CalAccount: Building on California's Financial Services Track Record

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A Blue Ribbon Commission is currently exploring the feasibility of sponsoring a low-cost consumer banking option for un-banked and under-banked communities that would be managed by the California State Treasurer's Office (STO) and run by a private administrator. This brief highlights three financial service products currently managed by the STO that serve the long-term savings needs of families with children, workers, and people with disabilities: ScholarShare 529 College Savings Plan, CalSavers Retirement Savings Program, and CalABLE accounts for people with disabilities.

Three existing programs demonstrate the feasibility of implementing CalAccount and highlight the strengths that can come from a publicly-sponsored, privately-administered financial product.

To begin, CalAccount would offer a "a voluntary, zero-fee, zero-penalty, federally insured transaction account … and related payment services at no cost to accountholders" to address the needs of low-income Californians who currently lack access to affordable consumer banking services.[1] A publicly appointed board of trustees and the STO would select a private financial service provider to administer the accounts through a competitive bidding process. As currently proposed, CalAccount's administrative costs would be supported by fees that merchants already pay for card transactions.2 The feasibility of CalAccounts is supported by the STO's track record of offering high quality financial service products designed to serve critical needs.

ScholarShare, CalSavers, and CalABLE provide value to Californians in three ways. They:

- ✓ **Serve an important consumer financial service need and public policy goal**
- ✓ **Combine private administration with strong public oversight and accountability**
- ✓ **Leverage economies of scale to deliver high-quality financial products at an affordable cost to consumers**

In all three programs, day-to-day account services and money management are handled by private financial service providers selected through a competitive bidding process, with close oversight by the STO and each program's public board of trustees. This arrangement is similar to that envisioned by the CalAccount legislation. The main difference is that the three existing programs are investment-oriented and pass on the cost of account administration and money management to account holders through fees, while CalAccounts would be a free consumer banking product.

Key Features of ScholarShare, CalSavers, and CalABLE

	ScholarShare	CalSavers	CalABLE
Year opened	1999	2018	2016
Consumer financial service need	Save and invest for educational expenses	Save and invest for retirement through automatic payroll deduction	Save and invest for the future without jeopardizing disability-related benefits
Public policy goal	Help families cope with rising cost of college	Address retirement crisis, reduce future senior poverty	Promote long-term economic security and wealth-building for people with disabilities
Main population served	Families with children	Workers without access to job-based retirement benefits	People disabled before age 26
Annual contribution limit as of 2024	$18,000 per beneficiary ($529,000 lifetime total)	$7,000 age 18-49 $8,000 age 50+	$18,000 ($100,000 lifetime total)
Funded accounts*	**400,000**	**492,000**	**10,000**
Total assets*	**$12.7 billion**	**$812 million**	**$111 million**
Account administrator (as of March 2024)	TIAA-CREF	Ascensus	Vestwell/Sumday
Public oversight	6-member ScholarShare Investment Board	9-member CalSavers Retirement Savings Board	7-member CalABLE Board

* ScholarShare as of Q4 2023; CalSavers as of February 2024; CalABLE as of Q3 2023.

ScholarShare 529 College Savings Accounts

State-sponsored educational savings accounts began in the late 1980s, when Michigan, Ohio, Wyoming, and Florida established prepaid tuition to help families cope with the rapidly rising cost of college education for their children. The Michigan Education Trust sued the IRS in federal court and won a tax-exemption for its investment earnings in a 1994 6th Circuit ruling.[3] Congress codified federal tax benefits for educational savings under Section 529 of the Internal Revenue Code in 1996. Three years later, California opened the ScholarShare program.

