# 529 Report Addendum – March 2010

## Overview of 529 Plan Data Collected in July – August 2009

The College Savings Plans Network (CSPN) and the College Savings Foundation worked jointly to collect the data presented in this report. Data was collected from both state administrators and program managers of 529 plans on a voluntary basis. The data collection covered three specific areas related to 529 plans; 1) plan level information, 2) account level information and 3) investment option information, each of these areas are described below.

The plan level information covers assets, accounts, and account activity, including contributions, distributions, and rollovers. The 529 plans also provided information on the percent of accounts enrolled in automatic funding and the average automatic funding amount. In total, 59 college savings plans representing 37 states provided this data, accounting for **68% of 529 savings plans** and **77% of the states** offering 529 plans. These 59 plans held $84.6 billion in 529 assets as of June 30, 2009, representing approximately **86% of 529 assets** at that point in time, as measured by the Financial Research Corporation.[1] This data also includes information as of June 30, 2009 for 7.2 million accounts, representing **79% of an estimated 9.1 million 529 accounts** overall.[2]

The account level data collection captured annual account level transaction activity and year-end (December 31) balances between 2002 and 2008. Account level information included the year the account was opened, the beneficiary's birth year and month, and annual ending balances. In total, 55 plans representing 34 states provided Section III data, accounting for **63% of 529 savings plans** and **71% of the states** offering 529 plans. Of the 6.7 million accounts analyzed in Section III, 5.2 million had cash balances as of December 31, 2008. The remaining 1.5 million accounts had zero balances of December 31, 2008, reflecting a combination of new accounts awaiting funding, closed accounts, and depleted accounts. The account level analysis focused on the 5.2 million accounts with cash balances and we refer to these as "active accounts".

Finally, **investment option data** was collected for equity allocations and assets for all 529 savings plan investment options offered to investors as of June 30, 2009. In total, 42 college savings plans representing 26 states provided investment option data, accounting for **48% of 529 savings plans** and **54% of the states** offering 529 plans. These 42 plans held $38 billion in 529 assets as of June 30, 2009, representing approximately **40% of 529 assets** at each point in time as measured by FRC.

The following chart provides a simple overview of the data collected for this report. It is important to note that the data is based upon the responses we received from the states and their program managers. Therefore, each data set is independent of the others.

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[1] Financial Research Corporation ("FRC") analyzed the data on behalf of CSPN and CSF. The 529 savings plan market includes 87 savings plans across 47 states and the District of Columbia. This does not include the 529 prepaid plans offered by 19 states and one consortium of universities. The state-administered 529 prepaid plans represent an additional $14.9 billion in current assets spread across approximately 2.4 million accounts for future college students.

[2] The 7.2 million accounts comprising the account level data include approximately 135,000 accounts with zero balances, representing approximately 1.9% of the data submitted. Zero balance accounts reflect accounts that (i) have been fully depleted but not yet removed from records, or (ii) have been opened but not yet funded. For purposes of the analysis in this report, we have used 7.2 million accounts as the data universe. We note, however, the impact the zero balance accounts have on average account size. Please see footnote 3 on page 5 specifically addressing this point.

**Chart 1**

| | States | Plans | June 30, 2009 | |
|---|---|---|---|---|
| | | | Assets | Accounts |
| **Industry** | 48* | 87 | $98.6b | 9.1m |
| **Section II** | 37 | 59 | $84.6b | 7.2m |
| **Section III**[**] | 34 | 55 | Not Applicable | Not Applicable |
| **Section IV** | 26 | 42 | $38b | Not Requested |

