Bulletin Today

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Top 5 College 529 Saving Plans

by Allan Roth | Comment: 1 | Print

Every couple of years or so, I evaluate college 529 plans. These are savings plans, usually sponsored by states, that allow us to put money away to help fund college for a child or grandchild. In fact, students are increasingly turning to grandparents to help pay for college. The plan you choose has no bearing on where the child goes to college or the state you happen to live in.

I'm a big fan of 529 plans because they allow for tax-free growth to fund college. My research isn't just theoretical, since I have a son who will soon be going to college, and I can move his 529 money to whatever state I deem to have the best plan.

The criteria

There are many options for setting up a 529 college savings plan, which allows for tax-free growth.

You can set up a 529 plan by going directly to a state's 529 website, or you can open one through an investment firm. Many rankings compare direct plans only with others in that category, and adviser-sold plans with other adviser-sold plans. I'm picking the best plans irrespective of those two categories.

There are three criteria I use to pick the best five plans:

- **Costs.** The evidence that performance is inversely related to costs is overwhelming. I look for the lowest fees because I want as much money as possible to fund college. According to Paul Curley, director of college savings research at Strategic Insight, greater amounts of money are flowing into direct plans than into adviser-sold plans. And it's no wonder, considering that direct plans have an average annual expense ratio of 0.52 percent, compared with 1.06 percent for adviser-sold plans.
- **Availability.** The plan must be available to anyone, regardless of whether the investor lives in the particular state. Some states allow only residents to buy certain investment choices within a plan.
- **An age-based investment option.** This is essentially a target-date investment fund that invests more conservatively as the child reaches college age and will need the money. This is critical, as I've found most people will not make the risk adjustments to the investments as the child grows older.

The search and results

The good folks at Savingforcollege.com were kind enough to supply me with a massive spreadsheet of 529 offerings. I went through the data, analyzing the costs of every age-based group of offerings, and came up the following five best plans, listed below along with their annual expense ratios:

1. New York College Savings Program Direct, 0.16 percent
2. Nevada Vanguard 529 Savings Plan, 0.19 percent
3. Illinois Bright Start Index portfolios, 0.20 percent
4. Utah Educational Savings Plan, 0.21 percent
5. Ohio CollegeAdvantage Vanguard, 0.24 percent

All five of these plans are very good, but for some of them you have to make sure you select the right plan within the state. For example, Illinois has two age-based portfolios branded as Illinois Bright Start. If you select the "blended" rather than the "index" portfolio, you end up with an average expense ratio three times as expensive.

The verdict

Most of my son's college money is in the Utah plan and I'll be leaving it there, even though it is a tad more expensive. The four other states have more expensive options to cross-subsidize, and *that* always makes me wonder whether the lowest-cost option is a loss leader in hopes of eventually upselling you to a more expensive choice. Finally, Lynne Ward, executive director of the Utah plan, told me they will be continuing their trend of reducing fees; effective the end of October, fees will be 0.20 percent annually.

My advice

If your state offers a tax deduction for 529 contributions, that's usually the best place to start looking for the lowest-cost plan. If you've maximized the deduction, or your state has no tax incentives, then look to one of the five plans listed above.

Joe Hurley, CEO of Savingforcollege.com, suggests that if you are funding college for a grandchild, it could be better to gift the money to the child or the child's parents and have them set up the 529 plan for the grandchild. That's because college funding coming from a grandparent can adversely affect the student's financial aid eligibility. Daniel Reyes, principal of the Education Savings Group at Vanguard, advises starting contributions early to allow more time for both future contributions and growth.

You can sometimes avoid additional maintenance fees by choosing electronic delivery of statements and having certain account minimums. These all vary by plan. I nearly always recommend an age-based option since it rebalances in a disciplined way, while both individuals and advisers often chase performance. If the plan offers different levels of aggressiveness, consider the moderate over the conservative or aggressive. I saw too many 529 plans heavily invested in stocks in 2009 when the child was just about to enter college. You never know when the next plunge is coming.

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