



# 2010 529 College-Savings Plans Research Paper and Industry Survey

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# Executive Summary

529 college-savings plans are growing up quickly, but like a lot of teenagers, they have some awkward qualities.

A decade ago, 529 college-savings plans began collecting sizable assets as college savers embraced a vehicle that allowed them to save thousands of dollars in investments designed specifically for this task and that were often sweetened by state income-tax savings. On the whole, states have been responsive to criticism of these plans and have worked to improve the quality of their investments and lower their fees.

Today, the investments included in 529 plans are of better quality than the general mutual fund population, and their returns slightly edge out those of mutual funds with similar strategies. That success comes despite 529 plans' higher fees. The industry has slashed asset-based fees and other charges in 2010, which should help make returns more competitive going forward.

529 plans have fallen short of other expectations. Specifically, the average account size is small--especially relative to the costs of higher education. And there have been some well-publicized performance blunders, particularly during the 2008 bear market.

What follows is Morningstar's annual look at the 529 industry. The research paper highlights trends across 529 plans and specifically in the five areas that Morningstar examines to determine a plan's Morningstar Analyst Rating for 529 college-savings plans: Portfolio, Performance, Price, Parent, and People.

# A History Lesson

529 college-savings plans were created in 1997 by Internal Revenue Code Section 529, which allowed individuals to grow college savings in tax-free programs sponsored by the states. The plans took off in the early 2000s after a set of 2001 tax reforms made withdrawals for postsecondary educational expenses tax-free. Savers don't get federal tax breaks on their contributions, but many states provide incentives such as fee waivers, matching grants, scholarship programs, and perhaps most importantly, state income-tax breaks on at least a portion of one's annual contributions to a 529 account. (For more detail on states' incentives for 529 account holders, see the Price section of this paper.)

Asset growth in 529 plans has picked up in recent years, swelling from about \$200 million in 1998 to \$119 billion on Sept. 30, 2010, according to the Investment Company Institute, the mutual fund industry's trade group, and the College Savings Plans Network, an alliance of 529 plan providers, and Morningstar.

As of October 2010, there were 82 529 plans, with many states having more than one plan, and three states--Washington, Wyoming, and Tennessee--having none. Often states have one plan sold directly to individuals (direct-sold plans) and another plan sold through financial advisors (advisor-sold plans). Direct-sold and advisor-sold plans from the same states often feature different sets of investment options run by different asset-management companies, and the fee schedules usually are wide apart, with direct-sold plan options costing a fraction of their advisor-sold counterparts. Those lower-cost direct-sold plans represent \$57 billion of assets, or 48% of the industry's total.

## 1. 529 College-Savings Plan Assets

<b>529 Plan Distribution</b>	<b>Total Net Assets</b> <b>\$</b>	<b>Total Market Share</b> <b>%</b>
Advisor-sold	61,814,024,187	51.78
Direct-sold	57,422,896,044	48.10
<b>Total</b>	<b>119,373,105,103</b>	<b>100.00</b>

Data as of 9/30/10      Source: Morningstar, Inc.

Although all 529 plans are state-based, some program managers market them nationally. For example, Schwab advertises its Kansas plan nationally, and four of the five plans from Nevada are marketed nationwide. The name of the newest Nevada plan hints at its national ambitions: Putnam 529 for America.

## 2. Assets Under Management by State, Advisor-Sold and Direct-Sold 529 Plans

<b>State</b>	<b>Total Assets \$</b>	<b>Advisor-Sold Assets \$</b>	<b>Advisor-Sold %</b>	<b>Direct-Sold Assets \$</b>	<b>Direct-Sold %</b>
Alaska	3,678,292,862	2,297,081,930	62	1,381,210,932	38
Arizona	457,006,125	353,338,867	77	103,667,258	23
Arkansas	216,869,659	35,989,303	16	180,880,356	84
California	3,439,091,850	197,096,639	6	3,241,995,211	94
Colorado	3,271,832,619	2,233,112,879	68	1,038,719,740	32
Connecticut	1,282,088,434		0	1,282,088,434	100
Delaware	418,169,334		0	418,169,334	100
District of Columbia	136,184,872	NA	NA	NA	NA
Florida	192,755,355		0	192,755,355	100
Georgia	786,135,193		0	786,135,193	100
Hawaii	45,195,483		0	45,195,483	100
Idaho	163,602,404		0	163,602,404	100
Illinois	3,196,191,154	1,772,464,881	55	1,423,726,273	45
Indiana	1,200,401,839	773,268,140	64	427,133,699	36
Iowa	2,259,492,746	56,670,332	3	2,202,822,414	97
Kansas	2,339,189,127	140,516,697	6	2,198,672,430	94
Kentucky	111,515,437		0	111,515,437	100
Maine	4,852,489,937	4,796,155,200	99	56,334,737	1
Maryland	1,895,194,457		0	1,895,194,457	100
Massachusetts	2,992,157,808		0	2,992,157,808	100
Michigan	2,256,287,256	19,290,858	1	2,236,996,398	99
Minnesota	734,146,907		0	734,146,907	100
Mississippi	102,012,749	10,001,280	10	92,011,469	90
Missouri	1,415,165,022	114,155,720	8	1,301,009,302	92
Nebraska	2,098,370,849	733,317,726	35	1,365,053,123	65
Nevada	6,073,576,160	108,729,543	2	5,964,846,617	98
New Hampshire	8,491,156,906	2,689,932,637	32	5,801,224,269	68
New Jersey	1,432,134,413	958,965,092	67	473,169,321	33
New Mexico	1,661,717,300	1,386,845,028	83	274,872,272	17
New York	9,539,869,048	1,452,283,928	15	8,087,585,120	85
North Carolina	598,724,243		0	598,724,243	100
North Dakota	283,202,720		0	283,202,720	100
Ohio	7,151,820,094	3,333,631,399	47	3,818,188,695	53
Oklahoma	370,954,498	16,962,247	5	353,992,251	95
Oregon	1,158,523,164	610,281,465	53	548,241,699	47
Pennsylvania	734,930,428		0	734,930,428	100
Rhode Island	6,769,018,491	6,101,546,444	90	667,472,047	10
South Carolina	1,126,786,173	815,673,488	72	311,112,685	28
South Dakota	779,579,972	761,642,558	98	17,937,414	2

State	Total Assets	Advisor-Sold	Advisor-Sold	Direct-Sold	Direct-Sold
	\$	Assets	%	Assets	Direct-Sold
		\$		\$	%
Texas	246,547,977	99,335,439	40	147,212,538	60
Utah	3,184,046,523		0	3,184,046,523	100
Vermont	117,961,017		0	117,961,017	100
Virginia	28,832,623,200	27,708,465,741	96	1,124,157,459	4
West Virginia	1,251,927,954	980,995,540	78	270,932,414	22
Wisconsin	2,191,360,324	1,256,273,186	57	953,087,138	43

Data as of 9/30/2010 Source: Morningstar, Inc.

When 529s were created, many assumed they'd become common estate-planning tools for the wealthy. Grandparents, for example, can use 529 plans to shelter portions of their estate from taxes. Gifts of as much as \$13,000 per year may be directed to a child's 529 account without triggering a gift tax. But 529 plans also allow gift-tax carryforwards, so individuals may give as much as \$65,000 tax-free (or \$130,000 for a couple) so long as there aren't subsequent gifts for four additional years. While many do use the accounts for such tax advantages, the average account size within 529 plans is small relative to the cost of postsecondary education. The ICI estimated in March 2009 that the average 529 account balance was \$9,700. According to tuition estimates by The College Board, the average 529 plan account would cover one year of public university in-state tuition (\$7,020), but the average balance falls well short of the annual tuition bill at an out-of-state public school (\$18,548) or a private college or university (\$26,273).

### Stunted Account Sizes

There are several factors contributing to lower account balances. First, 529 plan managers and consultants have told Morningstar that college savers typically open accounts for their children when they are between the ages of 7 and 10, giving most families about a decade to save before their first tuition bill comes due. Americans aren't big savers in general, so setting aside thousands per year per child for college takes a lot of discipline--not to mention excess income.

Second, the states take a very democratic approach to marketing 529 plans, reaching out to all parents, regardless of income, and setting low initial-investment thresholds. Many plans require less than \$100 to start an account. Thus, it's reasonable to conclude that the ICI and CSPN's body of average-account-size information incorporates a wide range of data, and thousands of very small 529 account balances offset others with much higher balances.

Market and macroeconomic factors have also stunted 529s' growth. The 2008 market crash took a big toll on 529 savings. The average 529 investment option lost nearly 24% that year, which led to permanent losses of capital in accounts for some beneficiaries nearing college at the same time that unemployment rates began to spike. As a result, many 529 providers have changed their plans to include options that allocate fewer assets to equities in the years leading up to and during college. Also, more than a dozen plans include FDIC-insured options for those who prefer to keep their college savings in cash.

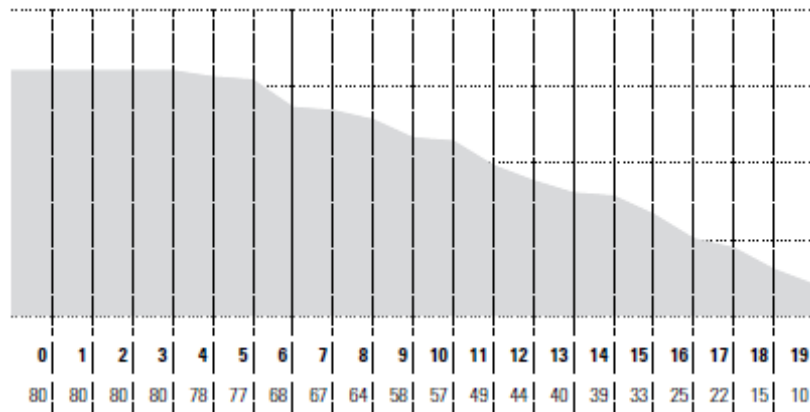
529 plans also lack transparency. Unlike a mutual fund or a stock, 529 investment options are not registered with the Securities and Exchange Commission--they're technically municipal securities. 529 plans have offering documents (similar to a mutual fund prospectus) that are usually available online at the state's or plan's website, but these documents are difficult to compare side by side. It can be tough to glean basic information on the investment options within the plan. In fact, Morningstar is one of a handful of organizations that systematically

collects data on and provides analysis of 529 plans, so there have been few comparisons of fees, past performance, and other details that are commonly available for SEC-registered securities. If parents don't feel confident in the quality of the investment they're making with their college-savings dollars, they are less likely to buy in.

# Process

The process that goes into establishing a set of investments for a 529 college-savings plan is complicated, and each plan's approach differs slightly. But nearly all 529 plans feature investment options that savers choose based on the age of the beneficiary (age-based options). These investments' asset allocations change, shifting from equity-heavy asset mixes when a child is young to mostly bonds and cash in the years leading up to and during college. The investment industry refers to this planned shift in asset allocation as the investment's "glide path." The average 529 glide path starts with 80% equities and dips down to 10% equities when the beneficiary is 19.

Percentage of Assets in Equities for Age-Based 529 Investment Options, Industry Average



Data as of 9/30/10 Source: Morningstar, Inc.

Age-based 529 investment options are conceptually similar to target-date funds, which have become common investments in retirement plans, such as 401(k) plans. Often the same asset-allocation team that runs an asset manager's target-date funds also runs the firm's 529 investment options. This is the case at firms such as Vanguard, T. Rowe Price, and BlackRock.

A 529 option's glide path, however, tends to be steeper than a target-date series' glide path, with the 529 option moving more quickly into cash and bonds than the target-date series. That's because, relative to retirement savers, college savers have less time to save, to recover from bad market conditions, and to tap their investments for college expenses.

That's not to say that all 529 plans are in capital-preservation mode as college savers near the enrollment date. In fact, 529 investment options designed for 15-year-olds have a wide disparity in asset allocation, with some options' equity allocation higher than 50% as beneficiaries enter high school. College Savings Iowa 529 Plan tops the equity-allocation list for



15-year-olds, with an equity allocation in its Growth track of 80% of assets. In contrast, there are several 529 investment options aimed at 15-year-olds with no assets in equities.

One notable difference between 529 options' glide paths and target-date series' glide paths is many 529 plans have multiple glide paths while target-date series have a single glide path. Several 529 plans, including those run by TIAA-CREF and Franklin Templeton, have added multiple glide paths since the 2008 market downturn. In 2010, 38 of the 82 plans contain multiple glide paths, many of which are labeled "growth," "moderate," and "conservative" to more intuitively reflect the glide path's exposure to equities throughout the investment.

