March 25, 2015 Memo to the Controller General's Office

I. Summary

Implementation and administration cost for a Delaware ABLE program could vary greatly depending upon the number of individuals who will be eligible to participate in the program as well as the assets invested in the program. Low participation and fund balances would likely necessitate proprietary management of the program by OST (and higher direct expenses) whereas higher participation and fund balances would provide a base on which to pay third party expenses and/or costs of administration by OST.

One means of mitigating costs would be to "couple" Delaware's new ABLE offering with the state's existing 529 plan using the same plan administrator, Fidelity. At present, it is not clear, however, if Fidelity will seek to act as an administrator for ABLE plans given the uncertain size of the assets available for management (i.e., lack of significant market opportunity). In the alternative, small states like Delaware may seek to contract with a larger state to allow their citizens to enroll in the larger state's program. What cost sharing or fees might arise from such a relationship is unclear, but presumably very little expense would be borne by the contracting state.

Based on the best available information and subject to a variety of assumptions set out below, OST believes that all or substantially all expenses related to implementation and administration of a new ABLE program could be reimbursed out of returns on plan assets after roughly four years assuming an asset base at that time of nearly $100,000,000. Depending upon the degree of fiduciary responsibility to be asserted by Delaware as the plan sponsor and subject to review of final federal regulations, OST would require at least one additional FTE and as many as three FTEs to implement and administer the plans.

II. Introduction

The Office of the State Treasurer ("OST") has been asked to provide analysis of the costs associated with (i) implementing and (ii) administering the Achieving a Better Life Experience Act ("ABLE") 529(a) program in Delaware. The analysis set out below provides a fairly wide range of high and low cost estimates due to the lack of final federal regulations regarding ABLE and limited time frame in which OST has had to undertake this analysis. In relying on these cost projections for consideration of the merits of passing Delaware legislation to effect an ABLE program, legislators should be apprised of the preliminary and uncertain nature of the projections.

III. Plan Size: Eligibility, Enrollment and Assets

According to DHSS, approximately 5% of the Delaware population has disabilities covered by ABLE. However, for purposes of ABLE eligibility, a potential applicant must have developed his/her disability before attaining the age of 26. Moreover, federal regulations are still being drafted to determine and potentially limit the types of disabilities that ABLE will cover. Using DHSS data and adjusting for the eligible age group and uncertainties of the ultimate federal guidelines, OST estimates that approximately 1.7% of the population, or approximately 16,000 Delawareans, will be <u>eligible</u> to participate under the ABLE program.

Actual enrollment of the eligible population in Delaware is very hard to gauge as no strong in-state proxies exist. Delaware's 529 plan has 31,000 enrollees, but eligibility is not limited – anyone can have a 529 account. Assuming, however, that program enrollees are drawn from the youngest quartile of the population yields a 529 enrollment rate of

Roughly 12.5%. Applying that estimate to the 16,000 ABLE-eligible Delawareans results in an enrollment of just 2,000 participants. However, Delaware's 529 offering is not particularly robust in terms of participation when measured against other states. Aggressive promotion and early adoption of such plans directly affects enrollment.

Based on estimates from Virginia and North Dakota, two other states that have conducted preliminary assessments of eligibility and enrollment, Delaware's enrolled population could be as high as 11,000 and as low as 6,000. This suggests enrollment rates of nearly 70% to just under 40% of Delaware's projected 16,000 ABLE eligibles. OST assumes the lower end of this range, or 6,000 participants, for purposes of the remainder of this analysis.

In terms of size of assets, ABLE legislation limits annual contributions to $14,000 per annum. Virginia estimated an average annual contribution of $6,000 and North Dakota $7,000. The Delaware 529 plan generates an average annual contribution of just $1,200. However, there is reason to believe that ABLE accounts would receive larger annual contributions because of the much broader range of items for which such funds can be utilized. OST has no data on average net worth of eligible participants that would enable analysis of "ability to pay." OST uses the VA/ND mean of $6,500 for purposes below.

IV. Model and Conclusion

Assuming an annual average Delaware ABLE contribution of $6,500 and a projected maximum enrollment population of 6,000 (achieved after four years of initial plan implementation) total estimated contributions would be as follows:

Year	Number of New Accounts	Average Annual Account Contribution	Cumulative Accounts	Annual Deposits	Total Assets under Management
2016	1,500	$6,500.00	1,500	$9,750,000	$9,750,000
2017	1,500	$6,500.00	3,000	$19,500,000	$29,250,000
2018	1,500	$6,500.00	4,500	$29,250,000	$58,500,000
2019	1,500	$6,500.00	6,000	$39,000,000	$97,500,000

Investment time horizons for withdrawal of funds are not known and are not taken into consideration for purposes of this analysis as they are assumed to be well outside the four-year roll-out period.

Based on the foregoing projection and a remittance to the State of roughly 25 basis points on fund assets, OST believes that ongoing expenses could be covered and implementation costs recovered in roughly four years from plan implementation. Depending upon the degree of outsourcing of the plan administration, OST projects the need for at least one additional Financial Investment Program Specialist (PG 15) to support an existing OST Financial Investment Program Manager under a "light footprint." Should Delaware seek to manage the program "in-house", OST would require three additional staff members: one Financial Investment Program Manager (PG 18) and two Financial Investment Program Specialists (PG 15).