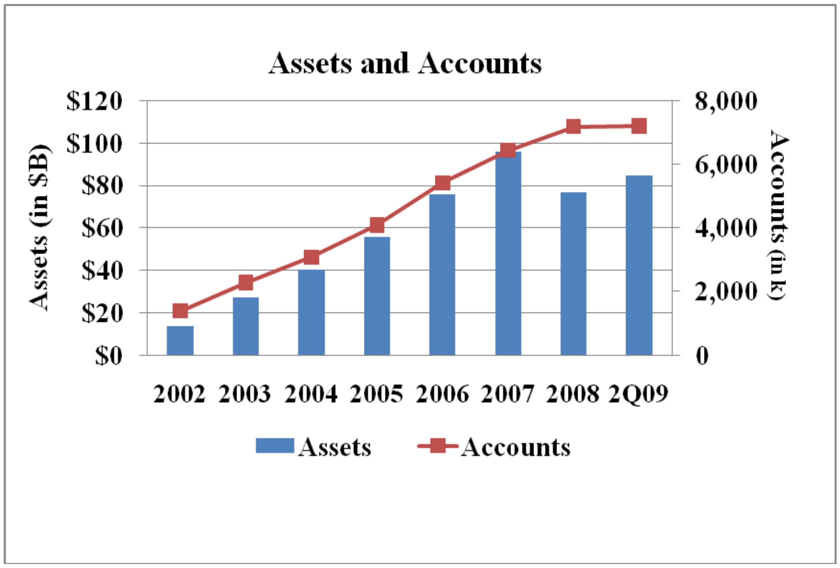
Source: Financial Research Corporation and the College Savings Plans Network
*Includes the District of Columbia
**Section III data reflects accounts as of December 31, 2008.
***The analysis in this memorandum is based upon the 5.2 million active accounts.

## Plan Level Data

### Assets and Accounts.

The plan level data collected shows that 529 plan assets grew steadily from 2002 to 2007, an astounding 5-year compound annual growth rate of 48%. For comparative purposes, assets in 401(k) plans grew from $1.573 trillion in 2002 to $3.075 trillion in 2007, a 14% 5-year compound annual growth rate according to the Investment Company Institute. One might expect these growth rates to be comparable given that many families make retirement savings a priority, however we believe that an increasing awareness of the need to save for college coupled with favorable federal tax treatment and more flexibility than similarly-advantaged savings vehicles (such as Coverdell Education Savings Accounts) have been the driving forces behind the impressive 529 asset growth. Chart 2 below shows annual 529 plan asset and account levels based upon data collected for Section II from 2002 through 2009.

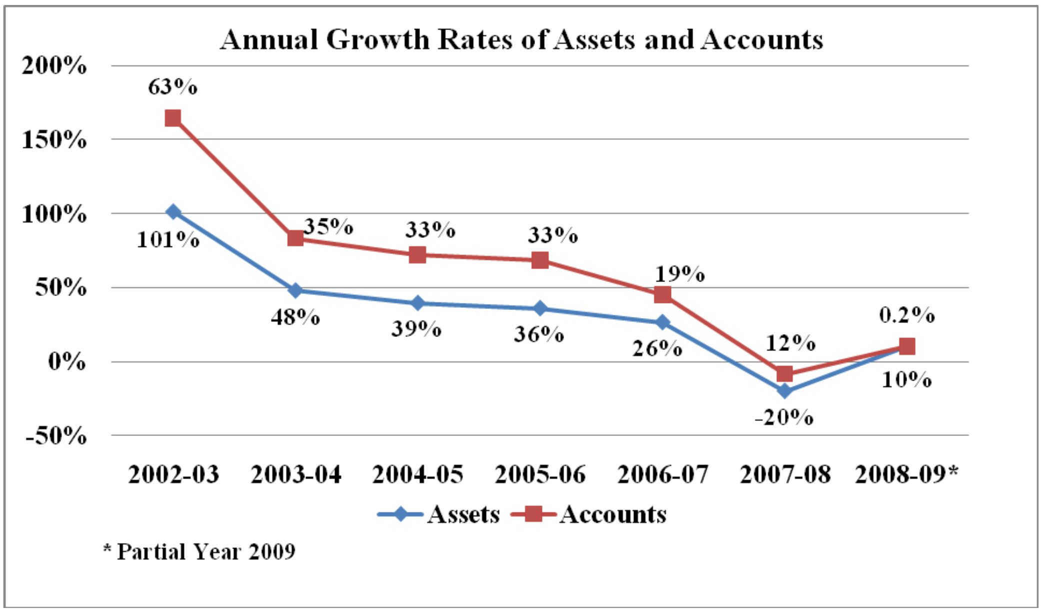
**Chart 2**



As Chart 2 above shows, the number of 529 accounts expanded rapidly over the 5-year period as well. From 2002 to 2007, the number of 529 accounts grew from 1.4 million to 6.4 million, a 36% 5-year compound annual growth rate. During this same period the number of active 401(k) participants grew from 43 million in 2002 to 48.5 million in 2007, a compound annual growth rate of 2.4% according to the Department of Labor and the Employee Benefit Research Institute. This highlights the strong demand for a tax-preferred college savings vehicle.