### 3. Equity Allocations for 529 Investment Options for 15-Year-Olds

Plan Name	State	529 Investment Option Name	Equity Allocation %
College Savings Iowa 529 Plan	IA	IA Coll Svgs Iowa Track A 11-15 Growth	80.00
Utah Education Savings Plan	UT	UT UESP Opt 3 Age 13-15 Yrs	64.81
College Savings Iowa 529 Plan	IA	IA Coll Svgs Iowa Track B 11-15 Mod G	59.91
CollegeCounts 529 Fund	AL	AL CollCounts Age-Based Agg 13-16	59.90
Pennsylvania 529 Investment Plan	PA	PA 529 Age-Based Agg 11-15 Mod Gr	59.66
MOST Missouri's 529 Plan (Direct)	MO	MO MOST Agg Age-Based Port 11-15	59.60
Bright Directions Coll Savings Program	IL	IL BD Aggressive 13-16 A	59.42
CollegeCounts 529 Fund	AL	AL CollCounts Adv Age-Based Agg 13-16 A	59.11
National College Savings Program	NC	NC Natl CSP V Fund Aggr Track (11-15)	58.50
InvestEd 529 Education Savings Plan	AZ	AZ InvestEd Age-Based 9-15 Balanced A	56.08
Bright Start Coll Savings (Advisor)	IL	IL BrightStart Adv Age-Based 15-17 Yrs A	54.83
Maryland College Investment Plan	MD	MD Coll Inv PI 2015 Port	53.51
Path2College 529 Plan	GA	GA Path2Coll Agg Option Ages 15-17	52.24
Future Scholar 529 (Direct)	SC	SC Future Scholar Ages 12-15 Bal	51.86
Future Scholar 529 (Advisor)	SC	SC Future Scholar Adv Ages 12-15 Z	51.86
LearningQuest 529 Program (Direct)	KS	KS LQ Direct Aggr Track 15-17 Cnsv	50.88
LearningQuest 529 Program (Advisor)	KS	KS LQ Adv Agg Track 15-17 Consv B	50.67
Connecticut Higher Education Trust	CT	CT Higher Edu Trust Agg Age-Based 15-17	50.34
NextGen College Investing Plan	ME	ME NextGen FT Age-Based 13-16 S	50.09
The Upromise College Fund 529 Plan	NV	NV Upromise Agg Option Ages 11-15	49.97
The Vanguard 529 College Savings Plan	NV	NV Vanguard Agg Track 11-15 Mod Gr	49.95
Utah Education Savings Plan	UT	UT UESP Opt 2 Age 13-15 Yrs	49.87
College SAVE	ND	ND Coll SAVE Agg Option 11-15 Mod Gr	49.77
New York's 529 Program (Direct)	NY	NY 529 Direct Agg Age-Based 11-15 Mod Gr	49.73
CollegeInvest Direct Portfolio	CO	CO Direct Aggr Option 11-15 Mod Gr Port	49.68
GIFT College Investing Plan	AR	AR GIFT Agg Option Age 11-15 Mod Gr Port	49.66
IDeal - Idaho College Savings Program	ID	ID IDeal Agg Option Age 11-15 Mod Growth	49.65
CollegeAdvantage 529 Savings Plan	OH	OH Coll Adv Vanguard Aggressive 11-15	49.65
John Hancock Freedom 529	AK	AK JH Port 2013-2016 B	49.32
NJBEST 529 College Savings Plan	NJ	NJBEST Growth Age-Based 13-16 Yrs	49.07
Franklin Templeton 529 Coll Savings Plan	NJ	NJ FT 529 Growth Age-Based 13-16 Yrs A	49.07
SMART529 WV Direct College Savings Plan	WV	WV SMART529 Direct Age Based 14-15	48.56
The Hartford SMART529	WV	WV SMART529 Age-Based 14-15 E	48.56
NextGen College Investing Plan	ME	ME NextGen MFS Age-Based 14-15 S	46.72

Plan Name	State	529 Investment Option Name	Equity Allocation %
Tomorrow's Scholar College Savings Plan	WI	WI TomScholar Aggr Track 15-17 Bal A	46.59
CollegeChoice Advisor 529 Savings Plan	IN	IN CollChoice Adv 2013 Enrollment C	46.27
SMART529 Select College Savings Plan	WV	WV SMART529 Select Age-Based Port 13-15	44.66
TD Ameritrade 529 College Savings Plan	NE	NE TD 529 Age-Based Aggr 11-15 Yrs	43.30
College Savings Plan of Nebraska	NE	NE CSPN Aggr 11-15 Yrs	43.19
New York's 529 Program (Advisor)	NY	NY Adv Age-Based 13-15 Balanced A	42.67
Columbia 529 Plan	NV	NV Columbia Bal 529 A	42.59
LearningQuest 529 Program (Direct)	KS	KS LQ Direct Index Track 15-17 Cnsv Idx	41.08
CollegeAdvantage 529 Savings Plan	OH	OH Coll Adv Advantage Age-Based 13-16	40.18
College Savings Iowa 529 Plan	IA	IA Coll Svgs Iowa Track C 11-15 Con Gr	40.11
MOST Missouri's 529 Plan (Direct)	MO	MO MOST Mod Age-Based Port 11-15	40.01
Bright Directions Coll Savings Program	IL	IL BD Growth 13-16 A	39.97
Utah Education Savings Plan	UT	UT UESP Opt 7 Age 13-15 Yrs	39.94
State Farm College Savings Plan	NE	NE State Farm 1-3 Yrs to Coll B	39.80
Pennsylvania 529 Investment Plan	PA	PA 529 Age-Based Mod 11-15 Con Gr	39.78
Utah Education Savings Plan	UT	UT UESP Opt 8 Age 13-15 Yrs	39.77
Schwab 529 College Savings Plan	KS	KS Schwab Agg Track 15-17 Mod Con	39.77
Michigan Education Savings Program	MI	MI Edu Svgs Agg Option Ages 15-17	39.66
CollegeCounts 529 Fund	AL	AL CollCounts Age-Based Mod 13-16	39.65
CollegeCounts 529 Fund	AL	AL CollCounts Adv Age-Based Mod 13-16 A	39.21
CollegeBoundfund	RI	RI CBF Age-Based Agg 1993-1995 A	38.82
National College Savings Program	NC	NC Natl CSP V Fund Mod Track (11-15)	38.65
Scholars Choice College Savings Program	CO	CO Advisor Age-Based 13-15 Port Five B	38.33
MFS 529 Savings Plan	OR	OR MFS Age-Based 15-18 Conservative 529A	37.72
College SAVE	ND	ND Coll SAVE Mod Option 11-15 Con Gr	35.29
T. Rowe Price College Savings Plan	AK	AK T. Rowe Price Port 2012	34.96
ScholarShare Advisor Coll Savings Plan	CA	CA ScholarShare Adv 2013 A	33.08
CollegeBoundfund	RI	RI CBF Age-Based 1993-1995 A	33.05
Fidelity Advisor 529 Plan	NH	NH Fidelity Adv 529 Port 2013 Old A	32.91
Tomorrow's Scholar College Savings Plan	WI	WI TomScholar Mod Track 15-17 Con A	32.37
Bright Start College Savings (Direct)	IL	IL Bright Start Index Ages 15-17 Yrs	31.90
Bright Start College Savings (Direct)	IL	IL Bright Start Blended Ages 15-17 Yrs	31.37
College Savings Plan of Nebraska	NE	NE CSPN Gr 11-15 Yrs	31.15
TD Ameritrade 529 College Savings Plan	NE	NE TD 529 Age-Based Growth 11-15 Yrs	31.15
LearningQuest 529 Program (Direct)	KS	KS LQ Direct Mod Track 15-17 VCnsv	30.92
LearningQuest 529 Program (Direct)	KS	KS LQ Direct Consv Track 8-17 VCnsv	30.92
LearningQuest 529 Program (Advisor)	KS	KS LQ Adv Mod Track 15-17 VConsv B	30.73
LearningQuest 529 Program (Advisor)	KS	KS LQ Adv Con Track 8-17 VConsv B	30.73
Connecticut Higher Education Trust	CT	CT Higher Edu Trust Age-Based 15-17	30.67
Path2College 529 Plan	GA	GA Path2Coll Mod Option Ages 15-17	30.58
Oklahoma College Savings Plan	OK	OK Coll Svgs PI Mod Option Ages 15-17	30.48
Mississippi Affordable (Direct)	MS	MS MACS Band 5 Ages 15-17	30.08
Lonestar 529 Plan	TX	TX LS Adv Age Based 15-17 Yrs Port A	30.02
Vermont Higher Education Investment Plan	VT	VT Higher Edu Svgs Age-Based 15-17 Yrs	29.73
NextGen College Investing Plan	ME	ME NextGen BR Age-Based 14-16 S	29.44
U.Fund College Investing Plan	MA	MA U.Fund 2012 Port	28.98
Fidelity Arizona College Savings Plan	AZ	AZ Fidelity CSP 2012 Port	28.90

Plan Name	State	529 Investment Option Name	Equity Allocation %
ScholarShare College Savings Plan	CA	CA ScholarShare 2012 Port	28.89
Delaware College Investment Plan	DE	DE Coll Inv Pl 2012 Port	28.88
EdVest College Savings Plan	WI	WI EdVest Agg Track Ages 15-17 Cnsv	28.42
EdVest College Savings Plan	WI	WI EdVest Mod Track Ages 15-17 Cnsv	28.42
Kentucky Education Savings Plan Trust	KY	KY Edu Svgs Pl Band 5 Ages 15-17	28.40
OklahomaDream529	OK	OK Dream Age Based 15-17 Yrs A	28.21
Fidelity Arizona College Savings Plan	AZ	AZ Fidelity CSP 2012 Idx Port	28.01
Delaware College Investment Plan	DE	DE Coll Inv Pl 2012 Index Port	28.01
BlackRock CollegeAdvantage 529 Plan	OH	OH BlackRock Moderate Port 13-16 C	27.37
Virginia Education Savings Trust	VA	VA VEST Blue Ridge 2012 Port	25.92
New York's 529 Program (Direct)	NY	NY 529 Direct Mod Age-Based 11-15 Con Gr	25.59
The Upromise College Fund 529 Plan	NV	NV Upromise Moderate Option Ages 11-15	25.58
Minnesota College Savings Plan	MN	MN Coll Svgs Pl Band 5 Ages 15-17	25.45
HI529 - Hawaii's College Savings Program	HI	HI 529 Vanguard Age 11-15 Con Gr Port	25.40
GIFT College Investing Plan	AR	AR GIFT Mod Option Age 11-15 Con Gr Port	25.26
IDeal - Idaho College Savings Program	ID	ID IDeal Mod Option Age 11-15 Con Growth	25.22
CollegeAdvantage 529 Savings Plan	OH	OH Coll Adv Vanguard Moderate 11-15	24.94
CollegeInvest Direct Portfolio	CO	CO Direct Mod Option 11-15 Cnsv Gr Port	24.93
The Vanguard 529 College Savings Plan	NV	NV Vanguard Mod Track 11-15 Cnsv Gr	24.89
CollegeChoice 529 Direct Savings Plan	IN	IN CollChoice Income 15-17	24.66
NJBEST 529 College Savings Plan	NJ	NJBEST Mod Age-Based 13-16 Yrs	24.48
Franklin Templeton 529 Coll Savings Plan	NJ	NJ FT 529 Mod Age-Based 13-16 Yrs A	24.47
Michigan Education Savings Program	MI	MI Edu Svgs Mod Option Ages 15-17	23.69
iShares 529 Plan	AR	AR iShares 2012 Port	22.94
DC College Savings Program	DC	DC Coll Svgs Age-Based 14-16 A	22.35
CollegeAccess 529	SD	SD CollAccess AgeBased 1418 A	21.92
College Savings Iowa 529 Plan	IA	IA Coll Svgs Iowa Track D 11-15 Income	20.49
Pennsylvania 529 Investment Plan	PA	PA 529 Age-Based Con 11-15 Inc	20.47
MOST Missouri's 529 Plan (Direct)	MO	MO MOST Cnsv Age-Based Port 11-15	20.46
Schwab 529 College Savings Plan	KS	KS Schwab Mod Aggr Track 15-17 Con	20.35
Scholar'sEdge	NM	NM Scholar'sEdge Age 15-17 Ultra Cnsv A	19.84
CollegeCounts 529 Fund	AL	AL CollCounts Age-Based Con 13-16	19.82
Bright Directions Coll Savings Program	IL	IL BD Balanced 13-16 C	19.82
CollegeCounts 529 Fund	AL	AL CollCounts Adv Age-Based Con 13-16 A	19.71
National College Savings Program	NC	NC Natl CSP V Fund Conserv Track (11-18)	18.94
Tomorrow's Scholar College Savings Plan	WI	WI TomScholar Con Track 15-17 Inc A	18.65
TD Ameritrade 529 College Savings Plan	NE	NE TD 529 Age-Based Balanced 11-15 Yrs	17.69
College Savings Plan of Nebraska	NE	NE CSPN Bal 11-15 Yrs	17.14
USAA College Savings Plan	NV	NV USAA Age-Based 15-17 Cnsv Port	16.66
The Education Plan	NM	NM Edu Pl Age-Based Idx 15-17 Yrs	15.74
Texas College Savings Plan	TX	TX CSP Blended Age Based 15-17 Yrs Port	14.81
Oregon College Savings Plan	OR	OR CSP Age-Based 15-17 Yrs	14.44
Michigan Education Savings Program	MI	MI Edu Svgs Cnsv Option Ages 15-17	14.38
MI 529 Advisor	MI	MI 529 Adv Age-Based 15-16 Years A	13.36
BlackRock CollegeAdvantage 529 Plan	OH	OH BlackRock Cnsv Port 13-16 C	11.47
Utah Education Savings Plan	UT	UT UESP Opt 9 Age 13-15 Yrs	10.13
The Education Plan	NM	NM Edu Pl Age-Based 15-17 Yrs	8.50

Plan Name	State	529 Investment Option Name	Equity Allocation %
Franklin Templeton 529 Coll Savings Plan	NJ	NJ FT 529 Consv Age-Based 13-16 Yrs A	0.01
NJBEST 529 College Savings Plan	NJ	NJBEST Consv Age-Based 13-16 Yrs	0.01
College Savings Plan of Nebraska	NE	NE CSPN Con 11-15 Yrs	0.00
College SAVE	ND	ND Coll SAVE Con Option 11-18 Inc	0.00
CollegeAdvantage 529 Savings Plan	OH	OH Coll Adv Vanguard Conservative 11-15	0.00
CollegeInvest Direct Portfolio	CO	CO Direct Cnsv Option 11-18 Inc Port	0.00
EdVest College Savings Plan	WI	WI EdVest Cnsv Track Ages 15-17 Bond	0.00
Florida College Investment Plan	FL	FL College Invmt PI YTE 3-5	0.00
GIFT College Investing Plan	AR	AR GIFT Con Option Age 11-18 Inc Port	0.00
IDeal - Idaho College Savings Program	ID	ID IDeal Con Option Age 11-18 Income	0.00
New York's 529 Program (Direct)	NY	NY 529 Direct Con Age-Based 11-15 Inc	0.00
TD Ameritrade 529 College Savings Plan	NE	NE TD 529 Age-Based Consv 11-15 Yrs	0.00
Texas College Savings Plan	TX	TX CSP Index Age Based 15-17 Yrs Port	0.00
The Upromise College Fund 529 Plan	NV	NV Upromise Cnsv Option Ages 11-18	0.00
The Vanguard 529 College Savings Plan	NV	NV Vanguard Con Track 11-15 Inc	0.00

Data as of 9/30/10 Source: Morningstar, Inc.

### Morningstar Categories for 529 Investment Options

Morningstar's categories for 529 plan investment options, which were introduced in October 2010, reflect this range of glide paths. The categories for age-based options include an equity test, so options that are heavy in equities would go into high-equity categories, middle-of-the-road options are routed to medium-equity categories, and options with relatively small doses of stocks are in low-equity categories. This methodology helps group investments together that should have similar performance and risk characteristics and makes for better comparisons when calculating the Morningstar Rating for 529 investment options (which is better known as the "star rating") and the Morningstar Risk Rating.

One factor that complicates comparisons of 529 plans' glide paths is the timing of asset-allocation shifts along the glide path. Target-date funds uniformly span five or 10 years between funds in a series, so, for example, series typically feature a fund designed for individuals retiring in 2020, 2025, and/or 2030. The 529 industry hasn't reached a similar consensus. Some plans, like those run by T. Rowe Price, shift the asset mix every three years. Others keep it consistent for the first eight years of the investment and then more dramatically shift away from equities. Still others' equity weights decline relatively quickly when the beneficiary is young and flatten out in a bond/cash-heavy allocation once the beneficiary hits teenage years.

