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A Path for ABLE Growth

Learn from the Canadian RDSP Experience

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The Canadian RDSP > Eight Years of Experience

In 2008, Canada created the world's first tax deferral account to provide incentives to people with disabilities (PWD) to build assets and wealth. The program is called the Registered Disability Savings Plan (RDSP). The success of the plan has been mixed. The structure and incentives from government have been successful. Its potential has yet to be realized due to poor distribution, narrow positioning and financial institution's inability to harness their salesforce in-line with the business opportunity. ABLE practitioners must learn from Canadian mistakes to best serve the 53% of consumers the are directly touched by disability.

Assets that Endure > Similar Margins to 401(k)

RDSP assets have been 'sticky' – an industry term meaning that the money invested by PWD has remained invested. This is in direct contrast to 'chatter' amongst Washington 'advocates' that believe ABLE will be used largely as a checking account to shield cash flows from government assistance. The bulk of ABLE assets over the first 10 years will be long-lived investments put to work by middle and upper income families. Time horizons may stretch beyond 80 years for those that fund at birth.

In conversations with Canadian Asset Management firms, our analyst has learned that RDSP accounts carry similar margins to general retirement accounts. Canadian Asset Managers have failed to capitalize on the broader revenue opportunity to serve the 53% of the population directly touched by disability. ABLE accounts should be used as a 'wedge' to a broader financial spend and the revenue that follows.

Distribution is Key > A Motivated Salesforce

The reason RDSP has lagged expectations is its narrow distribution. This product is not sold through the Canadian branch network of 3,000+ outlets, nor is it meaningfully carried by Financial Advisors. The key to success for ABLE is broad distribution. To achieve broad distribution, ABLE must be attractive to the salesforce. To be attractive, advisors must be well equipped to deliver a quality solution to their customers – both in terms of articulating the demand and delivering a long-term solution. They must also be incentivized to prioritize ABLE and disability as part of any client's long-term financial plan. To shift behaviors of a massive distribution system, these incentives are critical to ABLE's long-term success.

Registered Disability Savings Plan – Canada

Launched in 2008 – the basics

In 2008, Canadian Finance Minister Jim Flaherty led efforts in Parliament to pass into law the world's first tax deferral account to provide incentives to people with disabilities (PWD) to build assets and wealth. The legislation that emerged created tax-deferral accounts under a program called Registered Disability Savings Plan (RDSP). Since 2008, the success of the plan has been mixed. Its successful points include the general structure and incentives from government. Its shortcomings are largely due to poor distribution, positioning and financial institution's inability to harness their salesforce in-line with the business opportunity of serving the financial services demands of PWD and their Friends and Family – a market that touches 53% of consumers.

The Canadian RDSP > What Is It?

Using the Canadian Government's explanation[1]:

The Registered Disability Savings Plan (RDSP) is a long-term savings plan to help Canadians with disabilities and their families save for the future. If one has an RDSP, one may also be eligible for grants and bonds to help with long-term savings.

One may consider opening an RDSP if one has a long-term disability and are:

- eligible for the Disability Tax Credit (definition of disability)
- under the age of 60
- a Canadian resident with a Social Insurance Number (SIN); and
- looking for a long-term savings plan.

One may contribute any amount to an RDSP each year, up to the lifetime contribution limit of $200,000. With written permission from the RDSP holder, anyone may contribute to the RDSP.

Government Incentives > Key to Structure

The Canada Disability Savings Grant is a matching grant. The Government gives matching grants of up to 300 percent, depending on the beneficiary's family income and contribution. The maximum Grant amount is $3,500 per year, to a lifetime limit of $70,000. Grants are paid into the RDSP until the end of the year one turns 49 years of age.

The Canada Disability Savings Bond is money the Government contributes to RDSPs of low- and modest-income Canadians. The holder can receive up to $1,000 a year, depending on the beneficiary's family income. Over an individual's lifetime, there is a limit of $20,000. Bonds are paid into the RDSP until the end of the year the beneficiary turns 49 years of age. One does not need to make any contributions to one's RDSP to receive the Bond.

[1]Employment and Social Development Canada

Registered Disability Savings Plan – Canada

The Path to Asset Accumulation – Accidental Success

The umbrella measurement of success for the RDSP and ABLE accounts is Assets Under Management. This is defined as the aggregate market value of assets held in these accounts. The measure defines success for all interested parties – PWD, Financial Institutions, and Policy Makers.