**Growth of Assets and Accounts.** Chart 3 below illustrates the relatively stable growth of assets and accounts from 2003 through 2007. Over the course of 2008 the value of 529 assets declined in synch with the general financial markets. However, during the same period, the number of new account openings remained relatively strong, as the number of accounts at year-end 2008 was 12% higher than at year-end 2007. **Even in the first half of 2009 – a challenging market environment for all financial products – 529 account growth was still positive, once again demonstrating the importance of saving for college and the continued appeal of doing so through 529 plans.**

**Chart 3**




**Account Activity.** On an aggregate level, the data shows that transaction activity in 529 plans has declined somewhat over the past several years. For example, in 2002, 85% of accounts received contributions, took distributions, or executed rollovers. This amount of activity can be attributed in part to the 2001 Tax Act, which made qualified distributions from 529 plans tax free, and also to families utilizing the 5-year accelerated gifting provision available for 529 contributions. In contrast, during the first six months of 2009, the percent of accounts with contributions, distributions, or rollovers decreased to 50%. Given the market environment at least through the first quarter of 2009, this makes sense as a strategy to avoid locking in losses on distributions or rollovers. On the contribution side, college savers may have been forced to decrease contributions for economic reasons (job losses, for example, or tight economic conditions) or they might have delayed new contributions following the volatile 2008 market experience. We address the particular types of transaction activity below.

***Contributions.*** The total number of accounts receiving contributions has increased annually since 2002, although at a gradually decreasing rate through June 2009. We believe the decrease in the percent of accounts receiving contributions reflects the fact that more beneficiaries are now reaching college age, and so older 529 accounts are in a "distribution" mode rather than a "contribution" mode. We also believe that in 2002 and 2003, advisors tended to be the principal source of information for families wanting to save for college, and thus contributions were made as part of an overall financial strategy. The surge in contribution activity as of 2002 reflects several factors, including (i) the tax-exempt treatment for 529s as of January 1, 2002, (ii) the ability for families to "catch up" on saving for college through accelerated, five-year gifting provisions, and (iii) the long overdue need for a tax-advantaged college savings tool that would be more flexible than an Education Savings Account.

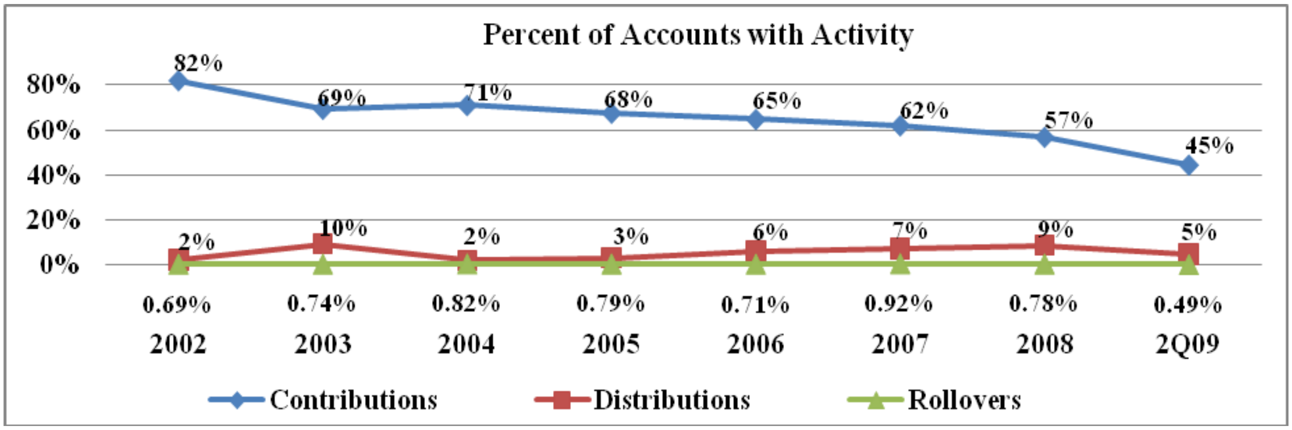
More recently, we have seen increasing numbers of systematic contributions in lower amounts to direct-sold plans. This shift in contribution behavior clearly indicates a growing awareness and appeal of 529 plans across the broad population – including importantly growing usage by families who can only afford to save smaller amounts at a time but who recognize the benefits of steady, regular, disciplined savings as a means to reach the goal of a funded college education.