Based on a close examination of these asset-allocation shifts across the 529 industry, Morningstar elected to group 529 plans in categories with six-year steps. So, among low-equity 529 categories, there's age 0 to 6 low equity, age 7 to 12 low equity, age 13 to 18 low equity, and age 19+ low equity. The 529 plan age-based options are assigned to the appropriate age range based on the midpoint of each option's age range. If an option were designed for beneficiaries who are 0 to 8 years old, that option's midpoint is 4 years old, and it would be assigned to an age 0 to 6 category, depending on its equity allocation.

#### 4. Morningstar Categories for Age-Based 529 Investment Options

<b>Morningstar 529 Category Name</b>	<b>Total Investment Options, All Share Classes</b>
529 Age 0-6 Low Equity	53
529 Age 0-6 Medium Equity	237
529 Age 0-6 High Equity	127
529 Age 7-12 Low Equity	62
529 Age 7-12 Medium Equity	240
529 Age 7-12 High Equity	140
529 Age 13-18 Low Equity	122
529 Age 13-18 Medium Equity	345
529 Age 13-18 High Equity	98
529 Age 19+ Low Equity	112
529 Age 19+ Medium Equity	199
529 Age 19+ High Equity	93

Data as of 9/30/10      Source: Morningstar, Inc.

#### Fixed vs. Progressive Age-Based Options

Morningstar's category system works best for plans that contain age-based options that remain fixed and do not shift their portfolios as the beneficiary ages. With fixed age-based options, the plan typically shifts participants' savings into subsequent options as the beneficiary ages. For example, if a fixed plan has an investment option designed for 0- to 3-year-olds and another for 4- to 6-year-olds, the parents would own the 0-to-3 option until their child turns 4, and then their assets would shift to the 4-to-6 option.

The 529 industry also has what are known as progressive options, which are more similar in design to target-date funds in that the saver sticks with one option throughout the life of the investment. A progressive option's asset allocation shifts along the glide path without moving the saver to a new option as the child ages.

#### 5. 529 Plans With Fixed Age-Based Options

<b>State</b>	<b>Plan Name</b>
Alabama	CollegeCounts 529 Fund
Arizona	InvestEd 529 Education Savings Plan
Arkansas	GIFT College Investing Plan
Colorado	CollegInvest Direct Portfolio
Colorado	Scholars Choice College Savings Program
Connecticut	Connecticut Higher Education Trust
District of Columbia	DC College Savings Program
Florida	Florida College Investment Plan
Georgia	Georgia Path2College
Hawaii	HI529 - Hawaii's College Savings Program
Idaho	IDeal - Idaho College Savings Program
Illinois	Bright Directions College Savings Program
Illinois	Bright Start College Savings (Direct)

<b>State</b>	<b>Plan Name</b>
Illinois	Bright Start College Savings (Advisor)
Indiana	CollegeChoice 529 Direct Plan
Iowa	College Savings Iowa 529 Plan
Kansas	LearningQuest 529 Program (Advisor)
Kansas	LearningQuest 529 Program (Direct)
Kansas	Schwab 529 College Savings Plan
Kentucky	Kentucky Education Savings Plan Trust
Maine	NextGen College Investing Plan
Michigan	MI 529 Advisor
Michigan	Michigan Education Savings Program
Minnesota	Minnesota College Savings Plan
Mississippi	Mississippi Affordable (Direct)
Missouri	MOST Missouri's 529 Plan (Direct)
Nebraska	College Savings Plan of Nebraska (Advisor)
Nebraska	College Savings Plan of Nebraska (Direct)
Nebraska	State Farm College Savings Plan
Nebraska	TD Ameritrade 529 College Savings Plan
Nevada	Columbia 529 Plan
Nevada	The Upromise College Fund 529 Plan
Nevada	USAA College Savings Plan
Nevada	The Vanguard 529 College Savings Plan
New Jersey	Franklin Templeton 529 College Savings Plan
New Jersey	NJBEST 529 College Savings Plan
New Mexico	Scholar'sEdge
New Mexico	The Education Plan
New York	New York's 529 Program (Advisor)
New York	New York's 529 Program (Direct)
North Carolina	National College Savings Program
North Dakota	College SAVE
Ohio	BlackRock CollegeAdvantage 529 Plan
Ohio	CollegeAdvantage 529 Savings Plan
Oklahoma	Oklahoma College Savings Plan
Oklahoma	OklahomaDream529
Oregon	MFS 529 Savings Plan
Oregon	Oregon College Savings Plan
Pennsylvania	Pennsylvania 529 Investment Plan
South Carolina	Future Scholar 529 (Advisor)
South Carolina	Future Scholar 529 (Direct)
South Dakota	CollegeAccess 529
Texas	Lonestar 529 Plan

<b>State</b>	<b>Plan Name</b>
Texas	Texas College Savings Plan
Utah	Utah Education Savings Plan
Vermont	Vermont Higher Education Investment Plan
West Virginia	The Hartford Smart529
West Virginia	SMART529 Select College Savings Plan
West Virginia	SMART529 WV Direct College Savings Plan
Wisconsin	EdVest College Savings Plan
Wisconsin	Tomorrow's Scholar College Savings Plan

Data as of 9/30/10 Source: Morningstar, Inc.

## 6. 529 Plans With Progressive Age-Based Investment Options

<b>State</b>	<b>Plan Name</b>
Alaska	John Hancock Freedom 529
Alaska	T. Rowe Price College Savings Plan
Alaska	University of Alaska College Savings Plan
Arizona	Fidelity Arizona College Savings Plan
Arkansas	iShares 529 Plan
California	ScholarShare College Savings Plan
Delaware	Delaware College Investment Plan
Indiana	CollegeChoice Advisor 529 Savings Plan
Maryland	Maryland College Investment Plan
Massachusetts	U.Fund College Investing Plan
New Hampshire	Fidelity Advisor 529 Plan
New Hampshire	UNIQUE College Investing Plan
Rhode Island	CollegeBoundfund
Virginia	Virginia Education Savings Trust

Data as of 9/30/10 Source: Morningstar, Inc.

Grouping fixed and progressive age-based options in the same category presents some challenges. That's because a fixed option's asset allocation should be reliably consistent, whereas a progressive option's asset allocation has changed over the years, and that will impact relative performance. Morningstar assigns investments to categories based on the past three years' portfolios, so as progressive age-based options' asset allocations shift, so will their category assignments. When looking out over longer periods, however, a progressive option's current categorization may not reflect its past asset allocation. In periods when stocks are outperforming bonds, the progressive options may outperform fixed options, but the converse also is true. Considering equities' steep losses in 2008 and early 2009, progressive options' current three- and five-year records may look worse than fixed options' records.

This category system certainly isn't perfect, but it's an attempt to create reasonable peer groups so that investors can better measure 529 investment options' past performance and risk. Morningstar re-evaluates investments' category assignments regularly and makes changes

to its categories to reflect innovation and shifts in the investment industry. The same will be true of 529 categories.

### Categories for Static Options

In addition to offering age-based options, 529 plans usually feature investment options in which the asset allocation does not shift. Morningstar refers to these as static options. Some of these options feature a mix of investments in a fund of funds structure, while others reflect a single investment strategy. Advisor-sold plans tend to have more single-fund static options, presumably so investment advisors can build a custom portfolio on behalf of their clients.

As is the case with age-based options, Morningstar created categories for static 529 investment options, which are in line with similar categories for traditional open-end mutual funds. For example, the 529 static moderate-allocation category includes investment options with 50% to 70% equities, with the remaining assets in bonds and cash. A mutual fund with a similar asset allocation would be assigned to Morningstar's moderate-allocation category for open-end mutual funds. Morningstar has created categories for static 529 options in cases where Morningstar has found at least 20 options with similar strategies and asset allocations.

## 7. Morningstar Categories for Static 529 Investment Options

<b>Morningstar 529 Category Name</b>	<b>Total Investment Options, All Share Classes</b>
529 Static Aggressive Allocation	159
529 Static Moderate Allocation	226
529 Static Conservative Allocation	144
529 Static Large Value	140
529 Static Large Blend	236
529 Static Large Growth	226
529 Static Mid-Cap	218
529 Static Small Cap	161
529 Static Non U.S. Equity	206
529 Static Intermediate-Term Bond	300
529 Static Short-Term Bond	112
529 Static U.S. Government	83
529 Static Money Market	120

Data as of 9/30/10 Source: Morningstar, Inc.



# Portfolio

The investments within 529 plans generally are a strong group. Because 529 plan contracts are awarded based on a public bidding process, asset managers need to demonstrate some success in order to win a state's 529 business, and that process has weeded out some of the industry's less-desirable investments. To be sure, not every 529 investment option is best-in-class; in fact, some are just mediocre, but there are few awful choices.

To help determine a 529 plan's overall Analyst Rating, Morningstar's mutual fund analysts spent considerable time studying 529 plans' portfolios to determine the quality of the underlying investments. In many cases, 529 plans group several funds together in a single investment option, which in the investment industry is known as a fund of funds structure. In those cases, the analysts relied on Morningstar's extensive portfolio data to drill down and assist the analysts in their research of the investments' past returns and risk profiles. It's also worth noting that the analysts looked especially favorably on plans that featured funds designated as Morningstar Analyst Picks, a group of about 140 funds that the analysts have identified as the industry's very best.

There are other ways to measure the quality of a 529 plan's underlying investments. One could consider past risk-adjusted returns across a plan, so for plans with options that are at least three years old, Morningstar has calculated the average Morningstar Rating for the investment options within each plan. The Morningstar Rating is based on returns net of expenses and penalizes investments with more-volatile returns.

Franklin Templeton 529 College Savings Plan, an advisor-sold plan based in New Jersey, tops the list with an average Morningstar Rating of 4.29 stars. Interestingly, three of the top 10 plans as ranked by average Morningstar Rating are predominantly indexed options. And three of the top 10 plans below receive a Top overall 529 plan Analyst Rating from Morningstar: CollegeAmerica, CollegeAdvantage, and The Vanguard 529 College Savings Plan.

Near the bottom of the table below is CollegeBoundfund, the Rhode Island plan managed by AllianceBernstein and the only plan to receive Morningstar's Bottom Analyst Rating. Its average Morningstar Rating is 2.19. Not surprisingly, many of the plans with weaker average Morningstar Ratings have revamped their lineups significantly in recent years to address past poor performance, including Bright Start College Savings of Illinois and Colorado's Scholars Choice College Savings Program.

## 8. Average Morningstar Rating for Investment Options Within 529 Plans

Plan Name	State	Total Plan Assets \$	Average Morningstar Rating (Stars)	Plan Assets With Morningstar Rating %
Franklin Templeton 529 College Savings Plan	NJ	958,965,092	4.29	94.72
Florida College Investment Plan	FL	192,755,355	4.25	94.18
New York's 529 Program (Direct)	NY	8,087,585,120	3.73	91.53
NextGen College Investing Plan	ME	4,852,489,937	3.73	94.16
The Upromise College Fund 529 Plan	NV	754,189,901	3.65	96.44
Schwab 529 College Savings Plan	KS	948,870,840	3.64	99.07
CollegeAdvantage 529 Savings Plan	OH	1,655,171,337	3.63	78.06
The Vanguard 529 College Savings Plan	NV	4,438,973,497	3.61	95.20
CollegeAmerica	VA	27,708,465,741	3.59	96.50
Virginia Education Savings Trust	VA	1,124,157,459	3.53	95.91
SMART529 WV Direct College Savings Plan	WV	113,247,404	3.50	86.47
GIFT College Investing Plan	AR	180,880,356	3.47	96.76
LearningQuest 529 Program (Direct)	KS	1,249,801,590	3.38	97.68
Michigan Education Savings Program	MI	2,236,996,398	3.36	89.01
CollegeInvest Direct Portfolio	CO	1,038,719,740	3.35	95.17
Minnesota College Savings Plan	MN	734,146,907	3.33	87.53
Pennsylvania 529 Investment Plan	PA	734,930,428	3.33	95.31
NJBEST 529 College Savings Plan	NJ	473,169,321	3.30	99.20
T. Rowe Price College Savings Plan	AK	1,164,155,777	3.25	97.23
John Hancock Freedom 529	AK	2,297,081,930	3.25	96.18
InvestEd 529 Education Savings Plan	AZ	353,338,867	3.16	98.61
College Savings Iowa 529 Plan	IA	2,202,822,414	3.15	95.07
MFS 529 Savings Plan	OR	610,281,465	3.14	97.10
Utah Education Savings Plan	UT	3,184,046,523	3.13	90.81
Future Scholar 529 (Direct)	SC	311,112,685	3.13	100.00
Maryland College Investment Plan	MD	1,895,194,457	3.08	99.67
Kentucky Education Savings Plan Trust	KY	111,515,437	3.00	88.09
Mississippi Affordable (Direct)	MS	92,011,469	3.00	82.54
Vermont Higher Education Investment Plan	VT	117,961,017	3.00	88.18
Delaware College Investment Plan	DE	418,169,334	2.96	97.44
Fidelity Arizona College Savings Plan	AZ	103,667,258	2.96	91.31
MOST Missouri's 529 Plan (Direct)	MO	1,301,009,302	2.94	93.28
Path2College 529 Plan	GA	786,135,193	2.93	90.09
CollegeAccess 529	SD	779,579,972	2.90	92.02
SMART529 Select College Savings Plan	WV	157,685,010	2.88	100.00
ScholarShare College Savings Plan	CA	3,241,995,211	2.88	94.14
College Savings Plan of Nebraska	NE	1,582,605,604	2.87	97.25
Mississippi Affordable (Advisor)	MS	10,001,280	2.86	87.87
U.Fund College Investing Plan	MA	2,992,157,808	2.83	96.36
UNIQUE College Investing Plan	NH	5,801,224,269	2.83	96.54
Oklahoma College Savings Plan	OK	353,992,251	2.80	84.76
TD Ameritrade 529 College Savings Plan	NE	343,983,030	2.80	96.16
MOST Missouri's 529 Plan (Advisor)	MO	114,155,720	2.78	60.77

Plan Name	State	Total Plan Assets \$	Average Morningstar Rating (Stars)	Plan Assets With Morningstar Rating %
Connecticut Higher Education Trust	CT	1,282,088,434	2.78	80.65
Columbia 529 Plan	NV	108,729,543	2.75	98.76
Future Scholar 529 (Advisor)	SC	815,673,488	2.74	100.00
Bright Directions College Savings Program	IL	587,329,428	2.69	90.28
LearningQuest 529 Program (Advisor)	KS	140,516,697	2.68	97.46
College SAVE	ND	283,202,720	2.67	92.79
Iowa Advisor 529 Plan	IA	56,670,332	2.64	84.53
USAA College Savings Plan	NV	771,683,219	2.58	99.22
New York's 529 Program (Advisor)	NY	1,452,283,928	2.55	100.00
The Hartford SMART529	WV	980,995,540	2.47	88.80
DC College Savings Program	DC	136,184,872	2.44	86.98
Bright Start College Savings (Direct)	IL	1,423,726,273	2.42	100.00
EdVest College Savings Plan	WI	3,555,241,451	2.42	83.13
CollegeBoundfund	RI	6,769,018,491	2.19	88.67
Fidelity Advisor 529 Plan	NH	2,689,932,637	2.19	96.89
Tomorrow's Scholar College Savings Plan	WI	2,619,345,918	1.98	97.14
Scholars Choice College Savings Program	CO	2,233,112,879	1.68	97.25
Scholar'sEdge	NM	1,386,845,028	1.53	83.67
Bright Start College Savings (Advisor)	IL	1,185,135,453	1.23	100.00
The Education Plan	NM	274,872,272	1.00	93.03
BlackRock CollegeAdvantage	OH	37,172,770	NA	0.00
CollegeChoice 529 Direct	IN	427,133,699	NA	0.00
CollegeChoice Advisor	IN	773,268,140	NA	0.00
HI 529 - Hawaii's College Savings Program	HI	45,195,483	NA	0.00
Ideal - Idaho College Savings Program	ID	163,602,404	NA	0.00
iShares 529 Plan	AR	35,989,303	NA	0.00
Lonestar 529 Plan	TX	99,335,439	NA	0.00
MI 529 Advisor	MI	19,290,858	NA	0.00
National College Savings Program	NC	598,724,243	NA	5.97
OklahomaDream529	OK	16,962,247	NA	0.00
Oregon College Savings Plan	OR	548,241,699	NA	0.00
State Farm College Savings Plan	NE	171,782,215	NA	0.00
Texas College Savings Plan	TX	147,034,916	NA	0.00

Data as of 9/30/10 Source: Morningstar, Inc.

