ADVISER INVESTMENTS

ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments

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529 Plans of Note

In our last two *Adviser Fund Updates*, we covered the basics of 529 plans, followed up by a review of state-by-state tax treatment and financial aid implications. To wrap up the series, we're taking a look at four 529 plans that may be worth considering if you live in the state that offers them, or in a tax-parity state or one that provides no tax benefits. If your state does give favorable tax treatment to 529 plan contributions, you may be happiest investing at home.

The plans we've chosen to look at generally have a wide variety of portfolios, age-based tracks and, in some cases, individual funds to choose among. The first two plans, the Maryland College Investment Plan and the T. Rowe Price College Savings Plan (sponsored by Alaska), charge slightly more in fees, but consist mainly of actively managed funds. The second two plans, the Vanguard 529 Plan (sponsored by Nevada) and the Utah Educational Savings Plan, both rely predominantly on low-cost Vanguard index funds to fill out their rosters, although Utah does include a number of actively managed funds as well.

When comparing plans, after considering the tax implications, pay attention both to the funds and portfolios offered, and expenses. Keeping costs down is a great way to help your investment go further, but it may be worth paying more in fees to get access to a manager or strategy you think has the potential to outperform over the long-term.

Maryland College Investment Plan

The Maryland College Investment Plan provides portfolios managed by T. Rowe Price, made up of the firm's mutual funds. As mentioned above, most of the portfolios have an actively managed component; only two of the 21 underlying funds are index funds. The offerings come in two investment styles: Enrollment-based portfolios and fixed portfolios. Enrollment-based portfolios are focused on a student's expected year of college enrollment, ranging from 100% equity funds when college is 17 years away to conservative allocations as a beneficiary approaches and enters college.

Maryland's Enrollment-Based Options

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Portfolio	Composition	Fees
Portfolio for College	80% bond funds. 20% stock.	0.66%
Portfolio 2015	34% stock. 66% bond.	0.73%
Portfolio 2018	51% stock. 49% bond.	0.85%
Portfolio 2021	67% stock. 33% bond.	0.86%
Portfolio 2024	82% stock. 18% bond.	0.86%
Portfolio 2027	97% stock. 3% bond.	0.86%
Portfolio 2030	75% domestic stock. 25% international stock.	0.86%
Portfolio 2033	Same as 2030, allocation shifts begin three years later.	0.86%

Source: State of Maryland.

The Maryland 529 also offers six fixed T. Rowe Price portfolios that do not change allocations over time: Equity, Global Equity Market Index, Balanced, Bond & Income, Inflation-Focused Bonds and Money Market. Similar options are also available in Alaska's 529, also run by T. Rowe Price, which we'll look at next.

It should be noted that while Maryland's plan does offer a good number of portfolios to choose among, you cannot create your own custom portfolio out of the underlying funds—the same is true of the next plan. This may be a deterrent to those with a strong desire to have complete control over their 529's investments.

T. Rowe Price College Savings Plan
T. Rowe Price's program, sponsored by the state of Alaska, offers 13 portfolios that offer varying degrees of stock and bond exposure, most of which are invested in actively managed funds. Very similar to Maryland's plan, investors can choose enrollment-based portfolios that shift allocations from stocks to bonds every three years based on the beneficiary's expected college enrollment, with annual fees ranging from 0.70% to 0.88%.

The plan also offers five static portfolios, the allocations of which do not change over time. You are allowed to switch portfolios once per calendar year should your beneficiary's goals change.

The T. Rowe Price Plan Static Choices

Portfolio	Composition	Fees
Total Equity Market Index	100% stock. Fully invested in the T. Rowe Price Total Equity Market Index fund, which tracks the broad U.S. stock market and is benchmarked to the S&P Total Market Index.	0.59%
Equity Portfolio	100% stock. Invests several funds, giving exposure to domestic and international stocks.	0.88%
Balanced Portfolio	60% in stocks, 40% in bonds.	0.88%
Fixed Income Portfolio	100% invested in the T. Rowe Price Spectrum Income Fund, which invests in up to 10 T. Rowe mutual funds (seven domestic fixed-income funds, two in foreign bond funds, and one in stocks of dividend-paying	0.89%

	companies).	
Money Market Portfolio	100% cash. Invests in the T. Rowe Price Summit Cash Reserves Fund.	0.24%

Source: T. Rowe Price.

