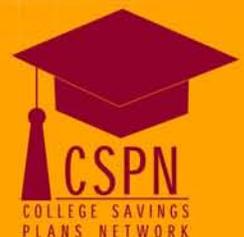


*MARCH 2010*

**COLLEGE SAVINGS PLANS NETWORK**  
**529 REPORT**

**A COMPREHENSIVE LOOK  
AT SECTION 529 PLANS**



# IT'S TIME FOR A PLAN

529

March 2010

Today, many American families are faced with significant financial challenges that make it difficult to save for college. That is why the **College Savings Plans Network** (CSPN), in this inaugural *529 Report*, is providing a comprehensive look at Section 529 plans, one of the most popular, convenient and tax-advantaged means of saving for college.

The *529 Report* is designed to provide the latest information about 529 plans to parents, financial advisors and other key stakeholders who need to make informed decisions on how best to save for college. In addition, CSPN's goal is to provide reliable and timely information to members of the media covering college savings issues.

By federal law, 529 plans are established and maintained primarily by the states. As the national organization of the state entities that operate the plans, along with their private sector partners, CSPN has partnered with the College Savings Foundation (CSF) to embark on the most comprehensive data gathering effort in the history of 529 plans. We are pleased to share the results of this effort with you.

I am confident that this report will help you gain a better understanding about the important role 529 plans play in making college more affordable and accessible for American families.

For more information, please visit [www.CollegeSavings.org](http://www.CollegeSavings.org).



Joan Marshall  
Chair  
College Savings Plans Network



## About the College Savings Plans Network (CSPN)



Founded in 1991, CSPN is an affiliate of the National Association of State Treasurers (NAST) and is a not-for-profit association bringing together the states that administer Section 529 college savings and prepaid plans as well as their private sector partners. Key to CSPN's mission is educating families about the importance of saving for college and the benefits of 529 plans, including how easy and affordable it is to start a plan. Additionally, CSPN monitors federal activities and promotes legislative and regulatory changes that will positively affect 529 plans. The network's web site, [www.CollegeSavings.org](http://www.CollegeSavings.org), provides a wealth of consumer information about 529 plans, and a robust feature that allows site users to compare all plans by features or by state.

The College Savings Plans Network is governed by an Executive Board of state Treasurers and state Program Directors. The 2010 Executive Board is as follows:

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## Background

### What is a 529 Plan?

- A 529 plan is a tax-advantaged investment plan designed to encourage saving for the future higher education expenses of a designated beneficiary, which could be one's child or grandchild, but could also be any other individual (including oneself for adults investing for their own higher education). The plans are named after Section 529 of the Internal Revenue Code and are administered by state agencies and their private sector partners.
- There are two types of 529 plans – savings and prepaid plans. Savings plans (which are the most common) allow account holders to invest as little as \$15 to \$25 per month to build “cash” balances that can be used for any qualified higher education expenses, which can include tuition, fees, room and board, books and certain supplies. Prepaid plans typically provide for the pre-purchase of tuition based in part on today's prices and then “pay out” at the future cost when the beneficiary is in college.
- Funds invested in 529 savings and/or prepaid plans can typically be used at any college, in-state or out-of-state, as well as trade or technical schools that are accredited and are eligible to accept federal financial aid.
- Currently all 50 states and the District of Columbia offer 529 plans (some states offer a plan in partnership with another state). While most prepaid plans have state residency requirements, saving plans are typically open to residents of any state.
- 529 plans can be opened directly by investors in “Direct-sold” college savings plans. They can also be opened through a broker or financial advisor in “Advisor-sold” college savings plans. “Advisor-sold” plans typically include additional fees, or “loads” to compensate financial advisors for services provided to their clients.
- Over 11 million savings plan and prepaid tuition plan accounts have been opened nationwide.
- To date, 1.6 million beneficiaries have used their 529 plan to help pay for college.
- All earnings in 529 plans can grow free of federal and state income tax, and any earnings on withdrawals used for qualified higher education expenses are free of federal income tax and in most cases, state income tax. In addition, 34 states also offer a state income deduction or tax credit for contributions to their own plan and a few states extend their state income deduction to any 529 plan.