***Distributions.*** The percent of accounts taking distributions has moderately increased over the last several years from 6.4% in 2006 to 8.9% as of December 2008. As we believe the vast majority of distributions are qualified, the increase in the percentage of accounts taking distributions indicates that a steadily rising number of beneficiaries are now using the benefits of their 529 accounts for higher education costs.

***Rollovers.*** On an annual basis since 2002, less than 1% of accounts have rolled-over investments (that is, the movement of accounts from one 529 plan to another). Based on the data, between 2002 and 2008 approximately 237,000 rollovers were executed, representing just under $4 billion. This demonstrates the commitment 529 investors have to staying the savings course and to their satisfaction with the 529 plan selections they have already made.

Chart 4 compares the different types of transactions across the plans providing plan level data. Despite an aggregate reduction in transactions, we view the particular trends as extremely positive for the 529 market overall because they indicate that 529 plans are serving their intended purposes of encouraging families to save for college and that 529 investors are using their accounts for the intended purposes.

**Chart 4**




**The Average 529 Account.** The following discussion (including Charts 5 through 8) is based upon the 7.2 million accounts for 2009. Chart 5 below compares key averages from the data as of June 2009.

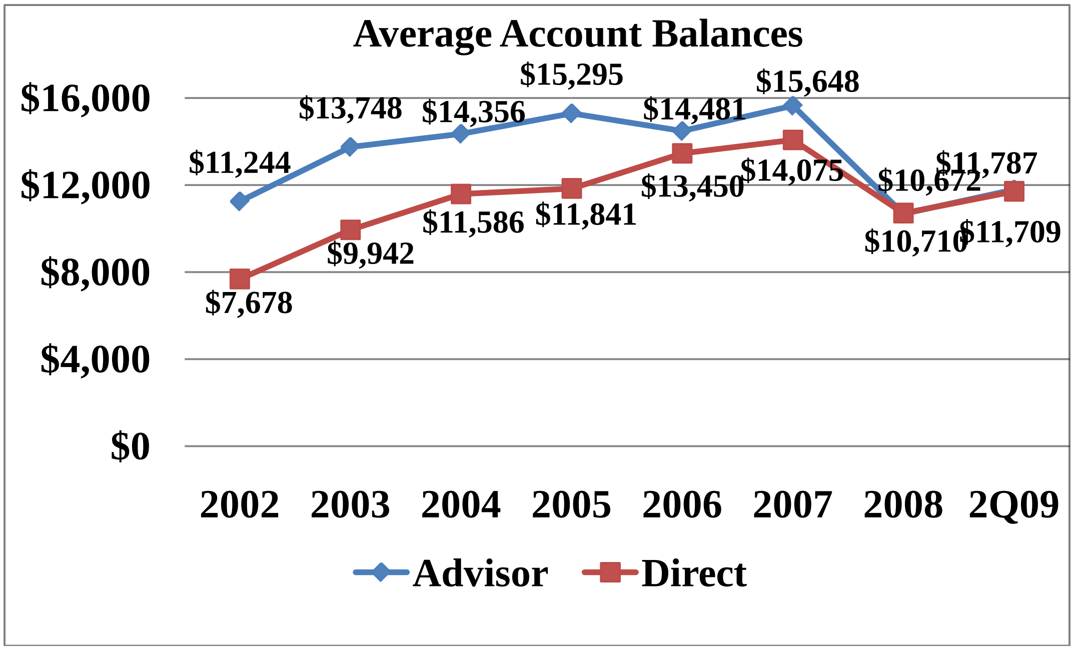
**Chart 5**

| Average Account Activity (June 30) | | |
|---|---|---|
| | **2009** | **Annual % Change** |
| **Account Balance**[3] | $11,751 | -19% |
| **Contribution** | $1,761 | -36% |
| **Distribution** | $7,856 | -2% |
| **Rollover** | $18,876 | -21% |

**Advisor-sold versus Direct-sold Averages.** The difference in dollar value between advisor- and direct-sold plans has gradually decreased over the past seven years. In 2002, advisor-sold account balances were on average 46% higher than their direct-sold counterparts, but as of June 30, 2009, this difference shrank to less than 1%, as shown in Chart 6 below.