The T. Rowe price offerings stand out because of their breadth of portfolio options and the active-management component. However, if expenses are more of a concern, a plan managed by Vanguard might be a better fit.

Vanguard 529

The Vanguard 529 Plan is administered by Upromise Investments and sponsored by the state of Nevada. It features a wide number of Vanguard funds and is open to investors nationwide. The minimum initial investment is $3,000, significantly higher than that of many other 529 plans, but additional investments are just $50. Additionally, accounts can be linked to the Upromise rewards service for automatic transfers when you spend money at associated stores, restaurants and websites.

The Vanguard plan offers three age-based options comprised of Vanguard index funds distinguished by risk tolerance—aggressive, moderate and conservative—that gradually adjust to protect to varying extents against market volatility as college nears. The expense ratio for all plans is 0.25%, significantly lower than the active plans we reviewed above.

The Vanguard 529's Age-Based Tracks

Age	Conservative	Moderate	Aggressive	Fees
0–5	50% stocks. 50% bonds.	75% stocks. 25% bonds.	100% stocks.	0.25%
6–10	25% stocks. 75% bonds.	50% stocks. 50% bonds.	75% stocks. 25% bonds.	0.25%
11–15	75% bonds. 25% stocks.	25% stocks. 75% bonds.	50% stocks. 50% bonds.	0.25%
16–18	75% bonds. 25% cash.	75% bonds. 25% cash.	25% stocks. 75% bonds.	0.25%
19+	100% cash.	75% bonds. 25% cash.	75% bonds. 25% cash.	0.25%

Source: Vanguard.

In addition to the age-based options, Vanguard offers 19 portfolios you can use to construct a custom portfolio. State 529 plans in Colorado, Iowa, Missouri and New York also offer Vanguard 529 plans.

Utah Educational Savings Plan

The Utah Educational Savings Plan (UESP) offers a variety of options to choose from. Its age-based portfolios are similar to those in the Nevada plan above, with two key differences. The first is that Utah offers two variations on the aggressive track, "global aggressive," which includes international stock funds, and "domestic aggressive," which has a solely U.S. focus to its stock component. The second difference is that expenses are lower across the board, with the various stages of the tracks charging between 0.18% and 0.22% a year in fees, compared to 0.25% for all of the Nevada options.

The UESP also offers eight static plans, which you can see in the table below. The static portfolios invest in a mix of Vanguard's funds and range from 100% in stocks to 100% in cash. Both the age-based and static portfolios are invested exclusively in Vanguard's mutual funds.

UESP's Static Portfolios

Portfolio	Composition	Expense Ratio
Equity—100% Domestic	All account money allocated to domestic equity fund.	0.20%
Equities—30% International	70% domestic stock index fund, 30% markets index fund investing primarily in foreign equities.	0.21%
Equities—10% International	90% domestic stock index fund, 10% markets index fund investing primarily in foreign equities.	0.22%
70% Equity/30% Fixed Income	70% in three equity funds, 30% in three bond funds.	0.22%
20% Equity/80% Fixed Income	20% in three equity funds, 80% in three bond funds and cash.	0.22%
Fixed Income	Money allocated between three bond funds.	0.19%
Utah Public Treasurers' Investment Fund	Invests in corporate notes, commercial paper and money market funds.	0.16%
FDIC-Insured Savings	Cash savings account.	0.16%

Source: UESP.

Utah also allows 529 investors a great deal of flexibility in customizing their own portfolios. You can choose among any of the 22 underlying funds (which consist of Vanguard index and actively managed funds as well as several actively managed Dimensional Fund Advisors funds) to create your own age-based or static portfolios. The customized age-based option allows you to determine allocations among funds for seven age brackets and automatically reallocates every time your beneficiary hits the next stage (and rebalances annually in between allocation shifts). The customized static option also rebalances annually on the beneficiary's birthday, but does not change otherwise unless you decide to make adjustments yourself.

This plan and Nevada's will likely have strong appeal for investors concerned with keeping expenses down and having the flexibility to create custom portfolios. Utah's plan is a standout in that there are both index and active fund options for those who want to build their own portfolios.

Conclusion
We hope you have found our three-part series on the benefits of 529 plans informative. Regardless of which plan you choose, the sooner you start, the more time your contributions will have to earn compound interest, and the greater your potential gains. If you have any questions about 529s or would like to learn more about Adviser Investments and how we can help you, please give us a call at 800-492-6868.

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For more information, please visit www.adviserinvestments.com or call 800-492-6868.