ScholarShare offers a curated lineup of investment funds tailored to the beneficiary's age and the investor's risk tolerance. Parents, other relatives, or anyone else can contribute to someone's 529 account. As of March 2024, fees for standard, passively managed investment options—recommended for most 529 participants—ranged from just 0.04% to 0.07% of assets.[4] By comparison, Vanguard – an industry leader in low investment fees – charged 0.14% for comparable investments.[5]

CalSavers Individual Retirement Accounts

The CalSavers Retirement Savings Program resulted from a groundbreaking effort by policymakers, labor unions, advocacy groups, and researchers to improve the economic security of millions of workers who are headed towards economic hardship in retirement. SB 1234 (2012) established the CalSavers (formerly California Secure Choice) Retirement Savings Board, and implementation legislation in 2016 mandated employers that do not offer a retirement plan to auto-enroll their employees in a state-sponsored Individual Retirement Account (IRA). CalSavers, alongside OregonSaves, has inspired the establishment of similar programs in 13 other states from Hawaii to Maine.

Drawing on behavioral finance research on the effectiveness of "nudges", the program features auto-enrollment, auto-escalation of contributions, and default investment into diversified mutual funds based on the employees' estimated retirement year. Employees contribute via automatic payroll deduction into a Roth IRA that provides tax-free withdrawals at retirement. Workers can opt out of the program or choose their own contribution rates and investments. CalSavers accounts are fully portable, attached to the worker rather than their employer.

Currently, CalSavers charges a fixed account fee of $4.50 per quarter ($18 per year) plus asset-based fees of 0.325% to 0.49%, depending on investment choices.[6] This is higher than fees for large company 401(k)s and high-balance private IRAs, but lower than the 1.2% average for small employer plans.[7] Two-thirds of CalSavers participants work for small firms.

CalABLE (Achieving a Better Life Experience) Account

A significant barrier to economic security for people with disabilities is that many aid programs including SSI (federal disability benefits) have strict asset limits that keep recipients financially vulnerable, unable to save or invest for their future. The federal ABLE Act, signed by President Obama in 2014, increased the amount of money that people who become disabled before age 26 could save and invest without losing their federal disability and Medicaid benefits.[8] The CalABLE program was established in 2016 by the state to ensure that disabled Californians can save for their future.

Savings in CalABLE accounts can be spent on things that support or improve the quality of life of the disabled person. This is broadly defined to include emergency expenses, medical expenses, down payment on a home, rent, a car purchase, and educational expenses. The accounts can receive contributions from the beneficiary or their family, friends, or employer. Disabled participants can choose to contribute automatically via Federal Benefit Direct Deposit or payroll deduction. The program charges a $30 annual fee, plus low fees on investment options that generally range from 0.28% to 0.45%.[9]

California can build on the success and lessons of ScholarShare, CalSavers, and CalABLE to provide affordable consumer banking services that meet the needs of economically marginalized communities through CalAccount. The three existing programs demonstrate that thoughtfully designed, state-sponsored financial service products can serve critical consumer needs, combine private administration with strong public oversight and accountability, and leverage economies of scale to deliver a high-quality financial product at an affordable cost to consumers.

Endnotes

1 AB 1177 (2021-2022), Section 10014.a.1(A).

2 Merchants ultimately pass on credit and debit transaction costs to consumers, but this cost is already baked into the price of goods and services due to the high prevalence of electronic payment methods. According to Capital One, credit card transactions account for 70% of retail sales in the U.S. https://capitaloneshopping.com/research/cash-vs-credit-card-spending-statistics/

3 State of Michigan and Michigan Education Trust v. United States of America, US Court of Appeals for the Sixth Circuit, 40 F.3d 817.

4 Actively managed ScholarShare investment options range from 0.15% to 0.39%. https://www.scholarshare529.com/investment/fees, retrieved 3/28/24.

5 https://investor.vanguard.com/accounts-plans/529-plans/fees-costs, retrieved 3/28/24.

6 https://saver.calsavers.com/home/fee2023.html, retrieved 3/28/24.

7 https://www.employeefiduciary.com/blog/small-business-401k-fee-study-hidden-fees.

8 Recent legislation raises the age threshold for the date of disability to age 46 beginning in 2026.

9 https://calable.ca.gov/investment-options, retrieved 3/28/24.

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