
529 College-Savings Plan Landscape, 2016 Update



Leo Acheson, Senior Analyst, Multiasset Class Strategies

Toll Free Number: +1 800 857-0145

Participant Passcode: 7297880

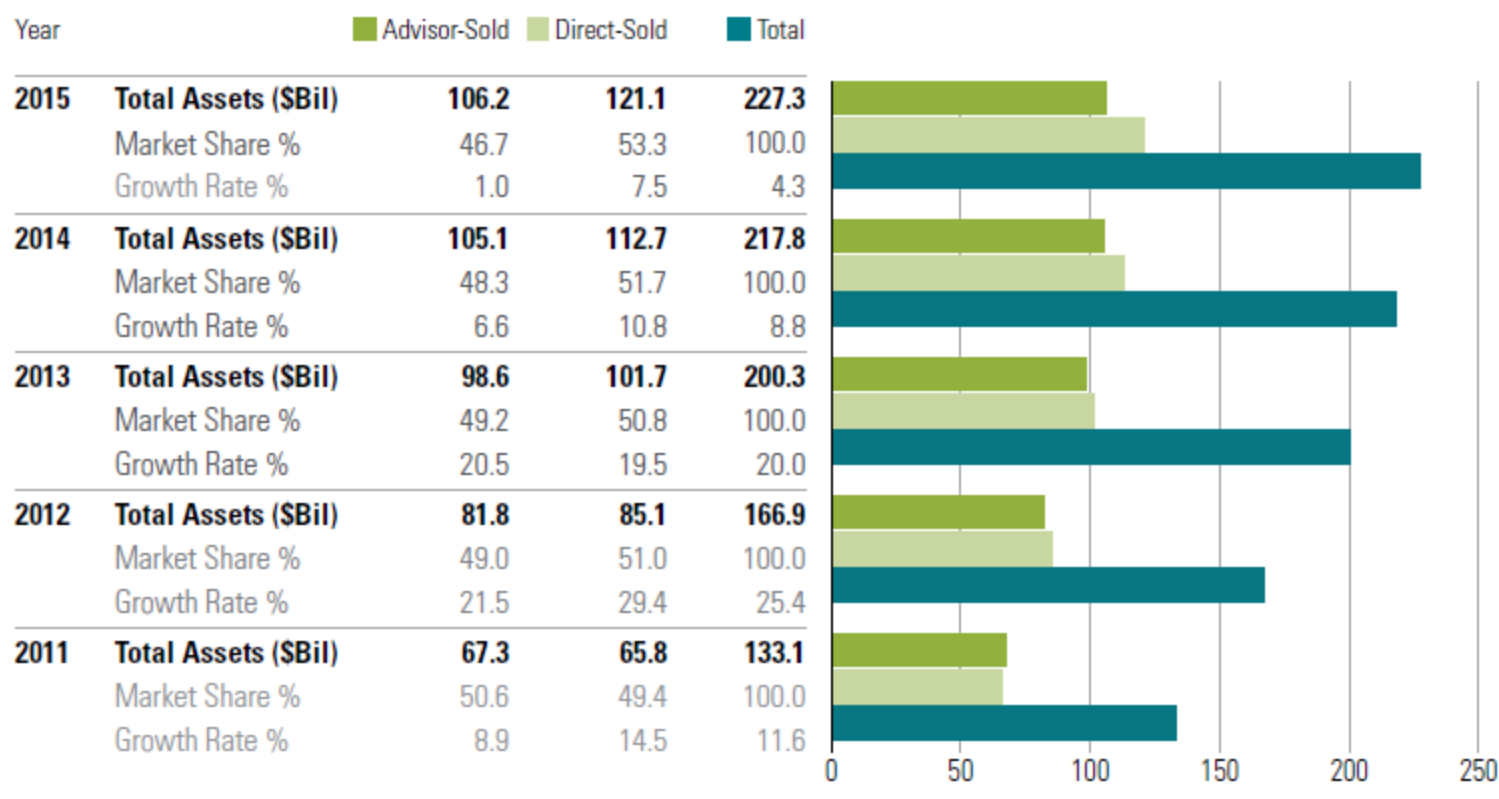
Morningstar 529 Research

- ▶ Annual research schedule:
 - ▷ **May:** Release white paper on industry trends and various topics we view as pressing within the industry
 - ▷ **October:** Issue ratings and research on more than 60 529 plans
- ▶ Data on more than 4,500 529 investment options
 - ▷ Morningstar Categories
 - ▷ Morningstar Ratings

