



# Guide to 529 College Savings

The Plans Defined | Morningstar's Top Rated Plans  
Map of States Offering Tax Deductions for Contributions





## Guide to 529 College Savings Plans

### Introduction

This guide will give you an overview of 529 college savings plans. We'll explain what they are, the value of investing in a plan, the types of plans, and how they're sold. We'll also provide information about additional tax advantages for thirty-five states and the most recent Morningstar ratings of plans.

If choosing a plan seems daunting, just remember that you can always rollover funds from one savings plan to another if you change your mind.

Opening a plan is easy. In fact, most plans can be opened online in fifteen minutes or less. So, get headed in the right direction by opening a plan and start using LEAF to make recurring payroll contributions today!

### What's a 529 plan?

529 college saving plans are tax-advantaged investment vehicles designed to help families set aside money for the future costs of higher education.

You can have only one beneficiary per plan, but you can change the beneficiary at any time, or move money from one beneficiary family member's plan to another. You can also use a plan for your own continuing education.

Recently, with the passage of the 2017 Tax Cuts and Jobs Act, K-12 and post-secondary public, private, and religious education costs are also included for withdrawals from 529 plans up to \$10,000 per year.

In 2014, Congress passed the Achieving a Better Life Experience, or ABLE, act which allowed states to create 529A plans which support the needs of a disabled beneficiary. Today, thirty-eight states offer ABLE accounts.

Each state manages its own plans. So, for specific questions about tax advantages or plan restrictions for your state, it's a good idea to visit the plan website and call their customer service number.

### Why Invest in a Plan?

529 plans allow you to invest post-tax dollars and avoid taxes on the growth of your funds, as long as they're used for higher education expenses.

Allowed expenses include tuition, books, supplies, equipment and other associated fees required for study at any accredited college, university, or vocational school in the United States and at some foreign universities.

529 funds can also be used for room and board costs, including off-campus housing (up to the cost of room and board on campus), as long as the student is attending school at least half-time.

In addition, under the College Cost Reduction and Access Act of 2007, 529 plans have minimal impact on a student's eligibility for financial aid, as they are now treated as an asset of the account owner (typically the parent).

Unfortunately, student loans and student loan interest are not considered qualified education expenses.

### What if I Withdraw Funds for a Non-Qualified Expense

If a 529 plan distribution is not used for the above qualified educational expenses it's subject to income tax and an additional 10% non-qualified distribution penalty on the earnings portion of the distribution. Some states may also impose their own tax on the non-qualified distributions.

### How Much Should I Save?

The key to 529 college savings is to not feel overwhelmed by today's cost of college. For easy, post-tax payroll contributions using LEAF, you can pick a manageable amount that fits your budget.

Pick an amount that you think will meet your goals, or, if you're already feeling stretched, pick an amount that you probably won't miss.

Think of it this way: by contributing \$45 per pay period, the value of your contributions and investments could grow to more than \$5,000 in



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just four years. That's only \$3 a day — the same as a cup of coffee.

Remember, you can start, stop or change your payroll contribution through LEAF at any time. The important thing is to get started.

If you already have a plan, you can use LEAF to add to what you're already investing.

### What Types of Plans are There?

529 plans fall into two categories: prepaid tuition plans and savings plans

**Prepaid tuition plans** generally are tied to a state's colleges and universities. The idea is to pay for tomorrow's tuition at today's prices. If you're certain that your child is going to attend a school in the state in which you live, this option is worth exploring.

States with prepaid tuition plans that are still open to new entrants include: FL, MA, MD, MI, MS, NV, PA, TX, VA, and WS.

**Savings plans** are the most popular type of plan and students can attend any accredited higher education institution in any state, not just the state where they reside.

The savings plans are flexible allowing you to change your beneficiary or roll over funds from one family member's plan to another. You could live in one state, open a savings plan offered by another state, and your child could attend college in a third state.

Most savings plans offer a number of investment options, similar to retirement plans. The simple choice with many plans is to select the age-based option. In fact, more than 80% of savings plan account holders select an age-based investment option, allowing the plan provider to make most investment decisions on their behalf and rebalancing the portfolio periodically as the child approaches college age.

### How are 529 Plans Sold?

Both types of plans are sold by states. When states first began offering 529 plans nearly twenty years ago, they often turned to national financial services firms such as TIAA, Fidelity and American Funds in order to manage the plan investments and to use their broker / advisor networks to sell the plans.

Today, many states offer plans they sell directly to consumers. That is one reason why your state may offer more than one plan: one might be available through a financial advisor and the other might be sold directly by the state through their website.

The advantage of direct sold plans is that they have no broker fees and, as a result, are often recommended as a better consumer option.

