
MAY 15, 2023

**AGENDA ITEM 3
ACTION ITEM**

CALIFORNIA ABLE ACT BOARD

Resolution No. 2023-03: Approval of Amendment to the State Administrative Fee for the California ABLE Program

Background

At the February 7, 2023, the California ABLE Act Board (“Board”) authorized the Executive Director to enter into Agreement No. ABLE 01-23 with Vestwell State Savings, LLC (“Vestwell”) for 529A program/plan management services.

The current program fees include an annual account maintenance fee of \$37 per year, a 44 basis points (bps) State Administrative Fee on all assets, and underlying investment fees between 7 and 8 bps for the investment portfolios. The board has elected to waive the State Administrative Fee for FDIC participants. There is no monthly fee for the current prepaid card, but additional prepaid card fees include prepaid card inactivity after 365 days (\$2 per month), prepaid card replacement (\$5 per occurrence), prepaid card replacement expedited delivery (\$15 per occurrence), prepaid card replacement overnight delivery (\$25 per occurrence), ATM Balance Inquiry (\$1), and international transactions (3%).

The new Vestwell program fees include: an annual account maintenance fee of \$30 per year, 10 bps on all assets in the investment portfolios, and underlying investment fees between 3.1 and 6.2 bps for the investment portfolios. Other fees include paper statement delivery (\$10 per year), overnight delivery (\$15 per occurrence), re-issue of disbursement checks (\$15 per occurrence), and ACH fail/returned checks (\$25 per occurrence).

Vestwell’s FDIC-Insured Portfolio yields a higher rate of return which would offset the state administrative fee if applied to all account holders. The FDIC portfolio offers the participants interest at the gross rate of 50% of the Federal Reserve’s Interest On Bank Reserves (IOBR), less 44 bps. In addition, Vestwell also protects the participants from negative returns in the event the IOBR rate falls below 50 bps.

Prepaid card fees include: a monthly \$2.50 fee, (\$1.25 account holder and \$1.25 by the state), prepaid card replacement (\$5 per occurrence), prepaid card overnight delivery (\$30 per occurrence), and prepaid card international usage (\$2 per occurrence).

Recommendation

Staff recommends the Board approve option one or two and adopts Resolution 2023-03 approving the program fees for CalABLE account holders.

Presenter

Dante Allen, Executive Director, California ABLE Act Board

Attachments

- Attachment #1 – Fee Proposal Presentation
- Attachment #2 – CalABLE Projection Model Memorandum

Attachment #1
Fee Proposal Presentation

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Annual Account Fees

- Vestwell fees generally are lower than TFI's, but card fees are higher

		TFI	Vestwell
Account Maintenance Fee		\$37	\$30
Non-FDIC	Program Management Fee	None	0.10%
	Range of Investment Expense	0.07% to 0.08%	0.03% to 0.07%
	State Administrative Fee	0.44%	To be determined
FDIC	State Administrative Fee	Waived	To be determined
Card Fees		None	\$2.50/month

Program Goals and Fee Scenarios

- **Program Goals:**
 - **Subsidize Prepaid Card Fees**
 - **Keep loan repayment on track**
 - **Keep total account fees on par with current account fees (“Fee Parity”)**
- **Two Fee Scenarios and Results:**

	CalABLE Options	
	FDIC Option	Non-FDIC Options
Current State Administrative Fee	Waived Today	0.44%
Scenario 1. Minimum State Fee on FDIC Option	0.07%	0.44%
Scenario 2. Uniform State Fee on all Options	0.28%	0.28%