In Canada, RDSPs have proven to be long-term savings/investment accounts. Asset-levels have grown steadily since inception in 2008 (see Figure 1 below). Due to various incentives and tax deferrals, the returns for holders are significantly higher than alternative savings/investment vehicles.

One of the concerns from U.S.-based Financial Institutions is that ABLE accounts will be used as "checking accounts" by low income Americans for expenses, because ABLE assets and cash flows are "shielded" for means tests for government assistance. This has not happened in Canada, even though the withdrawal criteria is largely unrestricted and the 'shield' is similar.

While the structure and incentives have been successful, market penetration has been underwhelming. Depending on the actual number of eligible holders – between 500k and 2mm Canadians – the 'take up rate' is between 7% and 27%. This rate is based on the number of account holders, which is far less meaningful than the level of assets in RDSP accounts.

While data collection and dissemination can only be described as poor, our analyst was able to build a 'picture of the market' based on sporadic published reports by government and Financial Institutions. It appears that government and advocates have been focused on the number of accounts open while Financial Institutions focus on asset levels. Our estimate is that there are 136,000 RDSP accounts open holding CAD2.0B in assets. The average account size is CAD14,500. While these are estimates, we have been conservative and it is likely that the actual figures are somewhat higher.

Figure 1 – Annual RDSP Accounts Open and Asset levels (2008 – 2016) *estimated[2]

	Accounts Open*	Aggregate Assets (CADmm)*	Penetration @ 500k Eligible	Penetration @ 2mm Eligible	Potential Assets @ 500k (CADmm)	Potential Assets @ 2mm (CADmm)
2008	-					
2009	20,598	$ 296.48	4.12%	1.03%	$ 7,000	$ 28,000
2010	35,047	504.45	7.01%	1.75%	14,000	56,000
2011	49,495	712.42	9.90%	2.47%	21,000	84,000
2012	63,944	919.90	12.79%	3.20%	28,000	112,000
2013	81,773	1,177.00	16.35%	4.09%	35,000	140,000
2014	99,601	1,433.62	19.92%	4.98%	42,000	168,000
2015	117,430	1,690.23	23.49%	5.87%	49,000	196,000
2016	135,258	$ 1,946.85	27.05%	6.76%	$ 56,000	$ 224,000

The general 'rule of thumb' when comparing Canadian populations to US populations is 10x. While we would caution a direct comparison due to Canadian institutions' poor use of its salesforce, a reasonable 'floor target' for aggregate ABLE assets under management (AUM) is $20B by 2026. Our analyst hypothesizes that US institutions will position and incentivize their salesforce more effectively than the RDSP example. We view $100B in ABLE AUM by 2026 as a reasonable stretch target.

[2]Employment and Social Development Canada reports of accounts open in 2009, 2012 and 2014 – AUM in 2012. BMO public statements of AUM and market share in 2013.

ABLE Account Structure – The Customer

Investment Focus – Need for Wider Engagement

The narrative around ABLE is currently emanating from Washington DC – not surprisingly given its recent passage through Congress. To pass Congress, ABLE was politically positioned as a savings tool for ‘poor disabled people’. While this positioning was politically expedient, ABLE’s success in the field hinges on positioning with moderate-to-middle income and high net worth PWDs and their families. ABLE will no doubt assist many who rely on government transfers – but the asset base for ABLE is the traditional target of financial advisors. Simply put, that is where the assets are in the near-term.

ABLE accounts will be used for long-term investments by 90%+ of holders. Advocates are stating that the most prevalent use of ABLE will be benefit shielded “checking accounts”. The Canadian experience demonstrates that the bulk of the assets are ‘sticky’, remaining under management over the life of the account holder. This has profound ramification for marketing and for management of the assets.

Experience with disability markets prove that aspirational and participatory messaging is far more effective than emotional and maintenance. Historically, this is a population that has not had expectations of financial success – either for themselves or from others. ABLE positioning should reflect society’s common yearn for financial success/security. ABLE holders want to see themselves enjoying ‘The American Dream’.