### All-Star Team or House League?

Traditionally, 529 plans have featured money managers and strategies from the program manager's firm. For example, if T. Rowe Price was the program manager, the 529 plan would include only investment options run by T. Rowe fund managers. (In investment circles, these one-shop plans are known to have "closed architecture.") More recently, however, 529 plans are more likely to feature money managers from more than one firm. (These are "open-architecture" plans.)

To be sure, some program managers have long run open-architecture plans, like Union Bank & Trust, which runs Illinois Bright Directions' advisor-sold plan and Alabama's CollegeCounts 529 plan. But other plans have been more-recent converts to open architecture. Illinois Bright Start's

direct-sold plan replaced Oppenheimer's Core Bond Fund within its actively managed age-based track after the fund posted devastating losses in 2008.

The theoretical benefit of an open-architecture plan is that the program manager can hire the industry's best money managers to run the 529 investment options. Thus, one would expect these plans to outperform those that feature only the in-house talent. In reality, open-architecture plans have not outperformed closed-architecture plans on a risk-adjusted basis (as measured by the Morningstar Rating, which is better known as the star rating).

That's at least partly due to cost. On average, closed-architecture 529 plans have lower expense ratios than those that mix managers from multiple firms. This gives those plans an immediate advantage when it comes to performance.

#### 9. Advisor-Sold 529 Plans' Asset-Weighted Expense Ratios, Star Ratings

<b>Architecture</b>	<b>Asset-Weighted Average Total Expense Ratio %</b>	<b>Asset-Weighted Average Morningstar Rating (Stars)</b>	<b>Assets With Morningstar Rating %</b>	<b>Total 529 Investment Options</b>
Closed	1.16	2.95	95	950
Open	1.52	2.88	72	1,040

Data as of 9/30/10 Source: Morningstar, Inc.

#### 10. Direct-Sold 529 Plans' Asset-Weighted Expense Ratios, Star Ratings

<b>Architecture</b>	<b>Asset-Weighted Average Total Expense Ratio %</b>	<b>Asset-Weighted Average Morningstar Rating (Stars)</b>	<b>Assets With Morningstar Rating %</b>	<b>Total 529 Investment Options</b>
Closed	0.49	3.09	92	505
Open	0.64	2.93	84	299

Data as of 9/30/10 Source: Morningstar, Inc.

Of the five 529 plans earning Morningstar's Top Analyst Rating, one of the plans features open architecture: Ohio CollegeAdvantage. The other four feature program managers that have demonstrated skill running money across a variety of asset classes and have successful, repeatable investment processes: American Funds, T. Rowe Price, and Vanguard. The target-date retirement fund series run by those same three firms also earn Morningstar's Top Analyst Rating.

# Performance

In absolute terms, 529 options' recent returns haven't lived up to investors' expectations. Steep market losses in 2008 and early 2009 devastated many college savers' nest eggs. The typical 529 investment option lost nearly 24% in 2008. That's not as bad as the S&P 500 Index's 37% dive that year, but considering that most 529 college savers open accounts within 10 years of the child's college matriculation, a 24% loss of one's savings likely leads to tough choices for many.

But many 529 options' returns have edged out those of similar mutual funds. To be sure, age-based 529 investment options don't have similar peers in the mutual fund universe, so comparing those returns is difficult. But most of the static options are clones of open-end mutual funds and share similar Morningstar categories, making comparisons more straightforward. 529 plans' success undoubtedly owes to the public bidding process for 529 contracts. States don't award those contracts to just any money manager--the winners need to demonstrate some investment skill to get hired--and many have been able to outperform even though they're saddled with higher expense ratios than similar mutual funds.

In cases where 529 investment options' average returns have lagged mutual funds', higher fees are likely to blame, especially among fixed-income funds. (For more detail on 529 options' fee structures, see the Price section of this paper.) The 529 options' lower returns are in most cases offset, however, by the income-tax benefits that most states extend to at least a portion of the contributions to 529 accounts.

## 11. Five-Year Morningstar Category Returns

<b>Morningstar Category</b>	<b>529 Options Average Five-Year Return %</b>	<b>Open-End Mutual Funds Average Five-Year Return %</b>	<b>Difference %</b>
Large Value	-0.87	-0.50	-0.37
Large Blend	0.47	0.31	0.16
Large Growth	1.01	0.68	0.33
Conservative Allocation	3.71	3.48	0.23
Moderate Allocation	2.54	2.29	0.25
Intermediate-Term Bond	4.69	5.06	-0.37
Short-Term Bond	3.44	3.36	0.08

Data as of 9/30/10 Source: Morningstar, Inc.

## Comparing Returns of Age-Based Tracks

In addition to comparing 529 investment options' performance relative to similar open-end mutual funds, Morningstar also studied the investor experience within the 529 industry's age-based investment options. Comparing returns of age-based options is difficult because these options are not uniformly aimed at a specific age group, say 5- to 10-year-olds. Thus, Morningstar created a uniform scenario and fit the age-based options' performance within it. Specifically, Morningstar wanted to test how well the age-based options performed over a five-year period through June 30, 2010.

The performance calculation assumed there was one beneficiary per glide path (or track) in each 529 plan. For 529 plans that have more than one age-based track--say there's an Aggressive, Moderate, and Conservative track--Morningstar calculated as many returns as there are tracks. The calculation assumed that the beneficiary was 7 years old at the beginning of the period, June 30, 2005. From there, Morningstar took the five subsequent years' returns for the options aimed at 7-, 8-, 9-, 10-, 11-, and 12-year-olds and averaged them to arrive at a five-year annualized return for each track.

The range of performance results is very wide, with some college savers earning gains of nearly 6% per year on average, while a handful of others lost money over the five-year period. Given stocks' very steep losses in 2008 and early 2009, the tracks that were light on equities certainly had an advantage in this comparison. It's not surprising to see tracks named "Conservative" showing up near the top of the list below.

### 12. Five-Year Annualized Returns for 529 Plans' Age-Based Tracks

State	Plan Name	Sales Channel	Track Name	Five-Year Annualized Return %
WV	SMART529 WV Direct College Savings Plan	Direct	Age-Based	5.84
NJ	Franklin Templeton 529 Plan	Advisor	Age-Based	5.84
KS	Schwab 529 College Savings Plan	Direct	Moderate	5.13
AZ	InvestEd 529 Education Savings Plan	Advisor	Age-Based	4.57
UT	Utah Education Savings Plan	Direct	Option 9	4.36
KS	Schwab 529 College Savings Plan	Direct	Moderate Cons	4.09
WV	The Hartford Smart529	Advisor	Age-Based	3.91
WI	Tomorrow's Scholar College Savings Plan	Advisor	Conservative	3.87
NV	The Vanguard 529 College Savings Plan	Direct	Conservative	3.63
AK	John Hancock Freedom 529	Advisor	Age-Based	3.59
NV	The Upromise College Fund 529 Plan	Direct	Conservative	3.53
NJ	NJBEST 529 College Savings Plan	Direct	Growth	3.52
VA	Virginia Education Savings Trust	Direct	Age-Based	3.51
OR	MFS 529 Savings Plan	Advisor	N/A	3.42
UT	Utah Education Savings Plan	Direct	Option 8	3.39
MI	Michigan Education Savings Program	Direct	Moderate	3.33

				<b>Five-Year Annualized Return %</b>
<b>State</b>	<b>Plan Name</b>	<b>Sales Channel</b>	<b>Track Name</b>	
IA	College Savings Iowa 529 Plan	Direct	Savings Track D	3.20
NE	College Savings Plan of Nebraska	Direct	Conservative	3.00
MN	Minnesota College Savings Plan	Direct	Age-Based	3.00
NE	College Savings Plan of Nebraska	Direct	Balanced	3.00
NY	New York's 529 Program (Advisor)	Advisor	Age-Based	2.92
WI	EdVest College Savings Plan	Advisor	Conservative Growth	2.92
KY	Kentucky Education Savings Plan Trust	Direct	Age-Based	2.89
AK	University of Alaska College Savings Plan	Direct	Enrollment Based	2.87
AK	T. Rowe Price College Savings Plan	Direct	Enrollment Based	2.87
NV	Columbia 529 Plan	Advisor	Age-Based	2.84
MD	Maryland College Investment Plan	Direct	Enrollment Based	2.74
UT	Utah Education Savings Plan	Direct	Option 7	2.71
DE	Delaware College Investment Plan	Direct	Age-Based Active	2.70
NE	TD Ameritrade 529 College Savings Plan	Direct	Conservative	2.67
NV	The Vanguard 529 College Savings Plan	Direct	Moderate	2.66
NE	TD Ameritrade 529 College Savings Plan	Direct	Balanced	2.65
NE	College Savings Plan of Nebraska	Advisor	Balanced	2.64
NH	UNIQUE College Investing Plan	Direct	Age-Based Active	2.64
NE	College Savings Plan of Nebraska	Advisor	Conservative	2.64
WI	Tomorrow's Scholar College Savings Plan	Advisor	Moderate	2.63
AZ	Fidelity Arizona College Savings Plan	Direct	Age-Based Active	2.62
OH	CollegeAdvantage 529 Savings Plan	Direct	Age-Based Moderate	2.62
CT	Connecticut Higher Education Trust	Direct	Age-Based	2.59
RI	CollegeBoundfund	Advisor	Age-Based	2.59
NV	The Upromise College Fund 529 Plan	Direct	Moderate	2.59
MA	U. Fund College Investing Plan	Direct	Age-Based Active	2.49
KS	Schwab 529 College Savings Plan	Direct	Aggressive	2.48
SD	CollegeAccess 529	Advisor	SD Age-Based	2.48
MS	Mississippi Affordable (Direct)	Direct	Age-Based	2.48
NY	New York's 529 Program (Direct)	Direct	Conservative	2.42
SC	Future Scholar 529 (Direct)	Direct	Age Based	2.38
NY	New York's 529 Program (Direct)	Direct	Moderate	2.36
RI	CollegeBoundfund	Advisor	Age-Based	2.36
NH	Fidelity Advisor 529 Plan	Advisor	Age-Based	2.35
OK	Oklahoma College Savings Plan	Direct	Age-Based	2.20
NE	College Savings Plan of Nebraska	Direct	Aggressive	2.17
NE	College Savings Plan of Nebraska	Direct	Growth	2.14

				<b>Five-Year Annualized Return %</b>
<b>State</b>	<b>Plan Name</b>	<b>Sales Channel</b>	<b>Track Name</b>	
SC	Future Scholar 529 (Advisor)	Advisor	Age-Based	2.10
IA	College Savings Iowa 529 Plan	Direct	Savings Track C	2.08
NE	TD Ameritrade 529 College Savings Plan	Direct	Growth	1.94
WV	SMART529 Select College Savings Plan	Direct	Age-Based	1.88
NE	College Savings Plan of Nebraska	Advisor	Growth	1.81
NY	New York's 529 Program (Direct)	Direct	Aggressive	1.79
KS	Schwab 529 College Savings Plan	Direct	Moderate Agg	1.77
RI	CollegeBoundfund	Direct	Age-Based Aggressive	1.66
WI	EdVest College Savings Plan	Direct	Moderate Growth	1.61
RI	CollegeBoundfund	Advisor	Age-Based Aggressive	1.42
WI	EdVest College Savings Plan	Advisor	Moderate Growth	1.38
FL	Florida College Investment Plan	Direct	Age-Based	1.30
UT	Utah Education Savings Plan	Direct	Option 2	1.22
CO	Scholars Choice College Savings Program	Advisor	Age-Based	1.22
CO	Scholars Choice College Savings Program	Advisor	Enrollment Based	1.22
OH	CollegeAdvantage 529 Savings Plan	Direct	Age-Based Aggressive	1.16
NV	The Vanguard 529 College Savings Plan	Direct	Aggressive	1.13
NV	Upromise College Fund 529 Plan	Direct	Aggressive	1.00
IA	College Savings Iowa 529 Plan	Direct	Savings Track B	0.84
NE	TD Ameritrade 529 College Savings Plan	Direct	Aggressive	0.81
CO	ScholarsChoice College Savings Program	Advisor	Age-Based	0.71
NE	College Savings Plan of Nebraska	Advisor	Aggressive	0.70
DC	DC College Savings Program	Advisor	Age-Based	-0.12
IA	College Savings Iowa 529 Plan	Direct	Savings Track A	-0.58
UT	Utah Education Savings Plan	Direct	Option 3	-0.92
WI	EdVest College Savings Plan	Direct	Aggressive Growth	-1.04
WI	EdVest College Savings Plan	Advisor	Aggressive Growth	-1.32
WI	Tomorrow's Scholar College Savings Plan	Advisor	Aggressive	-3.01

Data as of 9/30/10 Source: Morningstar, Inc.