Achievement of Program Goals

- Based on assumed inputs, either Scenario is projected to meet these goals:¹

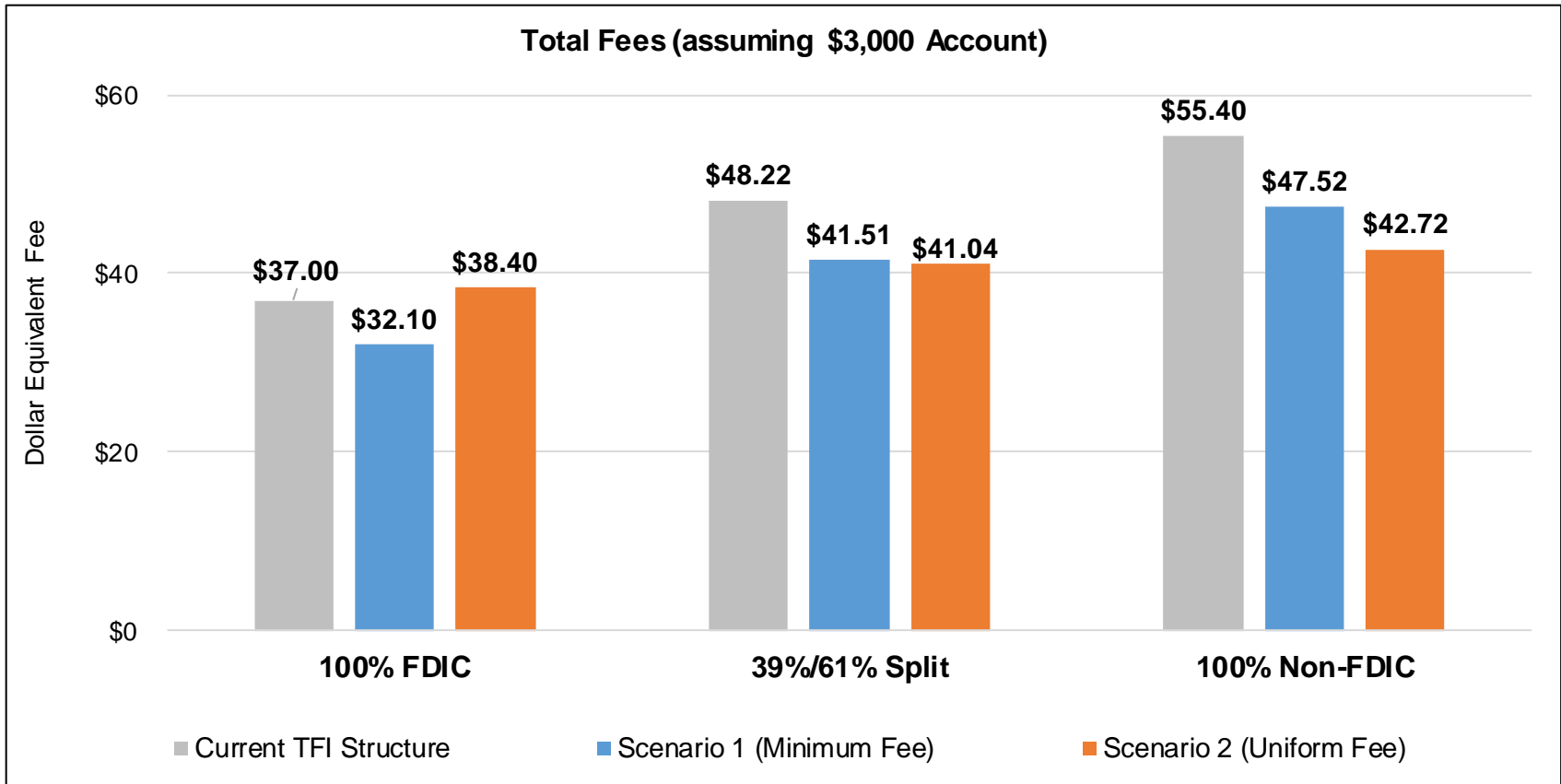
	Full Coverage of Card Fees	Full Loan Repayment Year	Fee Parity for \$3K Account ²
No New State Administrative Fee	No	FY 2031	--
Scenario 1. Minimum Fee	Yes	FY 2031	Yes
Scenario 2. Uniform Fees	Yes	FY 2031	No for FDIC investors

1 CalABLE's projection model is based on a number of assumptions, including expected FDIC Option Market Return. State Administrative Fee will not be charged on the FDIC Option if doing so would cause a negative return for the participant. This would result in lower revenues to cover Prepaid Card Fees and could delay loan repayment beyond FY 2031. This risk will be greater for Scenario 2 than Scenario 1 due to the lower State Administrative Fee collected on the Non-FDIC Investment Options.