Given the RDSP experience, ABLE assets must be viewed as long-lived investments similar to 401(k) assets. While they have been aligned with 529 plans structurally, their typical horizon is longer than 18 years – in most cases stretching beyond a retirement horizon. One can easily envision a parent funding an account from birth to generate income – via growth and yield – over an 80+ year lifetime for the beneficiary. This will require sponsors and investment managers to adjust from current models.

There is a profound ‘social’ and macro economic gain that has yet to be explored with ABLE and RDSP – as aggregate assets grow, the proxies tied to those assets represent material influence with the institutions that are represented via investment portfolios. These proxies can be harnessed to lobby for change that benefits both PWD and shareholders. This narrative can be a powerful tool to attract assets and drive change benefiting PWD.

The biggest mistake surrounding the Canadian RDSP is that Financial Institutions narrowly focused on only the RDSP accounts as an opportunity to serve a narrow customer base. The broader view is that disability directly touches 53% of all consumers when you include friends and family. Those consumers have financial demands like mortgages, wealth management, and non-ABLE/RDSP investments. Any population that size follows a similar normal distribution to the general population – the difference is that these folk have unmet consumer demands connected to disability. By satisfying those financial demands, Financial Institutions and State ABLE providers gain a bonded customer and those individuals have their needs met.

By understanding this customer’s total financial picture, ABLE providers set themselves up well to deliver value to PWD, their families, and the economy as a whole.

ABLE Account Structure – The States

Account Availability is Not Sufficient for Success

Over the past 22 months, 12 to 15 States have taken material steps to create infrastructure to provide investable platforms for Americans across the country to open and fund an ABLE Account. The State of Ohio was first to market. The basic 'blocking and tackling' of sourcing providers to manage the administration and investment options is complete – or nearly complete – for early movers. By now, Ohio is past the 1,000 open accounts mark. The Canadian example shows that the first to market – BMO Bank of Montreal – gained a 50% share of assets and largely maintained that share 8 years later.

Delivering for Citizens > Requires a Broad Ecosystem

The Canadian example also proved that the mere existence of the RDSP accounts was not enough to spur the kind of asset attraction to the accounts needed to reach a point where commercial players would step into a self-sustaining business model. Instead, most Canadian banks offered the accounts, but did not invest in distribution – at all. Government provided incentives for account holders, but neglected to develop the commercial infrastructure to make the RDSP an attractive product for those who take it to market.

Essentially, opening an ABLE account happens after a conversation between an advisor and an investor/saver. Those advisory conversations happen at kitchen tables every day – generally before and after work – around the country. The key question for States is: how does ABLE become a part of 53% of those advisory conversations?

Prime the Pump > Reduce Private Sector Risk

States have the ability to invest in process and deliverables to 'prime the pump' that would not get done by Financial Institutions due to uncertainty. These are the kind of assets that can be leveraged by the distribution channel to more effectively align the salesforce to both 'ask the ABLE question' and pull assets into these accounts. The following are potential areas of development led by States:

1. Basic market research – to clearly understand the demands of these investors
2. Marketing guidelines – language and imagery
3. Sales training and conferences – to get on the advisory agenda
4. Media and public relations – side-by-side with private sector as 'air cover' to reduce risk
5. Pulling in mainstream (non-disability) industry partners – FINRA, SEC, CFP etc.
6. Annual data collection and analysis – enlist industry and academic ongoing research

These efforts need not be delivered by single States, but in co-operation with each other to protect the taxpayer. Best in class providers should be leveraged for original content – the disability space does not have the content or expertise needed to deliver on these demands. Branding firms, financial markets experts, and experts in delivering on financial consumer demand must be pulled into this space. At minimum, the States must do a better job than the Canadian government in collecting and analyzing RDSP data – given that they administer the accounts, that should be an easy hurdle.

ABLE Account Structure – Asset Managers

New Asset Pools Immediately | New Net Assets in the Medium Term

One of the dangers of structuring ABLE using 529 Plans as a model is the assumption that the investment structure and fiduciary needs of the asset pool are similar. ABLE and RDSP are the world's first asset pools statutorily focused on what would traditionally be deemed 'Social' under Environmental, Social and Governance (ESG). Large institutions have struggled to connect ESG to market action – these investors are tailor-made for ESG action.

