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The Best and Worst College-Savings Plans

In New Ranking of Popular 529 Programs, Virginia, Illinois Join Top Tier; New York, Mississippi, Ohio Fall to Bottom

By JANE J. KIM

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More 529 college-savings plans now feature lower fees and better investment options, according to a new report that selects the best and worst plans.

That's the good news. The report, scheduled to be released Wednesday by investment researcher **Morningstar Inc.**, also found that the worst plans, such as broker-sold offerings from Nebraska and Ohio, still feature high costs or funds with lackluster performance.

Tax-advantaged 529 plans have exploded in popularity in recent years, becoming the college-savings vehicle of choice for many parents. In a 529 plan, savers put after-tax dollars into an account that typically offers a wide range of mutual funds. Distributions and earnings are tax-free, as long as they're used for higher education. Investors can invest in any plan, although they may get an additional state tax break if they invest in their own state's plans.

PLANNING AHEAD

- When shopping for a 529 plan, you should consider costs, investment options and asset-allocation strategies.
- Weigh any tax advantages of investing in an in-state plan against the plan's total costs.
- Look for annual asset-based fees of less than 1% for direct-sold plans and less than about 1.3% for broker-sold plans.
- Compare state plans at www.savingforcollege.com¹, www.collegesavings.org² or www.morningstar.com³.


Many states, at least initially, offered plans with high-cost investment options that were often sold through brokers, which typically added an extra layer of expenses. Increased competition has prompted some states to seek out new program managers, cut fees and sweeten state tax breaks.

Illinois, for example, made its first appearance this year on Morningstar's best-plans list by replacing its program manager and shaking up its lackluster investment lineup with higher-rated funds and rock-bottom expenses. Meanwhile, some of the offenders on

the previous year's worst-plans list, such as Missouri's MOST 529 Advisor Plan, cleaned up their act by cutting expenses or replacing their funds. Others, such as two of West Virginia's 529 plans, merged with other states' lower-cost plans.

Contributions to 529 plans jumped last year after Congress in 2006 made the tax benefits permanent; they had been set to expire at the end of 2010. By the end of 2007, total assets rose to \$111.9 billion from \$90.7 billion a year earlier, according to Financial Research Corp. College tuition has also soared in recent years, prompting parents to try to save more.

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Yet some states and plan managers say investors' enthusiasm might be waning as the economy wobbles. T. Rowe Price Group Inc.'s net sales and new-account openings in the first quarter were down 16% and 25%, respectively, from a year earlier. While the comparisons are based on strong year-ago levels when the tax permanency boosted interest in the plans, "a lot of it has to do with market uncertainty and an economic slowdown," says Tom Kazmierczak, senior product manager for the firm's 529 college-savings business.

Although investors often opt for their own state's plans, they may be better off elsewhere. Morningstar says that a \$5,000 investment in Ohio's broker-sold Putnam CollegeAdvantage Savings Growth Portfolio, which contains mostly mediocre funds, would have grown to \$8,261 since mid-2003, for example. The same amount in a similar portfolio from Virginia's CollegeAmerica 529 College Savings Plan, which has better and cheaper funds, would have climbed to \$9,768 over that time. For most people, Morningstar notes, that difference more than makes up for any tax savings.

Ohio's Putnam plan appeared on the worst list this year because of poor fund performance and "troubling turnover" among managers, analysts and executives at Putnam, says Marta Norton, a mutual-fund analyst who wrote the Morningstar report.

In assessing the plans, Morningstar evaluated the "building blocks" of each one, such as whether investors had access to a diversified lineup of low-cost funds and had the flexibility to make adjustments to their own asset-allocation strategies. The quality of the underlying funds and other costs, such as program-management fees, were also key factors. (The firm chose five best and five worst funds this year.)

New to Morningstar's list of top plans is Illinois's Bright Start College Savings Program, which recently switched its program manager to OppenheimerFunds Inc.'s OFI Private Investments from **Legg Mason** Inc. Previously, the plan offered a "middling and an unimpressive lineup" of mainly Legg Mason funds, says Ms. Norton. Now, the plan offers a choice between low-cost index-fund portfolios and actively managed age-based portfolios, in which the asset allocation shifts to a more conservative mix of stocks and bonds as the child gets older.

The Maryland College Investment Plan, managed by T. Rowe Price, remains a top choice for the second year in a row due to its solid lineup of actively managed funds. Low fees are another draw: The annual asset-based fees range from 0.68% to 0.97%, reasonable for actively managed funds.

Two Virginia plans made Morningstar's best list. The state's direct-sold plan, the Virginia Education Savings Trust, appeared for the first time because of its "stellar" active managers and index options in its age-based portfolios, from Vanguard Group, Franklin Resources Inc.'s Franklin Templeton Investments and American Funds, which is part of Capital Group Cos. Fees are also low, between 0.31% and 0.57% a year.

Virginia's broker-sold plan, CollegeAmerica, run by American Funds, remains a favorite because of its broad range of low-cost, well-run funds, says Ms. Norton. Annual asset-based fees are also relatively low for a broker-sold plan, ranging from 0.65% to 1.1%.

High-cost plans didn't fare so well. Mississippi's direct- and broker-sold plans each made the worst-plans list primarily because of their high program-management fees. Manager TIAA-CREF charges 0.7% -- more than double the fees that most plans levy -- on both plans, which consist mainly of index funds.

Also new to the worst-plans list this year is New York's 529 College Savings Program. While the direct-sold plan has reasonable fees, it lacks international exposure. Not only does that mean the plan is missing the gains made in foreign markets, says Ms. Norton, but it also has no buffer when the U.S. markets turn down.

Ranking the 529 Plans	
The best and worst college-savings plans, as assessed by Morningstar.	
Best 529 College-Savings Plans	
Plan	Comment
Colorado Scholars Choice College Savings Program	A broker-sold plan that offers reasonable expenses and a strong lineup of fund managers.
Illinois Bright Start College Savings Program*	A direct-sold plan that offers a lineup of all-index and actively managed age-based portfolios. Fees for its index funds are among the lowest of any 529 plan.
Maryland College Investment Plan	A direct-sold plan that offers solid, actively managed funds with strong managers and low fees.
Virginia CollegeAmerica	A broker-sold plan that offers reasonably priced and strong fund performers from American Funds.
Virginia Education Savings Trust*	A direct-sold plan that offers a broad collection of strong active managers and proven index options in its age-based portfolios.
Worst 529 College-Savings Plans	
Plan	Comment
Mississippi Affordable College Savings Program*; Mississippi Affordable College Savings Advisor Program*	Investors pay high program management fees of 0.7% on both the direct- and broker-sold plans, which rely heavily on index funds.
Nebraska AIM College Savings Plan	Investors pay above-average fees for this broker-sold plan with portfolios that generally tilt towards growth strategies.
New York 529 College Savings Program*	While the direct-sold plan is moderately priced and relies on solid Vanguard index funds, it doesn't provide investors with any international exposure.
Ohio Putnam CollegeAdvantage Plan*	A broker-sold plan with poor fund performance and "troubling turnover" among managers, analysts and executives at Putnam.
Source: Morningstar Inc. *New to the list this year.	

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