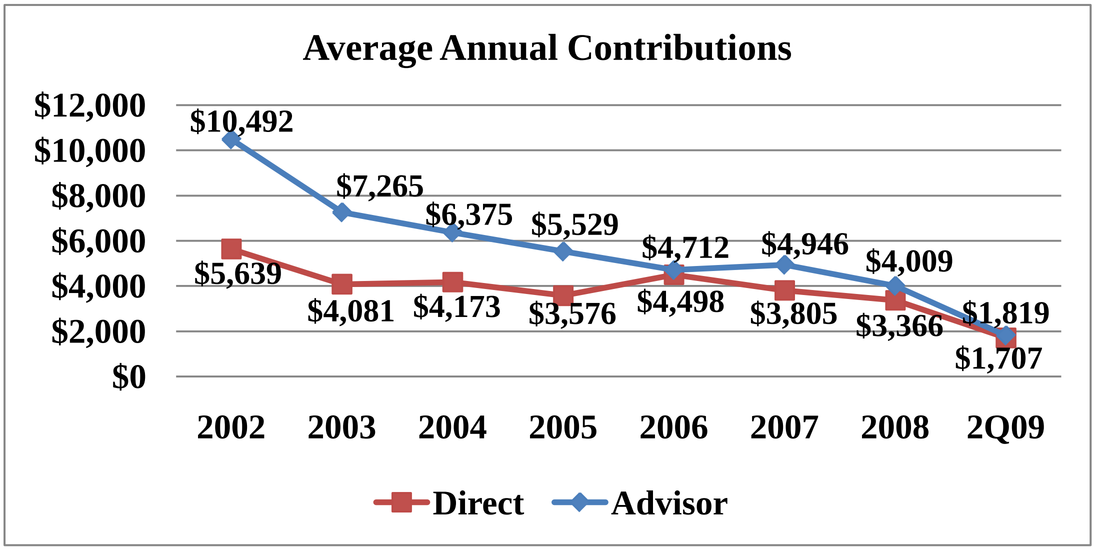
[3] If we remove the zero balance accounts referred to in "Background on the Data," (see footnote 2 on page 2), the Average Account Balance for 2009 would be $11,975. For conservative estimating purposes, even assuming 2% rate of zero balance accounts, the Average Account Balance for 2009 increases to $11,991. Thus we conclude that the zero account balances have a minimal impact on the average amount saved by families in 529 accounts. And, the overall average is still quite low in comparison to the estimated costs of college.

**Chart 6**




In terms of contributions into 529 plans, the gap also has narrowed between advisor-sold and direct-sold plans. For example, Chart 7 below shows that the difference in average annual contributions between advisor- and direct-sold plans was $4,853 in 2002; by June 2009, the difference was just $112. As you can see, advisor-sold accounts experienced a more significant decline in the average contribution amount over the last seven years than direct-sold accounts. This may reflect the fact that in the early days of 529 plans, more contributions were likely made in lump sums, while automatic funding of contributions is increasingly prominent today. Additionally, we believe that accelerated gifting in the early years allowed families to "catch up" on savings, particularly in light of the tax-free status of 529 plans as of January 1, 2002. Chart 7 also shows that the average annual contribution to direct-sold accounts has remained relatively stable, which we see as another indicator of an increase in use of automatic funding.

**Chart 7**




**Automatic Funding.** Almost 41% of 529 accounts receive regular contributions in this fashion, with an average automatic funding amount of $139 per transaction. Importantly, almost 44% of direct-sold accounts now are funded on an automatic basis. Online account enrollment in direct-sold plans, with initial funding through automatic debiting, has eased the parent who chooses a direct-sold plan into systematic auto-debiting from their bank accounts. Simplifying the enrollment process has been an important enhancement to encouraging college savings in a consistent manner over a long period of time. Automatic funding of important savings goals also imposes a savings discipline, which lends itself to annual increases in savings amounts over time. We have seen this in the 401(k) market, where an employee will increase a payroll deduction amount in conjunction with salary increases. Overall, we believe that automatic funding enhancements have gone a long way toward engaging more parents in 529 plans.

**Chart 8**

| Automatic Funding | | |
|---|---|---|
| **Distribution Method** | **% of Accounts with Auto Funding** | **Average Contribution** |
| **Advisor-sold** | 34.1% | $142 |
| **Direct-sold** | 43.7% | $138 |
| **Total** | **40.8%** | **$139** |

## Account Level Data

**Account Balances.** Based upon the account level data collected, the number of active accounts (accounts with positive cash balances) has risen dramatically since 2003. The increase from 1.4 million active accounts in 2003 to 5.2 million active accounts as of December 31, 2008 reflects a compound annual growth rate of 29%. Even during the financial market rollercoaster of 2008, the number of accounts grew by 10%.