## Tax Benefits Demystified

Many college savers are drawn to 529 plans because they can deduct at least a portion of their contributions from their income that's subject to state income tax and withdraw the proceeds tax-free when it is to be used for qualified expenses. Morningstar conducted an analysis of state income-tax benefits and quantified those benefits in dollar terms so college savers can better determine the value of these income-tax benefits.

As part of the study, Morningstar made some assumptions. First, the calculation assumes that the 529 account is held by a couple with \$100,000 in annual income who files tax returns jointly. Second, it assumes that the couple contributes \$1,000 per year to the beneficiary's account. Finally, the calculation considered a host of other factors, including whether particular states have matching contributions for 529 account holders and whether an investment would be dinged by an annual account-maintenance fee.

Some states, including California, Delaware, Minnesota, Nevada, and New Hampshire, do not offer any income-tax benefits for their residents--usually because those states don't tax their residents' income. These states are included in the table below to make it clear which states do and do not offer benefits. Most states extend tax benefits only to residents who invest in a local 529 plan, providing an incentive for parents and others to keep their college savings in a home state's plan, while other states' tax benefits are portable nationwide.

Morningstar found that, for most college savers--those saving less than \$25,000 for college--the tax benefits associated with their home states' 529 plans often are rich enough to make up for some less-than-desirable attributes, including mediocre investment options or higher fees. Morningstar took these tax benefits into account when analyzing 529 plans and determining a plan's overall Analyst Rating.

### 13. Tax Rates and Tax Benefits for a \$1,000 Investment in a Local 529 Plan

<b>State</b>	<b>529 Plan Name</b>	<b>Couples' Tax Rate for \$100,000 Income %</b>	<b>Total Benefits Per \$1,000 Contribution \$</b>
Alabama	CollegeCounts 529 Fund	5.00	62.00
Alaska	John Hancock Freedom 529	0.00	-
Alaska	T. Rowe Price College Savings Plan	0.00	-
Alaska	University of Alaska College Savings Plan	0.00	-
Arizona	Fidelity Arizona College Savings Plan	4.24	42.40
Arizona	InvestEd 529 Education Savings Plan	4.24	62.40
Arkansas	GIFT College Investing Plan	7.00	90.00
Arkansas	iShares 529 Plan	7.00	70.00
California	ScholarShare Advisor College Savings Plan	9.55	-
California	ScholarShare College Savings Plan	9.55	-
Colorado	CollegInvest Direct Portfolio	4.63	66.30
Colorado	Scholars Choice College Savings Program	4.63	46.30
Connecticut	Connecticut Higher Education Trust	5.00	50.00

<b>State</b>	<b>529 Plan Name</b>	<b>Couples' Tax Rate for \$100,000 Income %</b>	<b>Total Benefits Per \$1,000 Contribution \$</b>
District of Columbia	DC College Savings Program	8.50	100.00
Delaware	Delaware College Investment Plan	6.95	-
Florida	Florida College Investment Plan	0.00	-
Georgia	Path2College 529 Plan	6.00	60.00
Hawaii	HI529 - Hawaii's College Savings Program	8.25	-
Idaho	IDeal - Idaho College Savings Program	7.80	98.00
Illinois	Bright Directions College Savings Program	3.00	30.00
Illinois	Bright Start College Savings (Advisor)	3.00	30.00
Illinois	Bright Start College Savings (Direct)	3.00	30.00
Indiana	CollegeChoice 529 Direct Savings Plan	3.40	420.00
Indiana	CollegeChoice Advisor 529 Savings Plan	3.40	420.00
Iowa	College Savings Iowa 529 Plan	8.98	89.80
Iowa	Iowa Advisor 529 Plan	8.98	89.80
Kansas	LearningQuest 529 Program (Advisor)	6.45	64.50
Kansas	LearningQuest 529 Program (Direct)	6.45	64.50
Kansas	Schwab 529 College Savings Plan	6.45	64.50
Kentucky	Kentucky Education Savings Plan Trust	6.00	-
Louisiana	State Tuition Assistance and Revenue Trust	6.00	80.00
Maine	NextGen College Investing Plan	6.50	566.25
Maryland	Maryland College Investment Plan	4.75	47.50
Massachusetts	U.Fund College Investing Plan	5.30	-
Michigan	Michigan Education Savings Program	4.35	43.50
Minnesota	Minnesota College Savings Plan	7.05	-
Mississippi	Mississippi Affordable (Advisor)	5.00	75.00
Mississippi	Mississippi Affordable (Direct)	5.00	50.00
Missouri	MOST - Missouri's 529 Plan (Advisor)	6.00	60.00
Missouri	MOST - Missouri's 529 Plan (Direct)	6.00	60.00
Montana	Pacific Life Funds 529 College Savings Plan	6.90	94.00
Nebraska	College Savings Plan of Nebraska	6.84	68.40
Nebraska	State Farm College Savings Plan	6.84	68.40
Nebraska	TD Ameritrade 529 College Savings Plan	6.84	68.40
Nevada	Columbia 529 Plan	0.00	-
Nevada	The Upromise College Fund 529 Plan	0.00	20.00
Nevada	The Vanguard 529 College Savings Plan	0.00	-
Nevada	USAA College Savings Plan	0.00	15.00
New Hampshire	Fidelity Advisor 529 Plan	0.00	-
New Hampshire	UNIQUE College Investing Plan	0.00	-
New Jersey	Franklin Templeton 529 College Savings Plan	6.37	25.00

<b>State</b>	<b>529 Plan Name</b>	<b>Couples' Tax Rate for \$100,000 Income %</b>	<b>Total Benefits Per \$1,000 Contribution \$</b>
New Jersey	NJBEST 529 College Savings Plan	6.37	-
New Mexico	Scholar'sEdge	4.90	74.00
New Mexico	The Education Plan	4.90	74.00
New York	New York's 529 Program (Advisor)	6.85	68.50
New York	New York's 529 Program (Direct)	6.85	68.50
North Carolina	National College Savings Program	7.75	77.50
North Dakota	College SAVE	3.44	54.40
Ohio	CollegeAdvantage 529 Savings Plan	5.45	54.51
Ohio	BlackRock CollegeAdvantage 529 Plan	5.45	79.51
Oklahoma	Oklahoma College Savings Plan	5.50	55.00
Oklahoma	OklahomaDream529	5.50	75.00
Oregon	MFS 529 Savings Plan	9.00	115.00
Oregon	Oregon College Savings Plan	9.00	90.00
Pennsylvania	Pennsylvania 529 Investment Plan	3.07	30.70
Rhode Island	CollegeBoundfund	7.00	70.00
South Carolina	Future Scholar 529 (Advisor)	7.00	95.00
South Carolina	Future Scholar 529 (Direct)	7.00	95.00
South Dakota	CollegeAccess 529	0.00	20.00
Texas	Texas College Savings Plan	0.00	-
Texas	Lonestar 529 Plan	0.00	-
Utah	Utah Education Savings Plan	5.00	100.00
Vermont	Vermont Higher Education Investment Plan	7.20	100.00
Virginia	CollegeAmerica	5.75	57.50
Virginia	Virginia Education Savings Trust	5.75	57.50
West Virginia	The Hartford SMART529	6.50	90.00
West Virginia	SMART529 Select College Savings Plan	6.50	90.00
West Virginia	SMART529 WV Direct College Savings Plan	6.50	65.00
Wisconsin	EdVest College Savings Plan	6.50	85.00
Wisconsin	Tomorrow's Scholar College Savings Plan	6.50	65.00

Data as of 9/30/10 Source: Morningstar, Inc.

Tax benefits vary widely depending on the state's tax rate. Some of the states with the most generous benefits issue matching grants for residents when they first enroll. Maine's match for new beneficiaries less than 1-year-old is \$500. On average, though, most benefits are much less generous: The average benefit among states that offer them is about \$87 on a \$1,000 investment.

One also can express the tax benefits as a percentage of one's total account. Tax benefits may look meaningful on a \$1,000 investment, but as nest eggs grow, the benefits one receives on additional 529 contributions shrinks in importance relative to the total college-savings account balance. One can express the tax benefit of an additional \$1,000 investment in basis points--hundredths of a percentage point of one's total 529 account balance. Morningstar's research has shown that as 529 account balances grow beyond \$50,000, the tax benefit of additional \$1,000 contributions falls to less than 0.20% of the total account in most cases. Investors could in many cases grow their accounts by more than 0.20% annually by picking a plan from another state that's cheaper or outperforms by at least 0.20% per year.

#### 14. Estimated Tax Benefit of Single-Year Contribution as Percentage of Total Account Balance

<b>State</b>	<b>529 Plan Name</b>	<b>\$10,000 account %</b>	<b>\$25,000 account %</b>	<b>\$50,000 account %</b>	<b>\$100,000 account %</b>
Alabama	CollegeCounts 529 Fund	0.62	0.25	0.12	0.06
Alaska	John Hancock Freedom 529	0	0	0	0
Alaska	T. Rowe Price College Savings Plan	0	0	0	0
Alaska	University of Alaska College Savings Plan	0	0	0	0
Arizona	Fidelity Arizona College Savings Plan	0.42	0.17	0.08	0.04
Arizona	InvestEd 529 Education Savings Plan	0.62	0.25	0.12	0.06
Arkansas	GIFT College Investing Plan	0.90	0.36	0.18	0.09
Arkansas	iShares 529 Plan	0.70	0.28	0.14	0.07
California	ScholarShare Advisor College Savings Plan	0	0	0	0
California	ScholarShare College Savings Plan	0	0	0	0
Colorado	CollegInvest Direct Portfolio	0.66	0.27	0.13	0.07
Colorado	Scholars Choice College Savings Program	0.46	0.00	0.00	0.00
Connecticut	Connecticut Higher Education Trust	0.50	0.20	0.10	0.05
District of Columbia	DC College Savings Program	1.00	0.40	0.20	0.10
Delaware	Delaware College Investment Plan	0	0	0	0
Florida	Florida College Investment Plan	0	0	0	0
Georgia	Path2College 529 Plan	0.60	0.24	0.12	0.06
Hawaii	HI529 - Hawaii's College Savings Program	0	0	0	0
Idaho	IDeal - Idaho College Savings Program	0.98	0.39	0.20	0.10
Illinois	Bright Directions College Savings Program	0.30	0.12	0.06	0.03
Illinois	Bright Start College Savings (Advisor)	0.30	0.12	0.06	0.03
Illinois	Bright Start College Savings (Direct)	0.30	0.12	0.06	0.03
Indiana	CollegeChoice 529 Direct Savings Plan	2.20	0.88	0.44	0.22
Indiana	CollegeChoice Advisor 529 Savings Plan	2.20	0.88	0.44	0.22

<b>State</b>	<b>529 Plan Name</b>	<b>\$10,000 account %</b>	<b>\$25,000 account %</b>	<b>\$50,000 account %</b>	<b>\$100,000 account %</b>
Iowa	College Savings Iowa 529 Plan	0.90	0.36	0.18	0.09
Iowa	Iowa Advisor 529 Plan	0.90	0.36	0.18	0.09
Kansas	LearningQuest 529 Program (Advisor)	0.65	0.26	0.13	0.06
Kansas	LearningQuest 529 Program (Direct)	0.65	0.26	0.13	0.06
Kansas	Schwab 529 College Savings Plan	0.65	0.26	0.13	0.06
Kentucky	Kentucky Education Savings Plan Trust	0	0	0	0
Louisiana	State Tuition Assistance and Revenue Trust	0.80	0.32	0.16	0.08
Maine	NextGen College Investing Plan	5.66	2.27	1.13	0.57
Maryland	Maryland College Investment Plan	0.48	0.19	0.10	0.05
Massachusetts	U.Fund College Investing Plan	0	0	0	0
Michigan	Michigan Education Savings Program	0.44	0.17	0.09	0.04
Minnesota	Minnesota College Savings Plan	0	0	0	0
Mississippi	Mississippi Affordable (Advisor)	0.75	0.30	0.15	0.08
Mississippi	Mississippi Affordable (Direct)	0.50	0.20	0.10	0.05
Missouri	MOST - Missouri's 529 Plan (Advisor)	0.60	0.24	0.12	0.06
Missouri	MOST - Missouri's 529 Plan (Direct)	0.60	0.24	0.12	0.06
Montana	Pacific Life Funds 529 College Savings Plan	0.94	0.38	0.19	0.10
Nebraska	College Savings Plan of Nebraska	0.68	0.27	0.14	0.07
Nebraska	State Farm College Savings Plan	0.68	0.27	0.14	0.07
Nebraska	TD Ameritrade 529 College Savings Plan	0.68	0.27	0.14	0.07
Nevada	Columbia 529 Plan	0.20	0.08	0.04	0.02
Nevada	The Upromise College Fund 529 Plan	0.15	0.06	0.03	0.02
Nevada	The Vanguard 529 College Savings Plan	0	0	0	0
Nevada	USAA College Savings Plan	0	0	0	0
New Hampshire	Fidelity Advisor 529 Plan	0	0	0	0
New Hampshire	UNIQUE College Investing Plan	0	0	0	0
New Jersey	Franklin Templeton 529 College Savings Plan	0.25	0.10	0.05	0.03
New Jersey	NJBEST 529 College Savings Plan	0	0	0	0
New Mexico	Scholar'sEdge	0.74	0.30	0.15	0.07
New Mexico	The Education Plan	0.74	0.30	0.15	0.07
New York	New York's 529 Program (Advisor)	0.69	0.27	0.14	0.07
New York	New York's 529 Program (Direct)	0.69	0.27	0.14	0.07
North Carolina	National College Savings Program	0.78	0.31	0.16	0.08
North Dakota	College SAVE	0.54	0.22	0.11	0.05
Ohio	CollegeAdvantage 529 Savings Plan	0.80	0.32	0.16	0.08
Ohio	BlackRock CollegeAdvantage 529 Plan	0.55	0.22	0.11	0.05
Oklahoma	Oklahoma College Savings Plan	0.75	0.30	0.15	0.08
Oklahoma	OklahomaDream529	0.55	0.22	0.11	0.06
Oregon	MFS 529 Savings Plan	1.15	0.46	0.23	0.12

<b>State</b>	<b>529 Plan Name</b>	<b>\$10,000 account %</b>	<b>\$25,000 account %</b>	<b>\$50,000 account %</b>	<b>\$100,000 account %</b>
Oregon	Oregon College Savings Plan	0.90	0.36	0.18	0.09
Pennsylvania	Pennsylvania 529 Investment Plan	0.31	0.12	0.06	0.03
Rhode Island	CollegeBoundfund	0.70	0.28	0.14	0.07
South Carolina	Future Scholar 529 (Advisor)	0.95	0.38	0.19	0.10
South Carolina	Future Scholar 529 (Direct)	0.95	0.38	0.19	0.10
South Dakota	CollegeAccess 529	0.20	0.08	0.04	0.02
Texas	Texas College Savings Plan	0	0	0	0
Texas	Lonestar 529 Plan	0	0	0	0
Utah	Utah Education Savings Plan	0.50	0.20	0.10	0.05
Vermont	Vermont Higher Education Investment Plan	0.50	0.20	0.10	0.05
Virginia	CollegeAmerica	0.58	0.20	0.12	0.06
Virginia	Virginia Education Savings Trust	0.58	0.23	0.12	0.06
West Virginia	The Hartford SMART529	0.90	0.36	0.18	0.09
West Virginia	SMART529 Select College Savings Plan	0.90	0.36	0.18	0.09
West Virginia	SMART529 WV Direct College Savings Plan	0.65	0.26	0.13	0.07
Wisconsin	EdVest College Savings Plan	0.85	0.34	0.17	0.09
Wisconsin	Tomorrow's Scholar College Savings Plan	0.65	0.26	0.13	0.07

Data as of 9/30/10      Source: Morningstar, Inc.