## Can I Afford a 529 Plan?

For the majority of American families, the answer is “Yes.” Consider the facts:

- **Low Minimum Contributions** – Most 529 plans have minimum contributions as low as \$15 or \$25 per contribution to an account. In comparison, most traditional mutual fund products require a minimum initial investment of at least \$1,000 followed by subsequent minimum investments of \$1,000 or more.
- **Matching Grants** – Thirteen states currently offer matching grants or scholarship programs, typically matching up to \$500 of contributions for qualifying families.
- **Direct Sold** – All states offer a direct sold plan which allows residents to participate in a low cost plan that offers professionally managed investments without sales loads or commissions.
- **Low Fees** – Fees for 529 plans compare very favorably with 401(k) retirement plans.
  - A recent survey of 130 401(k) plans found that the average all-in fee for the 401(k) plans surveyed was 0.93 percent. (1)
  - In comparison, as of June 2009 the average Total Annual Asset Based Fee in a direct sold 529 plan is 0.714 percent. This is down from 0.745 percent in April 2008. This means that account owners in direct sold 529 plans typically pay less than 1% (actually, a little over seven tenths of a percent) in asset-based fees each year.

## How Secure is a 529 Plan?

- **Consumer Protection** – 529 plans are generally run by state treasurers, state officials and public sector governing boards. This provides a level of oversight not typically found in other private-sector investments.
- **Prepaid or Guaranteed Plans** – Prepaid plans (sometimes called guaranteed savings plans) are currently offered in 13 states and allow for the pre-purchase of tuition based in part on today's prices and then benefits are paid out at the future cost when the beneficiary is in college. As tuition increases from year-to-year, so does the benefit you receive from your prepaid plan. Prepaid plans are an attractive option for those who don't want to directly bear the risks of investment markets and desire a certain level of security, although they are typically designed to cover tuition and mandatory fees and not other college expenses (such as room and board). Some prepaid plans are also backed by state legislation or even the full faith and credit of their state.
- **Guaranteed, Capital Preservation or FDIC-Insured Savings Plans** – Most savings plans offer investment options that provide families with a guaranteed rate of return or guarantee of principal. Six states currently offer FDIC-insured investment options for those families who choose to minimize investment risk.

## What Investment Options Do 529 Plans Offer?

• **Diverse Investment Options** – Just as no two families are alike, the funds that students need for college vary based on a number of factors, including the type of higher education desired, the time a family has to save for college, the number of children in the family, available resources, support available from extended family members such as grandparents, and other factors.

As a result, 529 plans offer a wide range of options for investors of nearly every risk tolerance, including many index funds:

- As of June 2009, there are 995 investment options in 56 direct-sold plans.
- As of June 2009, there are 763 Class A share options in 32 broker-sold plans.
- Choices include:
  - ✓ Guaranteed investment options
  - ✓ FDIC-insured CD-based and savings account products
  - ✓ Age Based Mutual Fund Options – Age-based options are the most popular form of investing in 529 savings plans. Approximately 75 percent of 529 investors select age-based options. Typically, aged-based options invest more aggressively when the beneficiary is young, but they gradually and automatically reduce the level of investment risk as the child gets closer to college age.
  - ✓ Various blended options – These may include fixed allocations to stock mutual funds and bond mutual funds (for example, 60% invested in stock mutual funds and 40% invested in bond mutual funds).
  - ✓ Equity-based options that invest in stock mutual funds.
  - ✓ Fixed income-based options that invest in bond mutual funds.
  - ✓ Many plans that are typically sold through financial advisors also allow choices among a range of individual mutual funds.