Additionally, the Section III data shows that 88% of active accounts had balances of less than $25,000 as of year-end 2008, as shown in Chart 9 below. These statistics forcefully demonstrate that millions of people are in fact saving for college in 529 plans and they are doing so at *whatever level possible*. And, even though many families are not saving enough today to cover future college costs, they are saving something, which ultimately can reduce their debt burden in the future, even if by just a modest amount.

**Chart 9**

| December 31, 2008 Balances | | |
|---|---|---|
| **Year-End Balance** | **Accounts** | **Percent of Active Accounts** |
| **$0 - $25,000** | 4,612,314 | 88.35% |
| **$25,000 - $50,000** | 393,777 | 7.54% |
| **$50,000 - $75,000** | 131,331 | 2.52% |
| **$75,000 - $100,000** | 48,171 | 0.92% |
| **Accounts $0 - $100,000** | **5,185,593** | **99.33%** |
| **$100,000 - $125,000** | 21,844 | 0.42% |
| **$125,000 - $150,000** | 8,102 | 0.16% |
| **$150,000 - $175,000** | 2,846 | 0.05% |
| **$175,000 - $200,000** | 1,217 | 0.02% |
| **$200,000 - $225,000** | 518 | 0.01% |
| **$225,000 - $250,000** | 258 | 0.00% |
| **$250,000 - $275,000** | 112 | 0.00% |
| **$275,000 - $300,000** | 71 | 0.00% |
| **$300,000+** | 60 | 0.00% |
| **Accounts $100,000+** | **35,028** | **0.67%** |
| **Total 2008 Active Accounts** | **5,220,621** | **100%** |

**Beneficiary Base.** To best understand whom 529 plans are helping in particular, we analyzed the distribution of active accounts across beneficiaries. As Chart 10 below shows, approximately 96% of all 5.2 million active accounts have beneficiaries who are 21 or younger. Only 150,000 accounts – approximately 3% of 2008 active accounts – have beneficiaries aged 21 to 30.

**Chart 10**

| 2008 Active Accounts by Beneficiary Age Bracket | | |
|---|---|---|
| **Age Bracket** | **Accounts** | **Percent of Active Accounts** |
| **21 years or younger (born 1988 or after)** | 4,998,820 | 96% |
| **21-30 (born 1987-1979)** | 158,275 | 3% |
| **31-75 (born 1978-1934)** | 60,739 | 1% |
| **Accounts missing information** | 2,788 | 0.1% |
| **Total Active Accounts** | **5,220,622** | **100%** |

Since accounts with beneficiaries aged 21 or younger represent 96% of the 2008 active accounts, we examined the 2008 year-end averages of this group. As shown in Chart 11 below, the accounts for these beneficiaries had a modest average balance of $10,885.

**Chart 11**

| 2008 Beneficiary Statistics | | | | | |
|---|---|---|---|---|---|
| **School Status** | **Age (2009)** | **Birth Year** | **Percent of Total Beneficiaries*** | **Active Accounts Year-End** | **Average Balance Year-End** |
| **College** | 21 | 1988 | 1.97% | 98,713 | $13,153 |
| **College** | 20 | 1989 | 2.67% | 133,448 | $15,343 |
| **College** | 19 | 1990 | 3.45% | 172,528 | $16,935 |
| **College** | 18 | 1991 | 4.00% | 199,889 | $17,399 |
| **High school** | 17 | 1992 | 4.32% | 215,996 | $16,388 |
| **High school** | 16 | 1993 | 4.63% | 231,226 | $15,182 |
| **High school** | 15 | 1994 | 4.86% | 242,803 | $14,261 |
| **High school** | 14 | 1995 | 5.07% | 253,670 | $13,472 |
| **Middle School** | 13 | 1996 | 5.28% | 263,828 | $12,801 |
| **Middle School** | 12 | 1997 | 5.45% | 272,336 | $12,047 |
| **Middle School** | 11 | 1998 | 5.74% | 287,114 | $11,443 |
| **K through 5th grade** | 10 | 1999 | 6.03% | 301,284 | $10,663 |
| **K through 5th grade** | 9 | 2000 | 6.51% | 325,556 | $10,123 |
| **K through 5th grade** | 8 | 2001 | 6.72% | 336,062 | $9,737 |
| **K through 5th grade** | 7 | 2002 | 6.34% | 316,971 | $8,978 |
| **K through 5th grade** | 6 | 2003 | 6.18% | 309,054 | $7,916 |
| **K through 5th grade** | 5 | 2004 | 5.68% | 283,743 | $7,025 |
| **Preschool** | 4 | 2005 | 5.09% | 254,361 | $6,006 |
| **Preschool** | 3 | 2006 | 4.62% | 230,948 | $4,982 |
| **Newborn to Toddler** | 2 | 2007 | 3.79% | 189,554 | $4,036 |
| **Newborn to Toddler** | 1 | 2008 | 1.59% | 79,705 | $3,530 |
| **Newborn to Toddler** | 0 (Newborn) | 2009 | 0.00% | 31 | $7,249 |
| **Total Active Accounts** | | | | **4,998,820** | |
| **Weighted Average Balance**** | | | | | **$10,885** |