Interestingly, five states (Arizona, Kansas, Maine, Missouri, and Pennsylvania) will extend tax benefits to contributions a resident makes to any 529 plan, not just the in-state offerings. This treatment is referred to as tax parity. Investors in tax-parity states receive tax deductions regardless of the state sponsoring the plan, but they give up matching benefits and fee waivers offered through in-state plans should they choose another state's plan. The tax savings available to a resident who lives in a tax-parity state and makes a \$1,000 investment in an out-of-state plan is presented in the table below.

## 15. Portable Tax Benefits for Residents of Tax-Parity States

<b>State</b>	<b>Couples' Tax Rate for \$100,000 Income %</b>	<b>Total Benefits Per \$1,000 Contribution \$</b>
Arizona	4.24	42.40
Kansas	6.45	64.50
Maine	6.50	16.50
Missouri	6.00	60.00
Pennsylvania	3.07	30.70

If all states were to offer tax parity, 529 plans would have to compete on the same basis as mutual funds do, with assets likely flowing to the investment options with the strongest risk-adjusted performance and stewardship of capital, as well as lower fees. States with weaker 529 plans would likely be net losers of assets (and fee revenues) should tax parity become widespread.

# Price

If investors are searching for bargains, they aren't going to find many among 529 investment options. On the whole, total expense ratios for 529 investment options are higher than those for similar mutual funds. That's somewhat understandable given the plans' state-by-state structures. Few states--even those that host 529 plans that are marketed nationally through brokerage firms or asset managers--amass enough assets to pass along significant economies of scale to college savers through lower fees.

In cases where 529 investment options and open-end mutual funds have similar strategies, the mutual funds' fees were consistently lower, on average--sometimes by as much as 0.40 percentage points per year. That's a considerable drag on 529 investment options' performance.

## 16. 529 Investment Options and Mutual Fund Average Total Expense Ratios

<b>Category</b>	<b>529 Investment Option Average Total Expense Ratio %</b>	<b>Open-End Mutual Fund Average Total Expense Ratio %</b>	<b>Difference Percentage Points</b>
Large Value	1.55	1.29	0.26
Large Blend	1.18	1.12	0.06
Large Growth	1.72	1.33	0.39
Moderate Allocation	1.32	1.00	0.32
Conservative Allocation	1.16	0.86	0.30
Intermediate-Term Bond	1.34	0.94	0.40
Short-Term Bond	1.21	0.91	0.30

Data as of 9/30/10 Source: Morningstar, Inc.

But unwinding 529 investment options' total fees can be tricky. One has to chip through several layers, and even then, it's not clear which part of the fee covers which services, and it's difficult to tell whether one is paying a reasonable price for those services. 529 investment options start with an underlying fund fee, which is expressed as a percentage of assets. This fee can be as low as 0.09% and extend beyond 2.00%, depending on the investment strategy.

There often are other asset-based fees as well, and Morningstar sums the administrative, distribution, program-management, trustee, underlying fund, and catch-all miscellaneous fees to arrive at a total asset-based fee, which is expressed as a percentage. This total fee does account for fee waivers temporarily in place, much like the prospectus net expense ratio of a mutual fund.

The largest portion of the total asset-based fee usually is the program-management fee, which covers the cost of running and marketing the 529 program. This fee is often split between the



program manager and the state, depending on how the program-management contract is structured. A portion of the program-management fee is spent on marketing and distribution for the plan, and at least 19 plans have spent millions of dollars on these efforts, according to their official plan documents.

Program-management fees have been coming down as 529 contracts have been put up for bid or renewed with existing program managers. For example, Nebraska's College Savings Plan recently announced it was hiring First National Bank of Omaha as its program manager, replacing Union Bank & Trust, and cutting the program-management fee to 0.29% from 0.60%--a considerable savings for shareholders. Fidelity, T. Rowe Price, and Vanguard also made high-profile cuts to many of the fees associated with their plans, and those savings typically came by lowering the program-management fee. The Fidelity plans in states such as California and New Hampshire, for instance, trimmed their program-management fees on the indexed age-based options by half, to 0.15%. Meanwhile, the program-management fees on its actively managed age-based options dropped by a third, to 0.10%.

These fee cuts make 529 plans immediately more compelling because they take less of a toll on one's college savings and make it more likely that 529 investment options will outperform the market and similarly structured mutual funds. This is particularly true for direct-sold, indexed options, the cheapest of which now cost between 0.20% and 0.25% per year. Indexed options charging substantially more are now less attractive. For example, The Upromise College Fund 529 Plan of Nevada charges 0.57% annually, while The Vanguard 529 College Savings Plan (also sold out of Nevada) charges 0.25% for identical investment options. North Dakota's Vanguard-managed plan costs 0.85% for indexed investment options. For investors with larger account balances or for those without any state income-tax benefits, it would pay to go with the lowest-cost indexed plan. (For more on the value of income-tax benefits and other 529 investment perks, see the Performance section of this paper.)

Much of the variability in fees among 529 plans stems from the program-management fees. It stands to reason that larger plans would charge less than smaller plans because 529 plans theoretically gain efficiencies as their asset bases grow, and those savings can be passed along to investors over time. Unfortunately, though, program-management fees--or any fee, for that matter--are subtracted from one's returns and can make an otherwise strong investment very unlikely to succeed. This is especially true for funds that have little or no potential of offsetting the program-management fee with investment gains. It's not unheard of, for example, for program managers to layer program-management fees on money market funds, which erases much of those options' very thin gains.

The table below breaks out 529 plans' program-management fees on an asset-weighted basis. (In plans where investment options carry a range of program-management fees, the options with the most assets were weighted most heavily in the calculation.) Indeed, some of the smaller plans, in terms of assets under management, have higher program-management fees, presumably because there are fewer assets over which the plan can spread its costs.

## 17. Asset-Weighted Program-Management Fees by 529 Plan

529 Plan Name	State	Sales Channel	Total Plan Assets \$	Asset-Weighted Program Management Fee
				%
IDeal - Idaho College Savings Program	ID	Direct	163,602,404	0.70
College SAVE	ND	Direct	283,202,720	0.68
HI529 - Hawaii's College Savings Program	HI	Direct	45,195,483	0.65
Mississippi Affordable (Advisor)	MS	Advisor	10,001,280	0.62
College Savings Plan of Nebraska	NE	Advisor or Direct	1,582,605,604	0.60
Mississippi Affordable (Direct)	MS	Direct	92,011,469	0.58
Oklahoma College Savings Plan	OK	Direct	353,992,251	0.54
MI 529 Advisor	MI	Advisor	19,290,858	0.50
OklahomaDream529	OK	Advisor	16,962,247	0.50
TD Ameritrade 529 College Savings Plan	NE	Direct	343,983,030	0.50
MOST Missouri's 529 Plan (Direct)	MO	Direct	1,301,009,302	0.48
NextGen College Investing Plan	ME	Advisor or Direct	4,852,489,937	0.48
Bright Directions College Savings Program	IL	Advisor	587,329,428	0.45
The Upromise College Fund 529 Plan	NV	Direct	754,189,901	0.44
Path2College 529 Plan	GA	Direct	786,135,193	0.43
GIFT College Investing Plan	AR	Direct	180,880,356	0.43
Kentucky Education Savings Plan Trust	KY	Direct	111,515,437	0.42
SMART529 Select College Savings Plan	WV	Direct	157,685,010	0.42
CollegeChoice 529 Direct Savings Plan	IN	Direct	427,133,699	0.41
Franklin Templeton 529 College Savings Plan	NJ	Advisor	958,965,092	0.40
Pennsylvania 529 Investment Plan	PA	Direct	734,930,428	0.36
CollegeChoice Advisor 529 Savings Plan	IN	Advisor	773,268,140	0.35
John Hancock Freedom 529	AK	Advisor	2,297,081,930	0.35
CollegeInvest Direct Portfolio	CO	Direct	1,038,719,740	0.34
CollegeAccess 529	SD	Advisor or Direct	779,579,972	0.33
iShares 529 Plan	AR	Advisor	35,989,303	0.33
CollegeAmerica	VA	Advisor	27,708,465,741	0.32
Connecticut Higher Education Trust	CT	Direct	1,282,088,434	0.31
Vermont Higher Education Investment Plan	VT	Direct	117,961,017	0.30
New York's 529 Program (Advisor)	NY	Advisor	1,452,283,928	0.30
MOST Missouri's 529 Plan (Advisor)	MO	Advisor	114,155,720	0.30
Iowa Advisor 529 Plan	IA	Advisor	56,670,332	0.30
College Savings Iowa 529 Plan	IA	Direct	2,202,822,414	0.29
Minnesota College Savings Plan	MN	Direct	734,146,907	0.27
National College Savings Program	NC	Direct	598,724,243	0.25
Oregon College Savings Plan	OR	Direct	548,241,699	0.24
EdVest College Savings Plan	WI	Advisor or Direct	1,372,560,317	0.23
Utah Education Savings Plan	UT	Direct	3,184,046,523	0.22
Lonestar 529 Plan	TX	Advisor	99,335,439	0.21
Bright Start College Savings (Direct)	IL	Direct	1,423,726,273	0.20
Virginia Education Savings Trust	VA	Direct	1,124,157,459	0.20
BlackRock CollegeAdvantage 529 Plan	OH	Advisor	37,172,770	0.20
Tomorrow's Scholar College Savings Plan	WI	Advisor	818,800,007	0.20

529 Plan Name	State	Sales Channel	Total Plan Assets \$	Asset-Weighted Program Management Fee %
Future Scholar 529 (Advisor)	SC	Advisor	815,673,488	0.20
State Farm College Savings Plan	NE	Advisor	171,782,215	0.20
Schwab 529 College Savings Plan	KS	Direct	948,870,840	0.20
Maryland College Investment Plan	MD	Direct	1,895,194,457	0.20
Future Scholar 529 (Direct)	SC	Direct	311,112,685	0.20
NJBEST 529 College Savings Plan	NJ	Direct	473,169,321	0.20
LearningQuest 529 Program (Advisor)	KS	Advisor	140,516,697	0.20
LearningQuest 529 Program (Direct)	KS	Direct	1,249,801,590	0.20
Michigan Education Savings Program	MI	Direct	2,236,996,398	0.20
The Vanguard 529 College Savings Plan	NV	Direct	4,438,973,497	0.19
T. Rowe Price College Savings Plan	AK	Direct	1,164,155,777	0.19
New York's 529 Program (Direct)	NY	Direct	8,087,585,120	0.19
Bright Start College Savings (Advisor)	IL	Advisor	1,185,135,453	0.19
The Hartford SMART529	WV	Advisor	980,995,540	0.18
Fidelity Arizona College Savings Plan	AZ	Direct	103,667,258	0.16
SMART529 WV Direct College Savings Plan	WV	Direct	113,247,404	0.16
Columbia 529 Plan	NV	Advisor	108,729,543	0.15
Delaware College Investment Plan	DE	Direct	418,169,334	0.15
Texas College Savings Plan	TX	Direct	147,034,916	0.13
ScholarShare College Savings Plan	CA	Direct	3,241,995,211	0.11
DC College Savings Program	DC	Advisor or Direct	136,184,872	0.10
The Education Plan	NM	Direct	274,872,272	0.10
Scholar'sEdge	NM	Advisor	1,386,845,028	0.10
U.Fund College Investing Plan	MA	Direct	2,992,157,808	0.10
Fidelity Advisor 529 Plan	NH	Advisor	2,689,932,637	0.08
UNIQUE College Investing Plan	NH	Direct	5,801,224,269	0.08
CollegeAdvantage 529 Savings Plan	OH	Direct	1,655,171,337	0.04
InvestEd 529 Education Savings Plan	AZ	Advisor	353,338,867	0.00
CollegeBoundfund	RI	Advisor or Direct	6,769,018,491	NA
MFS 529 Savings Plan	OR	Advisor	610,281,465	NA
Scholars Choice College Savings Program	CO	Advisor	2,233,112,879	NA
Florida College Investment Plan	FL	Direct	192,755,355	NA
USAA College Savings Plan	NV	Direct	771,683,219	NA

Data as of 9/30/10 Source: Morningstar, Inc.

Morningstar's analysis of 529 plans focused mainly on the total asset-based fees because this all-in cost is easiest to compare across plans. Morningstar also considered a plan's distribution strategy and thus compared direct-sold plans with direct-sold plans and advisor-sold plans with advisor-sold plans. Within the advisor-sold plans, Morningstar parsed share classes so that A shares were compared with each other and so on.

When comparing the plans' asset-weighted expense ratios, advisor-sold plans are most expensive, with Allianz's CollegeAccess 529 from South Dakota topping the list at 1.85%. The cheapest advisor-sold plan is an ETF plan; at 0.62%, iShares 529 Plan of Arkansas costs about one third of what is charged for Allianz's CollegeAccess 529. Among direct-sold plans, the most expensive is Schwab 529 Direct College Savings Plan of Kansas, with an asset-weighted

expense ratio of 1.19%. The cheapest direct-sold options often feature indexed funds, which is the case with New York's 529 Program, which recently cut its overall expense ratio to 0.25% for all of its investment options and is the industry's least expensive plan on an asset-weighted basis. Ohio's CollegeAdvantage 529 Savings Plan is almost as cheap (0.29%) and includes some actively managed options in addition to indexed choices.