### Which Plans get Good Ratings?

Morningstar, a global investment research and investment management firm, rates 529 savings plans and publishes their results in an annual list of top performers. They base these ratings on five key criteria<sup>1</sup>:

- **Process:** Did the plan hire an experienced asset allocator to design a thoughtful, well-diversified glide path for the age-based portfolios? What suite of investment options is offered?
- **People:** What is Morningstar's assessment of the underlying money managers' talent, tenure, and resources?
- **Parent:** Is the program manager a good caretaker of college savers' capital? Is the state managing the plan professionally?
- **Performance:** Have the plan's options earned their keep with solid risk-adjusted returns over relevant time periods? How is the plan expected to perform going forward?
- **Price:** Are the investment options a good value?



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In 2017, Morningstar identified 34 plans it believes to be best-in-class options, assigning these programs Analyst Ratings of Gold, Silver, and Bronze.

Note the opening balance requirement, which in

most cases is \$25, \$50 or \$250.

If you're interested in learning more about Morningstar's ratings, you can visit their website and even sample a premium subscription, which gives you access to all their resources.

### 2017 Morningstar Analyst Ratings for 529 College Savings Plans

GOLD RATED PLANS - 2017	STATE	TYPE	RATING CHANGE	2016 RATING	OPENING BALANCE
BrightStart College Savings (Direct)	IL	Direct	Upgrade	Bronze	None
Invest529	VA	Direct		Gold	\$25
The Vanguard 529 College Savings Plan	NV	Direct		Gold	\$1,000 / \$3,000*
Utah Educational Savings Plan	UT	Direct		Gold	None

\*\$1,000 for residents / \$3,000 for non-residents

1. [Morningstar](#)

SILVER RATED PLANS - 2017	STATE	TYPE	RATING CHANGE	2016 RATING	OPENING BALANCE
Bright Directions College Savings Program	IL	Advisor		Silver	None
CollegeAdvantage 529 Savings Plan	OH	Direct		Silver	\$25
CollegeAmerica	VA	Advisor		Silver	\$250
CollegeBound Saver (Direct)	RI	Direct		Silver	None
CollegeCounts 529 Fund	AL	Direct	Upgrade	Bronze	None
Maryland College Investment Plan	MD	Direct		Silver	\$250
Michigan Education Savings Program	MI	Direct		Silver	\$25
MOST Missouri's 529 Plan	MO	Direct		Silver	\$1
ScholarShare College Savings Plan	CA	Direct		Silver	\$25
T. Rowe Price College Savings Plan	AK	Direct		Silver	\$250



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BRONZE RATED PLANS - 2017	STATE	TYPE	RATING CHANGE	2016 RATING	OPENING BALANCE
BlackRock CollegeAdvantage 529 Plan	OH	Advisor	Upgrade	Neutral	\$25
College Savings Iowa 529 Plan	IA	Direct		Bronze	\$25
College Bound 529 (Advisor)	RI	Advisor		Bronze	None
CollegeChoice 529 Direct Savings Plan	IN	Direct		Bronze	\$10
CollegeChoice Advisor 529 Savings Plan	IN	Advisor		Bronze	\$25
CollegeCounts 529 Fund Advisor Plan	AL	Advisor		Bronze	None
Connecticut Higher Education Trust	CT	Direct		Bronze	\$25
Delaware College Investment Plan	DE	Direct		Bronze	\$50
Edvest 529 Plan	WI	Direct		Bronze	\$25
Fidelity Arizona College Savings Plan	AZ	Direct		Bronze	\$50
Future Scholar 529 (Direct)	SC	Direct		Bronze	None
MFS 529 Savings Plan	OR	Direct		Bronze	\$250
NEST Advisor College Savings Plan	NE	Advisor		Bronze	None
NEST Direct College Savings Plan	NE	Direct		Bronze	None
New York's 529 Program (Advisor-Guided)	NY	Advisor		Bronze	\$1,000
New York's 529 Program (Direct)	NY	Direct	Downgrade	Silver	None
NextGen College Investing Plan Direct	ME	Direct		Bronze	\$25
Scholars Choice College Savings Program	CO	Advisor	Upgrade	Neutral	\$250
U.Fund College Investing Plan	MA	Direct		Bronze	\$50
UNIQUE College Investing Plan	NH	Direct		Bronze	\$50

Morningstar



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### State Income Tax Deductions