*Beneficiaries 21 years old and under

**Weighted by number of active accounts

**Contributions.** The data shows a decrease in the percentage of accounts receiving contributions from 76% in 2003 to 61% in 2008. At the same time, the average contribution amount (based upon active accounts) has declined as well, from $4,530 in 2003 to $3,385 in 2008. The data also shows that contributions were made at some point in the past six years to 99% of 2008 active accounts, as shown in Chart 12 below.

**Chart 12**

| Consistency of Annual Contributions | | | |
|---|---|---|---|
| **Years with Contributions** | **Average 2008 Balance** | **Accounts** | **Percent of Active Accounts** |
| **1** | $7,583 | 1,830,839 | 35% |
| **2** | $8,493 | 962,023 | 18% |
| **3** | $9,916 | 743,863 | 14% |
| **4** | $10,305 | 654,294 | 13% |
| **5** | $13,107 | 451,216 | 9% |
| **6** | $15,365 | 546,579 | 10% |
| **Total** | **$9,729** | **5,188,814** | **99%** |
| **n/a** | | 31,808 | 1% |
| **Total Active Accounts 2008** | | **5,220,622** | **100%** |

Although 35% of accounts received only one contribution in the last six years, nearly 20% received contributions in at least five of the last six years. Consistent annual contributions are important because they translate into higher average account balances.

**Distributions.** The data shows that the percent of active accounts taking distributions has increased over the past several years, with an annual average distribution of approximately $8,000 since 2005. Since college costs generally exceed $8,000, we know that families must be using other funding sources – including grants, scholarships and loans – to bridge the gap between 529 savings and the cost of college. The good news is that even modest 529 distributions translate into less debt to cover college costs.

On a broad level, plan and account level data reveal that both the dollar amount of distributions and the number of accounts taking distributions has increased over the past several years. This is to be expected, as more plan beneficiaries reach college age and the costs of college continue to rise. While the data does not break out qualified versus non-qualified distributions, we believe that the overwhelming majority of distributions are qualified. To this end, families are using 529 plans for their intended purpose – to pay for college expenses every year.

Overall, the account level data demonstrates that 529 savings plans are an important tool in a college savings strategy. Modest account averages support the industry's view that 529 plans have encouraged all families to save for college – without regard to how much they can save, but rather for the sake of achieving the possibility of higher education dreams of all parents for their children. Going forward, early and consistent savings through 529 plans will help make college an even more affordable option for all American families.

## Changes to 529 Plan Investment Composition

Among the survey group, there was not a dramatic adjustment of investment options offered within plans in the June 2008 to June 2009 period, largely because 529 plans already offer conservative investment options to families who seek them. Of the 990 portfolios for which asset information was provided, 85 were capital preservation. On a broader level, there has been a good amount of activity in recent years to add more conservative investment options, like FDIC-insured options, to 529 savings plans.

Among the sample of 42 plans, nine plans added investment options from June 2008 to June 2009. The majority of newly added investment options were individual asset classes, followed by age-based options, and then static or balanced options. Three plans reported the addition of an FDIC-insured or stable value option. An advisor-sold plan added 10 new funds, opening the plan up to an array of investment managers and asset classes. These 10 funds include three static portfolios for three general risk bands (conservative, moderate, and aggressive). Two direct-sold plans added age-based portfolios to accommodate newborn beneficiaries with college enrollment dates of approximately 2030.