2 To determine Fee Parity, all asset-based fees are converted to dollars assuming an average account size of \$3,000 and an average Investment Option expense of 0.044% (versus 0.073% today)

Today's Fees vs. Proposed Fees

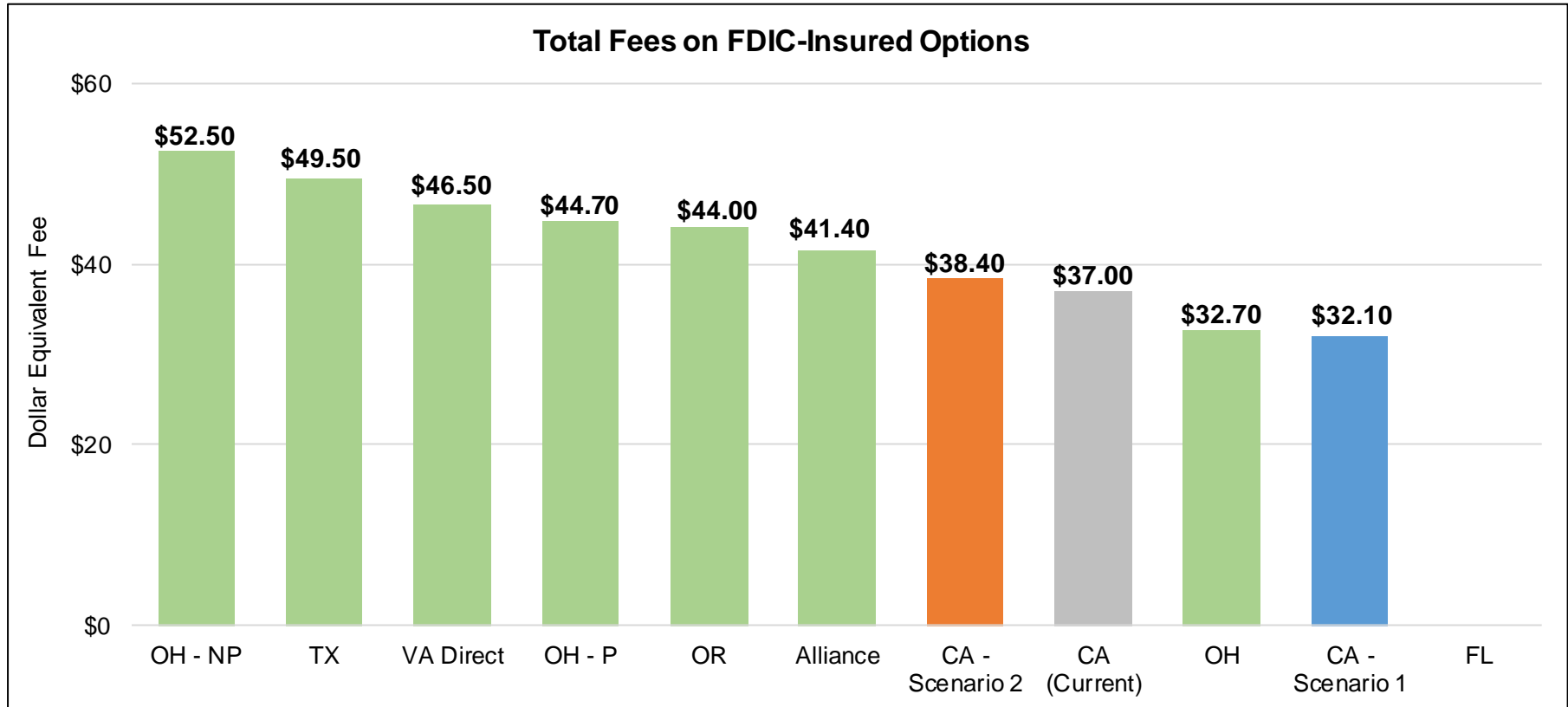
- Scenarios 1 and 2 each generally result in lower Fees than the current structure
- Only exception is FDIC investors in Scenario 2