#### 18. Asset-Weighted Total Expense Ratios by 529 Plan

<b>529 Plan Name</b>	<b>State</b>	<b>Sales Channel</b>	<b>Asset-Weighted Total Expense Ratio %</b>
CollegeAccess 529	South Dakota	Advisor or Direct	1.85
BlackRock CollegeAdvantage 529 Plan	Ohio	Advisor	1.77
NextGen College Investing Plan	Maine	Advisor or Direct	1.76
State Farm College Savings Plan	Nebraska	Advisor	1.76
Iowa Advisor 529 Plan	Iowa	Advisor	1.75
Franklin Templeton 529 College Savings Plan	New Jersey	Advisor	1.74
John Hancock Freedom 529	Alaska	Advisor	1.70
New York's 529 Program (Advisor)	New York	Advisor	1.70
Future Scholar 529 (Advisor)	South Carolina	Advisor	1.69
Columbia 529 Plan	Nevada	Advisor	1.68
MI 529 Advisor	Michigan	Advisor	1.61
LearningQuest 529 Program (Advisor)	Kansas	Advisor	1.53
OklahomaDream529	Oklahoma	Advisor	1.53
MFS 529 Savings Plan	Oregon	Advisor	1.51
Tomorrow's Scholar College Savings Plan	Wisconsin	Advisor	1.44
Lonestar 529 Plan	Texas	Advisor	1.42
Fidelity Advisor 529 Plan	New Hampshire	Advisor	1.41
The Hartford SMART529	West Virginia	Advisor	1.38
Scholar'sEdge	New Mexico	Advisor	1.35
Bright Directions College Savings Program	Illinois	Advisor	1.35
CollegeBoundfund	Rhode Island	Advisor or Direct	1.30
Scholars Choice College Savings Program	Colorado	Advisor	1.26
MOST Missouri's 529 Plan (Advisor)	Missouri	Advisor	1.25
TD Ameritrade 529 College Savings Plan	Nebraska	Advisor	1.19
Schwab 529 College Savings Plan	Kansas	Direct	1.19
CollegeChoice Advisor 529 Savings Plan	Indiana	Advisor	1.18
College Savings Plan of Nebraska	Nebraska	Advisor or Direct	1.11
InvestEd 529 Education Savings Plan	Arizona	Advisor	1.09
CollegeAmerica	Virginia	Advisor	1.03
USAA College Savings Plan	Nevada	Direct	0.97
DC College Savings Program	District of Columbia	Advisor or Direct	0.97
EdVest College Savings Plan	Wisconsin	Advisor or Direct	0.96
NJBEST 529 College Savings Plan	New Jersey	Direct	0.93
Mississippi Affordable (Advisor)	Mississippi	Advisor	0.88
Bright Start College Savings (Advisor)	Illinois	Advisor	0.86
College SAVE	North Dakota	Direct	0.85
IDeal - Idaho College Savings Program	Idaho	Direct	0.85
Maryland College Investment Plan	Maryland	Direct	0.84

<b>529 Plan Name</b>	<b>State</b>	<b>Sales Channel</b>	<b>Asset-Weighted Total Expense Ratio %</b>
SMART529 WV Direct College Savings Plan	West Virginia	Direct	0.82
T. Rowe Price College Savings Plan	Alaska	Direct	0.82
UNIQUE College Investing Plan	New Hampshire	Direct	0.79
U.Fund College Investing Plan	Massachusetts	Direct	0.78
Florida College Investment Plan	Florida	Direct	0.75
HI529 - Hawaii's College Savings Program	Hawaii	Direct	0.75
Delaware College Investment Plan	Delaware	Direct	0.75
GIFT College Investing Plan	Arkansas	Direct	0.75
Mississippi Affordable (Direct)	Mississippi	Direct	0.74
Oklahoma College Savings Plan	Oklahoma	Direct	0.74
SMART529 Select College Savings Plan	West Virginia	Direct	0.73
LearningQuest 529 Program (Direct)	Kansas	Direct	0.72
The Education Plan	New Mexico	Direct	0.68
Texas College Savings Plan	Texas	Direct	0.65
Fidelity Arizona College Savings Plan	Arizona	Direct	0.65
iShares 529 Plan	Arkansas	Advisor	0.62
Path2College 529 Plan	Georgia	Direct	0.57
Kentucky Education Savings Plan Trust	Kentucky	Direct	0.57
The Upromise College Fund 529 Plan	Nevada	Direct	0.57
MOST Missouri's 529 Plan (Direct)	Missouri	Direct	0.57
Vermont Higher Education Investment Plan	Vermont	Direct	0.54
Oregon College Savings Plan	Oregon	Direct	0.53
Pennsylvania 529 Investment Plan	Pennsylvania	Direct	0.53
Future Scholar 529 (Direct)	South Carolina	Direct	0.52
CollegeChoice 529 Direct Savings Plan	Indiana	Direct	0.51
Connecticut Higher Education Trust	Connecticut	Direct	0.51
Minnesota College Savings Plan	Minnesota	Direct	0.46
Bright Start College Savings (Direct)	Illinois	Direct	0.46
National College Savings Program	North Carolina	Direct	0.45
Virginia Education Savings Trust	Virginia	Direct	0.42
CollegInvest Direct Portfolio	Colorado	Direct	0.42
Michigan Education Savings Program	Michigan	Direct	0.40
ScholarShare College Savings Plan	California	Direct	0.37
College Savings Iowa 529 Plan	Iowa	Direct	0.34
CollegeAdvantage 529 Savings Plan	Ohio	Direct	0.29
The Vanguard 529 College Savings Plan	Nevada	Direct	0.28
Utah Education Savings Plan	Utah	Direct	0.28
New York's 529 Program (Direct)	New York	Direct	0.25

Data as of 9/30/10 Source: Morningstar, Inc.

# Parent

The term "parent" in the 529 plan context usually refers to the individual investor who is saving on behalf of a child to offset college expenses. But Morningstar uses Parent when referring to the organization responsible for overseeing a set of investments--usually the asset-management company that runs a family of mutual funds. Morningstar scrutinizes Parents because they have a big impact on the investor experience, specifically whether investors' interests come before the Parent's own profits. Studies of Morningstar's Stewardship Grades for mutual funds, which measure how well funds care for investor capital, have found that fund firms that are focused on serving investors well have outperformed their peers and attracted more assets.

With 529 plans, several parties take on the parent role. There's the state offering the plan, which selects the investment provider and plan administrator (a party known as the program manager in 529-speak). Program managers are often asset-management companies or a division within the money manager. Oppenheimer's 529 plan management group is OFI Private Investments, which is a subsidiary of Oppenheimer, while Allianz Global Investors' is Allianz Global Investors Distributors LLC. There's also Upromise, a company that serves as the program manager for 18 529 plans and often features Vanguard-run investment options within its plans.

States choose program managers for their 529 plans through a public bidding process. States often use consultants or other investment analysts--like individuals associated with running the state's public pension--to help evaluate the bids. Once the state selects a program manager, the parties negotiate contracts of varying lengths, normally around seven years but sometimes as long as 15 years. The contracts specify how the program will be run, which party is responsible for marketing the plan to local investors, and how the investment options will be selected and monitored.

The multiyear contracts are important to the program managers, which often build and maintain account support and administrative systems that are exclusive to their 529 business. Yet the contracts leave the states at risk should their relationships with the program managers sour due to underperformance or lackluster asset growth. As a result of the former risk in particular, more-recent 529 plan-management contracts include specific details on monitoring investment performance and circumstances in which an investment option can be dumped.

A few asset managers are particularly prominent among 529 plans for running a very large single plan--as the American Funds does in Virginia--or running assets in several states--as is the case with Vanguard. Some of the program managers that were early to 529s, including

Oppenheimer and Putnam, are less prominent today because of performance problems among their 529 investment options.

### **Taking a Stewardship Test**

Morningstar maintains that, with any long-term investment, it's important to consider the asset-management company's stewardship practices--specifically, how well it has cared for investors' capital and how likely the asset manager is to put fundholders' own interests before corporate profits. The stewardship test is especially important for 529 plans because college savers may have a 20-plus year investing relationship with a single plan. What's more, the financial cost (not to mention emotional cost) of partnering with a poor steward of capital may be particularly high because college savers have little time to recover from a misstep.

In determining a 529 plan's overall Analyst Rating, Morningstar analyzed the program manager's stewardship practices. Many 529 program managers are asset-management companies that Morningstar knows well and has evaluated as part of Morningstar's Stewardship Grades for mutual funds. Specifically, in assigning the Stewardship Grades, Morningstar analyzes funds in five areas: corporate culture, fund board independence, fund manager compensation, fees, and regulatory history. Funds that earn the best Stewardship Grades consistently demonstrate industry best practices and have a strong history of putting fundholders before corporate profits. Their fund managers are likely to spend their careers at the firm, executing a repeatable investment process and investing their own money alongside shareholders' in the funds they run. Top stewards' communications with shareholders are straightforward and clearly explain a fund's successes and failures. Morningstar's methodology also favors independent fund boards who consistently act in shareholders' best interest by negotiating low expense ratios and signing off on an easy-to-own lineup of funds.

Some of the top 529 managers, as measured by assets under management, have top Stewardship Grades from Morningstar, including American Funds and T. Rowe Price, and that helped those 529 plans earn a Top Morningstar Analyst Rating.

## 19. Program Managers' Average Morningstar Stewardship Grades

<b>Program Manager Name</b>	<b>Total Assets Under Management \$</b>	<b>Average Morningstar Stewardship Grade</b>
American Funds	27,708,465,741	A
Upromise Investments, Inc.	20,033,272,407	N/A
Fidelity Investments	15,444,243,156	C
AllianceBernstein LP	6,769,018,491	D
TIAA Tuition Financing, Inc.	6,309,343,190	C
Wells Fargo Funds Management LLC	6,174,587,369	D
T. Rowe Price Associates, Inc.	5,573,487,319	A
Merrill Lynch Investment Managers, LP	4,852,489,937	N/A
OFI Private Investments Inc	4,516,949,381	N/A
Vanguard Group, Inc.	3,857,993,751	B
Utah Educational Savings Plan	3,184,046,523	N/A
Union Bank & Trust Company	2,685,700,277	N/A
American Century Investment Management, Inc.	2,339,189,127	C
Legg Mason Global Asset Allocation, LLC	2,233,112,879	B
Franklin Advisers, Inc.	1,432,134,413	B
Hartford Life Insurance Company	1,251,927,954	N/A
B of A Advisors LLC	1,126,786,173	C
Virginia College Savings Plan	1,124,157,459	N/A
Allianz Global Investors Fund Management LLC	779,579,972	C
Pennsylvania Treasury Department	734,930,428	N/A
MFS	610,281,465	B
College Foundation, Inc.	598,724,243	N/A
Waddell & Reed Investment Management Co	353,338,867	N/A
Florida Prepaid College Board	192,755,355	N/A
Calvert Asset Management Co Inc	136,184,872	N/A
BlackRock Advisors, LLC	37,172,770	B

Data as of 9/30/10 Source: Morningstar, Inc.

In cases where a 529 program manager does not receive a Stewardship Grade, Morningstar's analysts studied how well the program manager has treated its shareholders in the past. Specifically, the analysts looked to see whether the program manager hired top-quality asset managers to run the 529 plan's assets, whether it charged fair fees, and whether its disclosure to participants has been open and straightforward. This analysis helped shape the overall Morningstar Analyst Rating for the plans.



# People

There are broad casts of characters behind 529 college-savings plans. State officials, boards of directors, investment consultants, plan administrators, and asset managers all contribute to the plan's structure, investment lineup, and cost. Because each plan is designed and run differently, it's difficult to compare one cast of characters with another.

As part of its 2010 research into 529 plans, Morningstar analysts interviewed more of the people behind each 529 plan--specifically, representatives from the program manager as well as the states that hired them. These discussions didn't necessarily make the casts of characters easier to compare, but they gave great insight into how and where investment decisions are made and how those decisions may ultimately influence the college saver's experience with the 529 plan.

In helping determine a 529 plan's overall Morningstar Analyst Rating, however, Morningstar's analysts relied predominantly on their knowledge of the fund managers running the investment options inside the 529 plans. Evaluating the personnel behind a 529 plan incorporates qualitative and quantitative analysis. Among the quantitative inputs is the experience of the managers running the 529 investment options and the likelihood that they'll be running the options over the long term. Investors who pick plans with experienced managers can have more confidence that there will be fewer disruptions to their investments and perhaps better returns.

Managers running 529 investment options have been managing similar funds for about a decade--9.8 years, on average. That's longer than the average mutual fund's manager tenure of 6.3 years. At 16.24 years, InvestEd 529 Education Savings Plan of Arizona has the industry's longest average tenure, giving investors in this plan confidence that its managers are experienced. On the flip side, several plans run by TIAA-CREF's 529 management company are among the lowest in terms of average manager tenure. Because many of those TIAA-CREF 529 plans feature mostly indexed funds, college savers shouldn't be too concerned about those plans' relatively lower average tenure. Experienced managers are most relevant when it comes to executing active strategies well.