Industry Size and Flows

529 Industry Total Assets and Market Share by Direct-Sold and Advisor-Sold

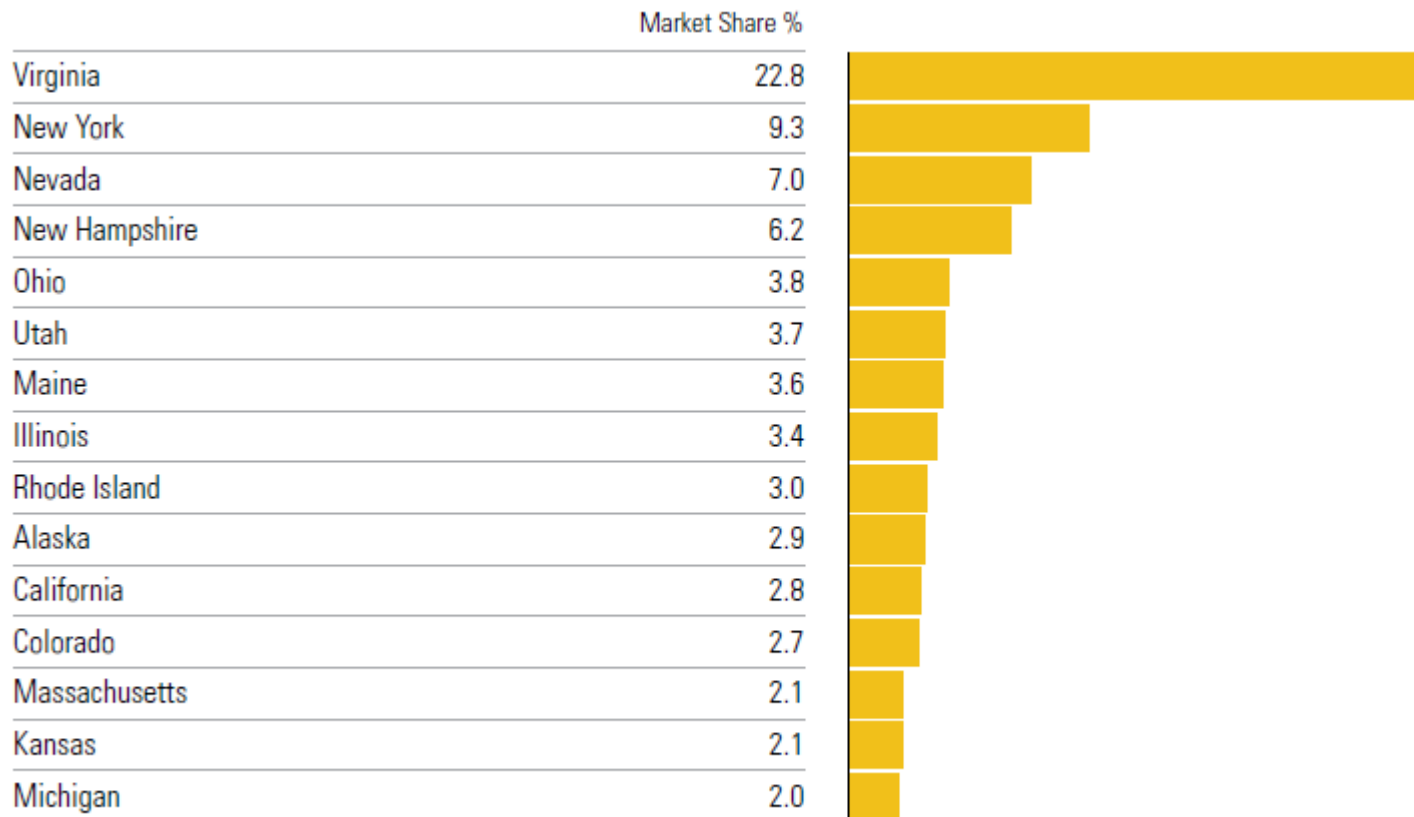
- ▶ Assets have nearly doubled over the past five years, reaching a record-high \$227 billion. Assets stood at just \$200 billion in 1998.
- ▶ Direct-sold plans continue to take market share from advisor-sold plans and now represent 53% of the industry's assets.



Source: Morningstar, Inc. Data as of 12/31/15.