Total Fees above include both dollar-based and asset-based participant fees. Dollar conversion assumes a \$3,000 average account balance

Industry Sampling: Fees on a \$3K FDIC Option Account

- CalABLE's overall Fees will remain competitive



Source: Program Disclosure Statements available as of May 5, 2023

Notes:

- (i) Total Fees include both dollar-based and asset-based fees. Dollar conversion assumes \$3,000 average account balance
- (ii) "OH" represents the Plan available to Ohio residents (\$27 account maintenance fee and 0.19% asset-based fee); "OH-P" includes fees applicable to investors in Partner States (\$39 account maintenance fee and 0.19% asset-based fee); and "OH-NP" includes fees for investors in non-Partner States (\$39 account maintenance fee and 0.45% asset-based fee)



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AKF represents that in connection with the issuance of municipal fund securities, AKF receives compensation from its client issuers for services rendered on an hourly, retainer or fixed fee basis. Consistent with the requirements of MSRB Rule G-42, AKF hereby discloses that such forms of compensation may present a potential conflict of interest regarding AKF’s ability to provide unbiased advice regarding a municipal fund security transaction. This potential conflict of interest will not impair AKF’s ability to render unbiased and competent advice or to fulfill its fiduciary duty.

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Attachment #2
CalABLE Projection
Model Memorandum

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CALIFORNIA ABLE ACT BOARD

**PROJECTION MODEL SUMMARY:
ASSUMPTIONS AND PRELIMINARY RESULTS**

MAY 11, 2023





**Projection Model Memorandum
Compiled as of May 11, 2023**

In 2019, at the request of the CalABLE Board and Staff, AKF Consulting ("AKF") built a projection model to analyze loan repayment possibilities based upon certain factors and assumptions. AKF has updated this model periodically to incorporate actual operations and performance. Pursuant to an RFP issued in November 2022, the Board determined to convert the CalABLE Program Administrator from TIAA-CREF Tuition Financing ("TFI") to Vestwell Government Savings ("Vestwell"). As a result, CalABLE Staff has asked AKF to revise its projection analysis once again.

Specifically, CalABLE Staff has asked AKF to illustrate the impact of adding a State Administrative Fee to the FDIC Option to offset the full cost of the new prepaid card, effective upon conversion from TFI to Vestwell. This memorandum presents the new inputs that reflect the conversion and it updates other assumptions to reflect an additional year of CalABLE operations. Ultimately, it provides two Scenarios for the Board to consider with respect to the State Administrative Fee charged to CalABLE FDIC Option investors.

SECTION 1: MODEL ASSUMPTIONS

The tables below show several of the factors that influence the CalABLE revenue projection model. Key changes this year as compared to our last analysis in 2021 include (i) fee structure under Vestwell and (ii) revised account growth rates that reflect the Age Adjustment Act. We have confirmed all inputs with Vestwell, Meketa, TIAA and / or CalABLE Staff.

Inputs from Vestwell		
Average Underlying Investment Expense	<u>Non-FDIC Options</u> 0.044%	<u>FDIC Option</u> None
Program Management Fee	<u>Non-FDIC Options</u> 0.10%	<u>FDIC Option</u> None
Annual Account Fee	\$30	
Prepaid Card Fees Charged to CalABLE	\$2.50 monthly (\$30 annually)	
Effective Date of Vestwell Fees	August 19, 2023	



Input from Meketa	
Projected Investment Option Market Return	6.88%

Inputs from TIAA	
Annual Contribution Amount	\$6,000
Annual Redemption Rate	12.45%

Input from Other Sources	
Projected FDIC Option Market Return ¹	<ul style="list-style-type: none"> FY 2024 – 2.03% FY 2025 – 1.53% FY 2026 to 2032 – 1.13%