## 20. Average Manager Tenure for Strategies Included in 529 Plans

<b>State</b>	<b>529 Plan Name</b>	<b>Program Manager</b>	<b>Average Manager Tenure Years</b>
Arizona	InvestEd 529 Education Savings Plan	Waddell & Reed Investment Management Co	16.24
New Jersey	Franklin Templeton 529 College Savings Plan	Franklin Advisers, Inc.	14.61
Indiana	CollegeChoice Advisor 529 Savings Plan	Upromise Investments, Inc.	14.34
Virginia	Virginia Education Savings Trust	Virginia College Savings Plan	14.21
New Jersey	NJBEST 529 College Savings Plan	Franklin Advisers, Inc.	14.17
North Carolina	National College Savings Program	College Foundation, Inc.	12.73
Nebraska	College Savings Plan of Nebraska	Union Bank & Trust Company	12.72
Nebraska	TD Ameritrade 529 College Savings Plan	Union Bank & Trust Company	12.72
Maryland	Maryland College Investment Plan	T. Rowe Price Associates, Inc.	12.70
Kansas	LearningQuest 529 Program (Direct)	American Century Inv Mgt, Inc.	12.35
Alaska	University of Alaska College Savings Plan	T. Rowe Price Associates, Inc.	12.24
Alaska	T. Rowe Price College Savings Plan	T. Rowe Price Associates, Inc.	12.24
New Mexico	Scholar'sEdge	OFI Private Investments Inc	11.90
Missouri	MOST Missouri's 529 College Savings Plan	Upromise Investments, Inc.	11.73
Alabama	CollegeCounts 529 Fund	Union Bank & Trust Company	11.71
Nevada	The Vanguard 529 College Savings Plan	Upromise Investments, Inc.	11.54
Illinois	Bright Directions College Savings Program	Union Bank & Trust Company	11.40
Iowa	Iowa Advisor 529 Plan	Upromise Investments, Inc.	11.27
Rhode Island	CollegeBoundfund	AllianceBernstein LP	11.25
Virginia	CollegeAmerica	American Funds	11.25
Texas	Texas College Savings Plan	OFI Private Investments Inc	11.15
District of Columbia	DC College Savings Program	Calvert Asset Management Co Inc	11.05
New Mexico	The Education Plan	OFI Private Investments Inc	10.96
Wisconsin	EdVest College Savings Plan	Wells Fargo Funds Management LLC	10.88
Missouri	MOST Missouri's 529 Advisor Plan	Upromise Investments, Inc.	10.87
Massachusetts	U.Fund College Investing Plan	Fidelity Investments	10.84
Delaware	Delaware College Investment Plan	Fidelity Investments	10.81
New Hampshire	UNIQUE College Investing Plan	Fidelity Investments	10.81
New Hampshire	Fidelity Advisor 529 Plan	Fidelity Investments	10.77
California	ScholarShare College Savings Plan	Fidelity Investments	10.72
Arizona	Fidelity Arizona College Savings Plan	Fidelity Investments	10.72
California	ScholarShare Advisor College Savings Plan	Fidelity Investments	10.70
Ohio	CollegeAdvantage 529 Savings Plan	Vanguard Group, Inc.	10.67
New York	New York's 529 Program (Direct)	Upromise Investments, Inc.	10.66
Kansas	LearningQuest 529 Program (Advisor)	American Century Inv Mgt, Inc.	10.63
Utah	Utah Education Savings Plan	Utah Educational Savings Plan	10.45
Illinois	Bright Start College Savings (Advisor)	OFI Private Investments Inc	10.44
Nebraska	State Farm College Savings Plan	Union Bank & Trust Company	10.27
Kansas	Schwab 529 College Savings Plan	American Century Inv Mgt, Inc.	10.25
Indiana	CollegeChoice 529 Direct Savings Plan	Upromise Investments, Inc.	10.06
Maine	NextGen College Investing Plan	Merrill Lynch Investment Managers, L.P	10.03
Texas	LoneStar 529 Plan	OFI Private Investments Inc	9.78

<b>State</b>	<b>529 Plan Name</b>	<b>Program Manager</b>	<b>Average Manager Tenure Years</b>
Colorado	Scholars Choice College Savings Program	Legg Mason Global Asset Allocation, LLC	9.59
West Virginia	SMART529 Select College Savings Plan	Hartford Life Insurance Company	9.46
Arkansas	The GIFT College Investing Plan	Upromise Investments, Inc.	9.43
Idaho	IDeal - Idaho College Savings Program	Upromise Investments, Inc.	9.43
New York	New York's 529 Program (Advisor)	Upromise Investments, Inc.	9.42
South Dakota	CollegeAccess 529	Allianz Global Inv Fund Mgmt LLC	9.30
South Carolina	Future Scholar 529 (Advisor)	B of A Advisors LLC	9.28
Nevada	Columbia 529 Plan	Upromise Investments, Inc.	9.25
Iowa	College Savings Iowa 529 Plan	Vanguard Group, Inc.	9.23
Oregon	MFS 529 Savings Plan	MFS	9.16
Wisconsin	Tomorrow's Scholar College Savings Plan	Wells Fargo Funds Management LLC	9.10
Nevada	USAA College Savings Plan	Upromise Investments, Inc.	8.86
Illinois	Bright Start College Savings (Direct)	OFI Private Investments Inc	8.79
Nevada	The Upromise College Fund 529 Plan	Upromise Investments, Inc.	8.71
Hawaii	HI529 - Hawaii's College Savings Program	Upromise Investments, Inc.	8.53
South Carolina	Future Scholar 529 (Direct)	B of A Advisors LLC	8.45
Pennsylvania	Pennsylvania 529 Investment Plan	Pennsylvania Treasury Department	8.38
Oklahoma	OklahomaDream529	TIAA Tuition Financing, Inc.	8.38
Colorado	Collegelvest Direct Portfolio	Upromise Investments, Inc.	8.36
Alaska	John Hancock Freedom 529	T. Rowe Price Associates, Inc.	8.34
North Dakota	College SAVE	Upromise Investments, Inc.	8.12
West Virginia	SMART529 WV Direct College Savings Plan	Hartford Life Insurance Company	8.01
Ohio	BlackRock CollegeAdvantage 529 Plan	BlackRock Advisors, LLC.	7.73
West Virginia	The Hartford SMART529 College Savings Plan	Hartford Life Insurance Company	7.71
Oregon	Oregon College Savings Plan	TIAA Tuition Financing, Inc.	7.63
Michigan	MI 529 Advisor	TIAA Tuition Financing, Inc.	7.20
Michigan	Michigan Education Savings Program	TIAA Tuition Financing, Inc.	5.98
Vermont	Vermont Higher Education Investment Plan	TIAA Tuition Financing, Inc.	5.98
Oklahoma	Oklahoma College Savings Plan	TIAA Tuition Financing, Inc.	5.97
Minnesota	Minnesota College Savings Plan	TIAA Tuition Financing, Inc.	5.86
Connecticut	Connecticut Higher Education Trust	TIAA Tuition Financing, Inc.	5.81
Mississippi	Mississippi Affordable (Advisor)	TIAA Tuition Financing, Inc.	5.80
Kentucky	Kentucky Education Savings Plan Trust	TIAA Tuition Financing, Inc.	5.57
Mississippi	Mississippi Affordable (Direct)	TIAA Tuition Financing, Inc.	5.57
Montana	Pacific Life Funds 529 College Savings Plan	Pacific Life	5.38
Georgia	Path2College 529 Plan	TIAA Tuition Financing, Inc.	5.30
Arkansas	iShares 529 Plan	Upromise Investments, Inc.	4.51

Data as of 9/30/10 Source: Morningstar, Inc.

Morningstar also looks to see whether investment managers are likely to stay with their current employer. Asset managers with high five-year manager-retention rates have very little turnover among the named managers on its mutual funds. Investors in funds run by firms with high manager-retention rates can have some confidence that their manager will stick around and may be less likely to skip to a competitor down the street. It's no coincidence that some of the program managers with high manager-retention rates in the table above also have relatively

high firmwide manager-retention rates. Waddell & Reed, the InvestEd program manager with an industry-high average manager tenure of 16.24 years, also has a firmwide five-year manager-retention rate of 95.72%, indicating that managers at Waddell & Reed certainly stick around for the long haul.

Also among the 529 plans with the most-experienced managers is CollegeAmerica, the Virginia-based plan that's managed by American Funds and earns Morningstar's Top Analyst Rating. It's common for American Funds managers to spend their careers at the firm, investing in American's high-conviction, low-turnover style. The firm's five-year manager-retention rate is the highest among the industry's largest mutual fund managers. T. Rowe Price, which runs two plans rated Top by Morningstar, also has a high five-year manager-retention rate.

## 21. Program Managers' Five-Year Manager-Retention Rates

<b>Program Manager Name</b>	<b>Total Assets Under Management \$</b>	<b>Firmwide Five-Year Manager-Retention Rate %</b>
American Funds	27,708,465,741	98.71
Waddell & Reed Investment Management Co	353,338,867	95.72
T. Rowe Price Associates, Inc.	5,573,487,319	94.64
Vanguard Group, Inc.	3,857,993,751	92.59
Franklin Advisers, Inc.	1,432,134,413	91.17
Wells Fargo Funds Management LLC	2,191,360,324	90.94
AllianceBernstein LP	6,769,018,491	88.23
Legg Mason Global Asset Allocation, LLC	2,233,112,879	87.52
American Century Investment Management, Inc.	2,339,189,127	87.17
Hartford Life Insurance Company	1,251,927,954	87.15
MFS	610,281,465	86.40
TIAA Tuition Financing, Inc.	6,309,343,190	86.28
Fidelity Investments	15,444,243,156	85.59
B of A Advisors LLC	1,126,786,173	84.90
BlackRock Advisors, LLC.	37,172,770	84.70
Calvert Asset Management Co Inc	136,184,872	84.28
Allianz Global Investors Fund Management LLC	779,579,972	84.00
Upromise Investments, Inc.	20,033,272,407	N/A
Merrill Lynch Investment Managers, LP	4,852,489,937	N/A
OFI Private Investments Inc	4,516,949,381	N/A
Utah Educational Savings Plan	3,184,046,523	N/A
Union Bank & Trust Company	2,685,700,277	N/A
Virginia College Savings Plan	1,124,157,459	N/A
Pennsylvania Treasury Department	734,930,428	N/A
College Foundation, Inc.	598,724,243	N/A
Florida Prepaid College Board	192,755,355	N/A

Data as of 9/30/10 Source: Morningstar, Inc.

# Morningstar Analyst Ratings for 529 College-Savings Plans

Morningstar evaluated 529 plans in five different areas--Portfolio, Performance, Price, Parent, and People--to determine an overall analyst rating.

## Top

Plans that earn the Top rating are best-in-class across all five areas. The plan's investment options are easy to own and are run by experienced managers who work for firms with excellent stewardship practices. These plans have performed well given their strategies and charge a fair price. These plans are leading choices for investors who live in the states where the plans are based, and they're also good choices for investors doing a nationwide search, particularly if they plan to save tens of thousands in a 529 account and therefore have less incentive to stick with an in-state plan.

## 22. Morningstar 529 Plan Analyst Rating--Top

State	Plan Name	Sales Channel
Alaska	T. Rowe Price College Savings Plan	Direct
Maryland	Maryland College Investment Plan	Direct
Nevada	The Vanguard 529 College Savings Plan	Direct
Ohio	CollegeAdvantage 529 Savings Plan	Direct
Virginia	CollegeAmerica	Advisor

Source: Morningstar, Inc.

## Above Average

These plans are better-run than a typical 529 plan, but they have some practices that prevent them from earning a Top rating, such as higher fees or a few investment options with poor track records or stewardship practices. These plans are very strong choices for in-state residents, and in some cases they may be worthy of consideration by nonresidents.

## 23. Morningstar 529 Plan Analyst Rating--Above Average

State	Plan Name	Sales Channel
Alaska	John Hancock Freedom 529	Advisor
Arkansas	iShares 529 Plan	Advisor
Colorado	CollegInvest Direct Portfolio	Direct
Illinois	Bright Directions College Savings Program	Advisor
Illinois	Bright Start College Savings (Direct)	Direct
Iowa	College Savings Iowa 529 Plan	Direct
Kansas	LearningQuest 529 Program (Direct)	Direct
Maine	NextGen College Investing Plan	Advisor & Direct
Michigan	Michigan Education Savings Program	Direct
Nevada	USAA College Savings Plan	Direct
New York	New York's 529 Program (Direct)	Direct
North Carolina	National College Savings Program	Direct
South Dakota	CollegeAccess 529	Advisor & Direct
Utah	Utah Education Savings Plan	Direct
Virginia	Virginia Education Savings Trust	Direct

Source: Morningstar, Inc.

### Average

There's nothing wrong with investing in a plan that earns Morningstar's Average rating, particularly if an investor is sticking with a local plan to take advantage of in-state tax benefits and probably isn't going to save more than \$20,000 for a beneficiary. To be sure, Average plans aren't best-in-class in all areas. Usually, the quality of their investments is fine but not outstanding. Some Average plans' fees are too high--especially absent tax breaks from the state.

## 24. Morningstar 529 Plan Analyst Rating--Average

State	Plan Name	Sales Channel
Alabama	CollegeCounts 529 Fund	Advisor & Direct
Arizona	InvestEd 529 Education Savings Plan	Advisor
California	ScholarShare College Savings Plan	Direct
Colorado	Scholars Choice College Savings Program	Advisor
Connecticut	Connecticut Higher Education Trust	Direct
Delaware	Delaware College Investment Plan	Direct
Illinois	Bright Start College Savings (Advisor)	Advisor
Indiana	CollegeChoice 529 Direct Savings Plan	Direct
Kansas	Schwab 529 College Savings Plan	Direct
Massachusetts	U.Fund College Investing Plan	Direct
Minnesota	Minnesota College Savings Plan	Direct
Missouri	MOST Missouri's 529 Plan (Advisor)	Advisor
Missouri	MOST Missouri's 529 Plan (Direct)	Direct
Nebraska	College Savings Plan of Nebraska	Advisor & Direct
Nebraska	TD Ameritrade College Savings Plan	Direct
New Hampshire	Fidelity Advisor 529 Plan	Advisor
New Hampshire	UNIQUE College Investing Plan	Direct

State	Plan Name	Sales Channel
New Jersey	Franklin Templeton 529 Coll Savings Plan	Advisor
New Jersey	NJBEST 529 College Savings Plan	Direct
New Mexico	Scholar'sEdge	Advisor
New York	New York's 529 Program (Advisor)	Advisor
Ohio	BlackRock CollegeAdvantage 529 Plan	Advisor
Oklahoma	Oklahoma College Savings Plan	Direct
Oregon	MFS 529 Savings Plan	Advisor
Oregon	Oregon College Savings Plan	Direct
Pennsylvania	Pennsylvania 529 Investment Plan	Direct
South Carolina	Future Scholar 529 (Advisor)	Advisor
West Virginia	The Hartford SMART529	Advisor
Wisconsin	EdVest College Savings Plan	Advisor & Direct

Source: Morningstar, Inc.

### Below Average

In Morningstar's view, Below Average 529 plans are unlikely to keep up with the industry average over the life of the investment. Plans that earn this rating typically have weaker investment-option lineups or fees that the investment is unlikely to overcome and outperform. Morningstar may also have concerns about the program manager's stewardship practices.

#### 25. Morningstar 529 Plan Analyst Rating--Below Average

State	Plan Name	Sales Channel
Georgia	Path2College 529 Plan	Direct
Nevada	The Upromise College Fund 529 Plan	Direct
Wisconsin	Tomorrow's Scholar College Savings Plan	Advisor

Source: Morningstar, Inc.

### Bottom

Plans earning a Bottom rating are to be avoided, in Morningstar's view. These plans' investment lineups are likely weak, the program manager's stewardship practices may be questionable, and the options' fees are probably high. If a state's only 529 plan earns a Bottom rating, investors are probably better off leaving the local option for a Top or Above Average plan, which will likely outperform over the long term.

#### 26. Morningstar 529 Plan Analyst Rating--Bottom

State	Plan Name	Sales Channel
Rhode Island	CollegeBoundfund	Advisor & Direct

Source: Morningstar, Inc.