysis by AKF Consulting