Inputs from CalABLE Staff			
% of AUMs in FDIC Option	39% for FY 2023 and 2024 35% for FY 2025 and beyond		
Annual Account Growth ²	FY 2023 - 23.5% FY 2024 - 18.0% FY 2025 - 10.0% FY 2026 - 10.0% FY 2027 - 9.0% FY 2028 - 9.0% FY 2029 - 9.0% FY 2030 - 9.0% FY 2031 - 7.5% FY 2032 - 6.8%		
Staffing and Operating Costs	<u>FY 2022</u> \$640,000	<u>FY 2023</u> \$765,000	<u>FY 2024</u> \$765,000
Program / Investment Consultant Fees	<u>FY 2022</u> \$210,000	<u>FY 2023</u> \$249,000	<u>FY 2024</u> \$249,000
Other Consultant Fees	<u>FY 2022 - 2024</u> \$50,000 per year		
Marketing Expenses	<u>FY 2022 - 2024</u> \$350,000 per year		

¹ With input from Vestwell, market returns are based upon the projected [median Fed Funds Rates](#) for calendar years 2024, 2025 and beyond, with adjustments provided by Vestwell.

² Growth rates include the impact of ABLE Age Adjustment beginning the second half of FY 2026 (i.e., on January 1, 2026).

Inputs from CalABLE Staff	
Annual Expenditure Growth Rate	2%
Percent of Accounts Using Prepaid Card	12%
General Fund Loans	FY 2017 - \$850,000 FY 2018 - \$650,000 FY 2019 - \$2,000,000 FY 2020 - \$1,070,000 FY 2021 - \$500,000 TOTAL \$5,070,000
Interest Rate on General Fund Loans	0%
Loan Repayments to Date	None
Annual Appropriations	\$1,195,000
Accrued Revenues ³	\$520,662

SECTION 2: FEE ANALYSIS

Based on updated inputs listed in Section 1, our Baseline model shows that, under the current State Administrative Fee structure (where the 0.44% State Administrative Fee is waived for all moneys invested in the FDIC Option), full loan repayment will occur in FY 2031. In this case, the existing 0.44% State Administrative Fee on the Non-FDIC Investment Options would be used to subsidize the new Prepaid Card Fees shown in Section 1 above.

To illustrate the impact of adding a State Administrative Fee to the FDIC Option to offset the Prepaid Card Fees, we have analyzed the following Scenarios:

- **Scenario 1: Minimum Fee**
 - Goal:
 - Determine the minimum State Fee on the FDIC Option in order to cover Prepaid Card Fees shown in Section 1 above
- **Scenario 2: Uniform State Administrative Fee on all Options**
 - Goals:
 - Determine the single State Administrative Fee needed to cover Prepaid Card Fees shown in Section 1 above
 - Keep full loan repayment on target for FY 2031

³ Represents total accrued CalABLE revenues collected since FY 2018. Our projections assume that 100% of revenues will be used for loan repayment beginning in FY 2024.