Top 15 States by 529 Plan Market Share %

- ▶ One might expect assets under management to correlate with the state's population, but that isn't necessarily the case.



Source: Morningstar, Inc. Data as of 12/31/15.

Top 10 Program Managers by 529 Plan Market Share %

- ▶ A number of program managers have created bona fide 529 businesses.

Top 10 Program Managers	Overall 529 Industry	
	Assets (\$Bil)	529 Plan Market Share %
American Funds	48.7	21.4
Ascensus	46.4	20.4
TIAA Tuition Financing, Inc.	22.4	9.9
Fidelity Investments	20.0	8.8
T. Rowe Price Associates, Inc.	10.2	4.5
Utah Educational Savings Plan	8.5	3.7
Merrill Lynch Pierce Fenner & Smith	8.2	3.6
OFI Private Investments Inc	7.9	3.5
AllianceBernstein LP	6.8	3.0
American Century Inv Mgt Inc	4.8	2.1

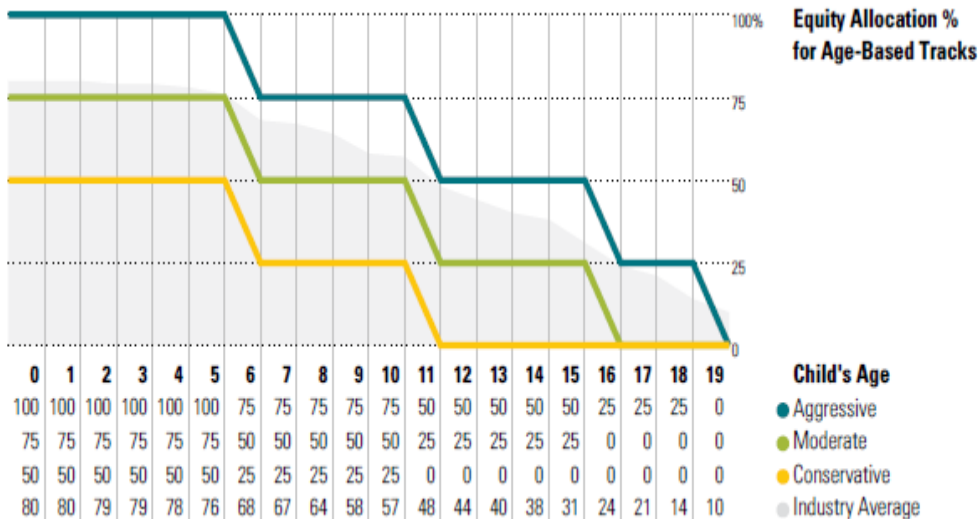
Source: Morningstar, Inc. Data as of 12/31/2015.

Topics of 2016's Landscape Paper

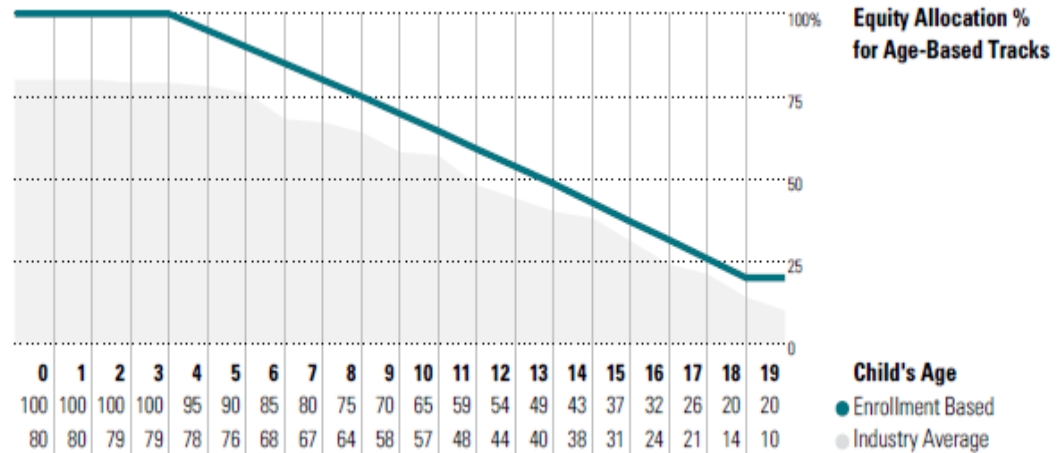
Topic: Stepping and Sliding Down the Asset-Allocation Glide Path

- ▶ About 80% of plans use a stepped (fixed) asset-allocation glide path that moves somewhat abruptly from equities to bonds and thus courts market-timing risk. We favor the smoother rebalancing process of age-based progressive portfolios.