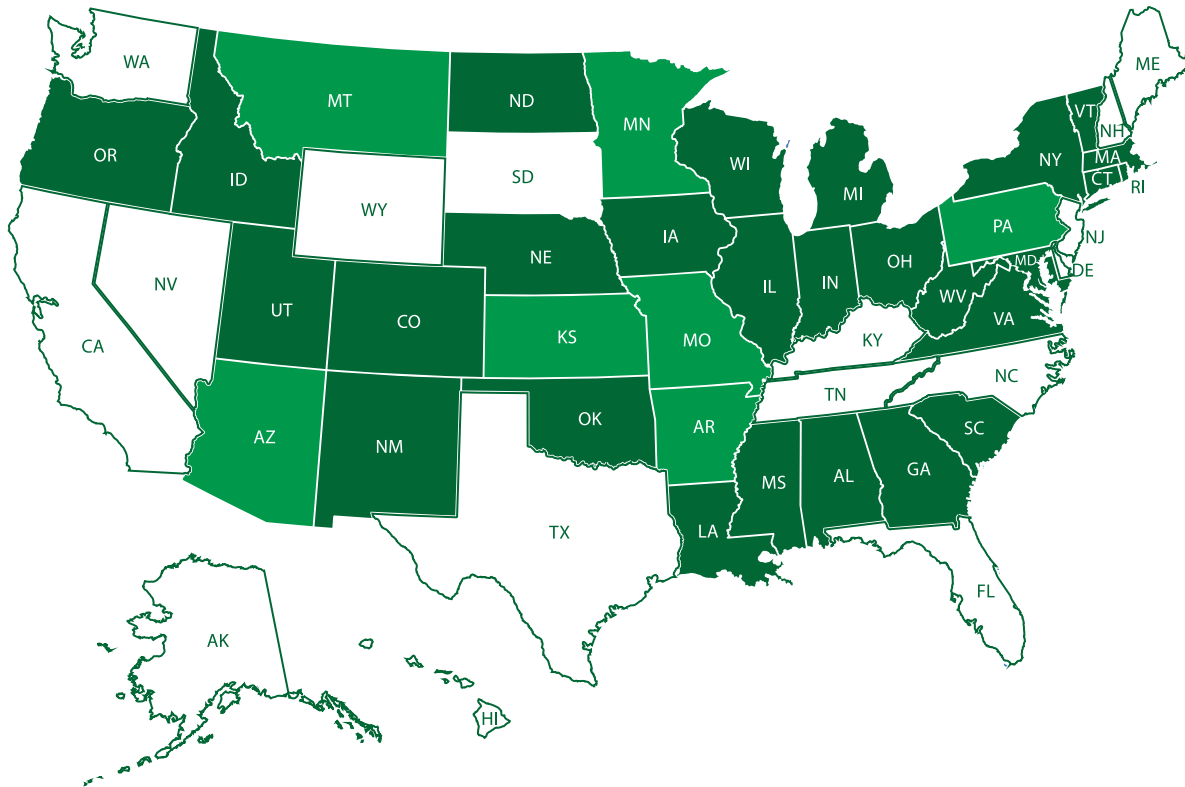
More than thirty states and the District of Columbia offer an annual income tax deduction for resident contributions and six states offer a tax deduction for contributions into any state's plan.

This is an important consideration when choosing a plan.

If your state offers a tax deduction and a savings plan that is well rated, then it may be just the plan for you.

If your state doesn't offer a tax deduction, you'll want to focus on a plan with low fees and good ratings.

### States That Offer Income Tax Deductions for Plan Contributions



All green states and DC offer an annual state income tax deduction. The darker green states offer a deduction for resident contributions. The seven lighter green states: AR, AZ, KS, MN, MO, MT, and PA offer an annual state income tax deduction for contributions into any state plan.



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### Selecting a Plan: Important Questions

Here is a short list of questions to ask yourself to help you select a plan:

- Are you certain your beneficiary will attend college in the state you reside? If so, you might consider a prepaid plan if you live in: FL, MA, MD, MI, MS, NV, PA, TX, VA, or WS.
- Do you want the freedom of your beneficiary being able to attend any accredited college in any state? If yes, then a savings plan is right for you.
- Do you have a financial advisor? If yes, ask them to recommend a plan.
- Are you more comfortable with a direct sold plan or an advisor sold plan?
- Does your state plan rate highly on Morningstar's annual ratings (Gold, Silver or Bronze)?
- Does your state offer an annual tax deduction?

### Can I Open a Plan on the LEAF Website?

For your convenience, LEAF offers an easy way to sign-up for three different plans right on the LEAF website. All three received Morningstar's 2017 Gold rating.

Click the Let's Get Started button on the LEAF landing page for your organization. You'll follow the simple, five step process of creating a LEAF account and entering how much you'd like to contribute each pay period.

When you get to Step 3: Choose the College Savings Plan, just click on the red Enroll in a Plan for Me button and follow the instructions. You'll be asked for the name of the beneficiary, their social security number and date of birth.

It's very simple!

### Additional Resources

There are many sources of good information about 529 college savings plans, starting with your state's 529 plan website.

In addition, the highly regarded websites below offer a wealth of information you may find useful:

Morningstar  
[www.morningstar.com](http://www.morningstar.com)

US News & World Report  
[www.usnews.com](http://www.usnews.com)

Saving For College  
[www.savingforcollege.com](http://www.savingforcollege.com)

College Savings Plan Network  
[www.cspn.org](http://www.cspn.org)

## HOW DO I USE LEAF?

1

Start by creating a LEAF account on your LEAF landing page

2

Enter the plan name, account number, and beneficiary's name

3

Decide how much you wish to contribute each pay period

4

You're well on your way to a simple savings strategy that really works!