## Where Can I Find More Information?

- College Savings Plans Network (CSPN) – [www.CollegeSavings.org](http://www.CollegeSavings.org)
- National Association of State Treasurers – [www.NAST.org](http://www.NAST.org)
- U.S. Department of Education – [www.ED.gov](http://www.ED.gov)
- Internal Revenue Service – [www.irs.gov](http://www.irs.gov) (search for Publication 970 – Tax Benefits for Education)
- U.S. Securities and Exchange Commission – [www.sec.gov](http://www.sec.gov) (search for “An Introduction to 529 Plans”)
- Municipal Securities Rulemaking Board – [www.msrb.org](http://www.msrb.org)

### Sources

(1) Investment Company Institute (ICI) and Deloitte Consulting LLP

## Plan and Account-Level Data Collection Reveals the Effectiveness of 529 Plans

In the summer of 2009, the Vice-President's Middle Class Task Force began to study cost and affordability issues related to higher education. As part of this effort, CSPN and other organizations were asked to provide data on 529 plans to assist the Department of the Treasury in analyzing the effectiveness of 529 plans, which are seen as a key component in working toward making college more affordable for American families.

In response, CSPN and CSF have undertaken the largest data collection in 529 plan history and we believe the results demonstrate that 529 plans are being used by American families as they were intended to be used by Congress and the states - to help families of all economic levels save for the future higher education of their children.

Seven major points arose from analyzing the data and these points highlight the effectiveness of 529 college savings plans (the data discussed below are as of June 30, 2009):

- 1. The number of 529 plan accounts and the total amount invested has increased steadily over time**, except during the 2008-09 market downturn, and even then, account growth was positive. This demonstrates that American families increasingly view 529 plans as a valuable and effective way to save for college.
- 2. The average 529 plan account balance is \$11,751**, which does not nearly cover four years' costs at most colleges today. Nonetheless, families continue to contribute to 529 plans recognizing that even some savings will help in the future and can help to defray future student and/or parent education loan debt.
- 3. Parents understand that saving regularly is an important step to achieving a college savings goal.** In fact, 41% of 529 accounts are automatically funded – typically on a monthly basis.
- 4. The highest concentration of 529 accounts is appropriately for beneficiaries in the Kindergarten-through-Grade 5 age group**, which shows that families are beginning to save for college early enough to grow account balances. This investment horizon allows sufficient time to accumulate funds over market cycles even if contributions are modest. More importantly, the process of saving for college affirms that families aspire to have their children attend college in the future, which sends an early message to students about preparing themselves academically for future college attendance or other form of education beyond high school.
- 5. 529 plans offer investment options that are both prudent and sufficiently broad in choice** so that families can select one or more appropriate options that fit their unique circumstances. Within the context of providing investment choice, it is clear that 529 plan investments typically make prudent use of equities without subjecting college savings to inappropriate levels of equity risk.
- 6. Relatively steady 529 transaction activity**, in terms of contributions and distributions or withdrawals, is consistent with (i) increasing numbers of accounts, (ii) beneficiaries beginning to attend college, and (iii) a general satisfaction with the college savings plans already chosen. This is compelling evidence that college savers are using 529 plans for exactly the right reasons.
- 7. Reliable information is available on 529 plans**, as shown by the decreasing difference between the size of the average account in the direct-sold market and the average account in the advisor-sold market. This indicates that parents and grandparents are able to make good college savings decisions based on high quality, publically available information.

## Conclusion

529 college savings plans have a unique public/private partnership model that has been instrumental in helping millions of American families to save for their children's and grandchildren's future college expenses. With low minimum investment requirements, more than 1,700 investment options in more than 120 plans, low fees (which now average less than three-quarters of one percent of assets annually for direct-sold plans), and attractive federal and state tax incentives, our focus continues to be on educating all families who have college dreams for their children about the compelling advantages of starting their own 529 plan as soon as possible.

Section 529 plans continue to be an important component of the overall higher education policies of the states. These programs help meet the challenges we face in ensuring and increasing access to higher education, improving its affordability, and building a better-educated workforce for America.

For additional data and information related to this report go to the following web page:  
**[www.CollegeSavings.org/529PlanData.aspx](http://www.CollegeSavings.org/529PlanData.aspx)**