Shifting Assets > The Demand Goes Beyond Risk-Adjusted Return

In the first five years, the bulk of assets entering ABLE accounts will shift from other investment accounts into ABLE accounts. All things being equal, the horizon of these assets should be longer but the tendency is going to be to keep the investment focus on the same path as other asset pools – 60/40 split with a 'vanilla' passive focus. Doing so ignores the demand from these investors to leverage their assets to create change within invested institutions and unlock the economic power within disability. As proven in consumer markets, PWD and their friends & family are willing to pay a premium for this action.

By offering investment options that incorporate 'activism', yet still deliver a favorable risk/return mix, investment managers incentivize distribution channels to prioritize ABLE – the key to near-term success in building assets. Together with materials produced by the States, Investment Managers must harness their proxy power to shape a mandate of change. This will help align the 'thundering herd' of distribution to attract existing assets into higher customer value and higher margin ABLE accounts.

A Massive Emerging Market > In the Back Yard

There is a large emerging market – 53% of consumers – that are directly touched by disability. That population is 'normally distributed', meaning they cut across investors, mortgage holders, and everyday wealth management clients. Financial Services firms have yet to engage these customers – there is an opportunity to acquire market share in the near term and build new customers in the long term as this market continues to build assets and wealth.

Most understand the process of acquiring share by engaging disability, but the new asset catalyst is poorly understood. In the mid-1970s, North American governments enacted education laws that cleared the way for millions to make their way through school. The first beneficiaries are in their 40s now, followed by a much larger cohort in their 20s and 30s. As these folks gain employment – and wealth – they represent new clients and investable assets. ABLE accounts have the potential to seed these new investors at birth. Today, PWD control $650B+ in disposable income annually and their friends and family control an additional $3.9T – the opposite of a niche market.

Note that Canadian managers report similar margins in RDSP accounts to their core retirement offerings.

ABLE Account Structure – Distribution

Retail Distribution Required – Brand and Sales Incentives Lead

The biggest failure of the Canadian RDSP has been in the way the banks have handled the product through their distribution channels. The RDSP sales channel has been through specialized call centers rather than the 3,000+ national branch system or the legions of financial advisors. It is clear in speaking with senior Wealth Management leaders that this path was followed because they did not understand the market that they were selling to, nor did they understand the broader market opportunity in servicing the demands of customers connected to disability in Financial Services markets. The key to growing assets in ABLE is making distribution profitable along the value chain.

Disability is not the Brand > Financial Success is the Brand

A key fallacy in disability is that disability groups/agencies represent – or even understand – the market. They don't. They represent a narrow slice of PWD, and spend most of their time lobbying Washington for funding or legal change. While they have played a key role in establishing ABLE, they do not understand the consumer identity or the financial needs of current and future ABLE investors. The research that will guide messaging and relationship building must be done via traditional brand experts that learn disability as they would any new market.

As the sales force begins to reach out to the disability market, the tendency is to assume that disability groups represent the demand. While these groups may be connected to small audiences, the bulk of customers are away from them. Our analysts counsel clients to 'fish' in pools where they traditionally have success. This applies to ABLE – just as it does to recruiting talent and selling consumer products. This market is large enough to be embedded in current target markets – messaging that pulls them to the right product and 'future state of the world' is the development goal.

An analysis of the Canadian RDSP distributers – the Big 5 banks – show that even 8 years after launch they still do not project aspirational brands and trip over basic language mistakes like 'special needs', 'medical costs' and 'government assistance'. One bank even has an image of a nurse 'caring for' a man using a wheelchair – the opposite of aspirational. One would think that eight years of experience might have resolved these basic issues – an indication of how poor distribution has been for RDSPs.

Incentivize an ABLE Sale > Grow Assets for PWD and the Advisor

Sales people focus on things that help their customer and help the sales person. The right mix of value-add for the investor and marginal gain for the salesforce is critical to distribution success. Financial advisors have a plethora of choice to present to their clients, and currently disability/ABLE is not one of them. To grab the attention of these advisors, a mix of compelling stories, returns (both financial and non-financial), and sales incentives must be presented. This mix must be packaged in ways that allow for low- to no marginal operational risk from adoption by both the advisor and the investor.

These packages can be built and distributed by States, Investment/Wealth Management firms and in partnership together. Getting these incentives right for maximum distribution defines ABLE's success.