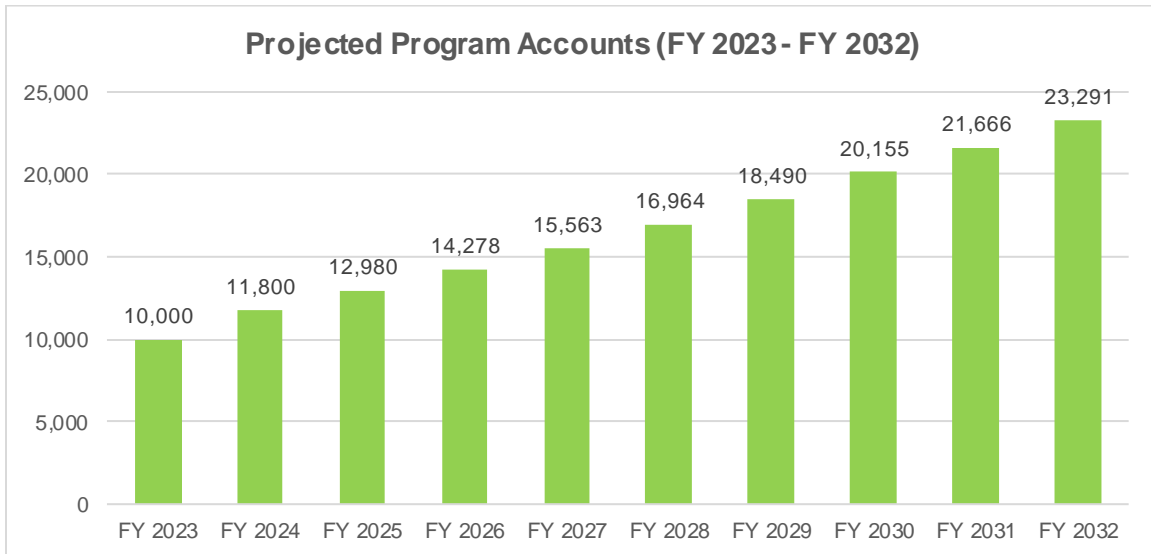
In both Scenarios, the projected State Administrative Fee on the FDIC Option will decrease should the FDIC Option Market Return decline to a point that would cause negative returns. Should interest rates decline to zero, the Fee will not be charged at all.

The following table shows the State Administrative Fees in the revised Baseline model and the two Scenarios described above:

Scenarios	FDIC Option	Non-FDIC Investment Option
Baseline Model	Waived	0.44%
1. Minimum Fee	0.07%	0.44%
2. Uniform State Administrative Fees	0.28%	

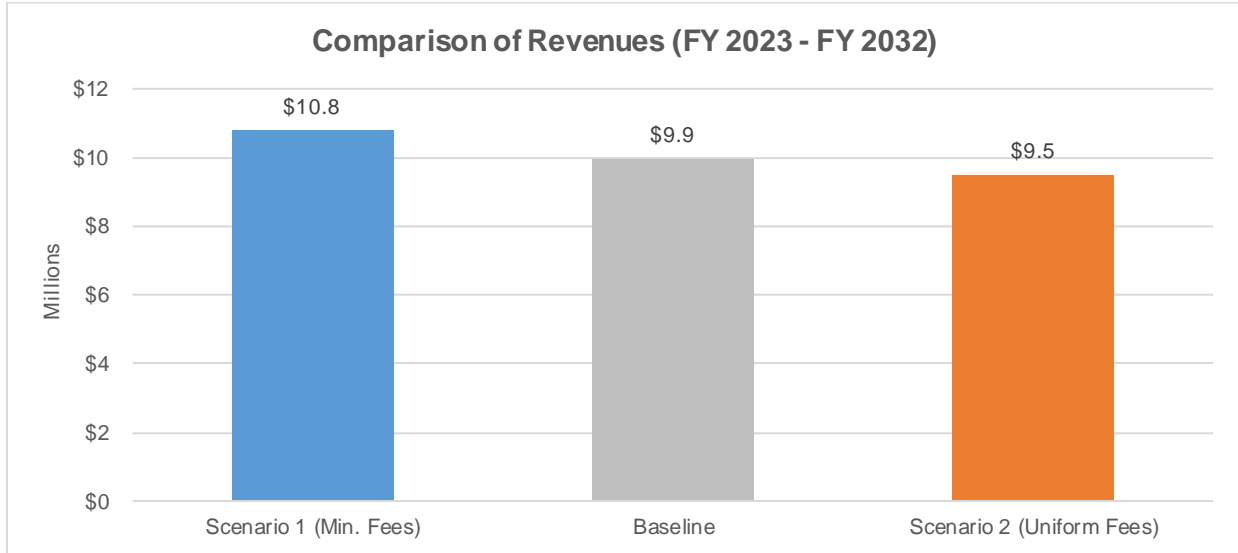
SECTION 3: PRELIMINARY RESULTS

Based on the inputs provided in Section 1 of this memo, we project the following CalABLE accounts over a ten-year time period:





The main driver of our analysis is revenues generated based on the State Administrative Fee charged to participants. The following graph compares the total amount of revenues generated across the Baseline model and each Scenario over a ten-year time period:



The following table compares the results from each Scenario:

	Prepaid Card Fee	Loan Repayment
Scenario 1 (Minimum Fee)	Yes, fully covered	FY 2031
Scenario 2 (Uniform Fees)	Yes, fully covered	FY 2031

As of May 1, 2023, the stated Annual Percentage Yield on CalABLE’s FDIC Portfolio is 0.95%. Assuming the projected FDIC Option Market Return for FY 2024 of 2.03% (shown in Section 1), each Scenario should result in a higher return net of the State Administrative Fee.

As noted in Section 2 above, the State Administrative Fee will not be charged on the FDIC Option if doing so would cause a negative return for the participant. This would result in lower revenues to cover Prepaid Card Fees and could delay loan repayment beyond FY 2031. This risk will be greater for Scenario 2 than Scenario 1 due to the lower State Administrative Fee collected on the Non-FDIC Investment Options.

Thank you for the opportunity to present this analysis. We would be happy to answer any questions or discuss this further.



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RESOLUTION NO. 2023-03

RESOLUTION OF THE CALIFORNIA ABLE ACT BOARD RELATING TO THE APPROVAL OF AMENDMENTS TO THE PROGRAM FEES FOR THE CALIFORNIA ABLE PROGRAM

WHEREAS, the California ABLE Act Board (the “Board”), pursuant to section 4877(c)(7) of the Welfare and Institutions Code, has the power and authority to make provisions for the payment of costs of administration and operation of the California ABLE Program Trust (the “Program”); and

WHEREAS, section 4877(c)(11) of the Welfare and Institutions Code provides that the Board may promulgate, impose, and collect administrative fees and charges in connection with transactions of the Program, and provide for reasonable service charges, including penalties for cancellations; and

WHEREAS, section 4878(a)(3) of the Welfare and Institutions Code states that funding for startup and administrative costs for the Board shall be provided in the form of a loan from the General Fund sufficient to cover the Board’s projected administrative costs for its first two years of implementing the Program, and once the loan has been expended and revenues from the Program are sufficient to cover the Board’s ongoing costs, the Board shall repay, within five years, the amount loaned, plus interest calculated at the rate earned by the Pooled Money Investment Account; and

WHEREAS, at its October 2018 meeting, the Board adopted Resolution No. 2018-08 approving the collection of a State Administrative Fee (the “Fee”) of 44 basis points (0.44%), from Program participants to begin efforts towards sustainability and repayment of the loan received from the General Fund; and

WHEREAS, at its November 2018 meeting, the Board amended Resolution No. 2018-08 to include a waiver of that fee on Program participants investing in the FDIC-Insured Portfolio until such time as market conditions will allow all or some portion of the Fee to be charged without a loss of principal in the FDIC-Insured Portfolio; and

WHEREAS, at its February 2023 meeting, the Board adopted Resolution No. 2023-01 to enter into Agreement No. ABLE 01-23 for program management with Vestwell State Savings, LLC, for a five-year term which includes the following fees that will take effect upon Program conversion: a \$30 annual account maintenance fee for all accounts, a program administration fee of 10 basis points (0.10%) for the investment portfolios, underlying investment fees between 3.1 (0.031%) and 6.2 (0.062%) basis points for the investment portfolios, and a \$2.50 monthly fee for the prepaid card; and

WHEREAS, upon further review, it was determined that the cost of the prepaid card to account holders could be covered by the state administrative fee, in part, without interfering with efforts of sustainability and repayment of the loan received from the General Fund;

NOW, THEREFORE, BE IT RESOLVED that the Board hereby approves the proposed collection of the Fee for the purposes described above at [Option 1] OR [Option 2];

BE IT FURTHER RESOLVED that this Resolution shall take effect immediately following the Program Administrator Conversion from TIAA-CREF to Vestwell State Savings, LLC.

Attest: _____
Dante Allen, Executive Director

Date Resolution Approved: _____