Age-Based Fixed



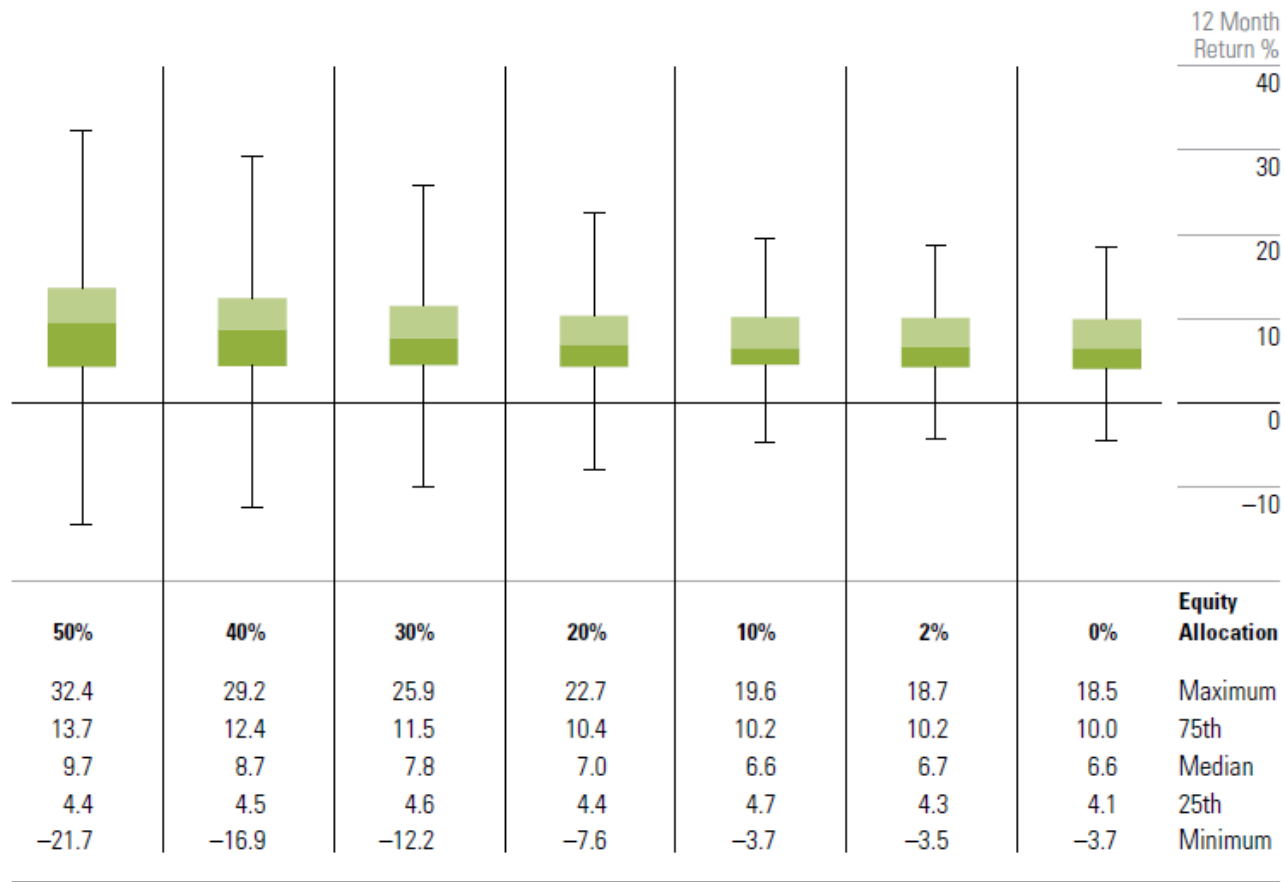
Age-Based Progressive



Topic: Stepping and Sliding Down the Asset-Allocation Glide Path (Cont.)

- ▶ Over longer periods, such as 18 years, a stepped or smooth glide path may not result in a very noticeable difference in ending balances. However, the smoother rebalancing process offers investors more peace of mind in shorter-term market fluctuations and drops.

Range of 12-Month Rolling Returns for Various Equity Allocations of Age-Based 529 Portfolios, from Jan. 1, 1986, to Dec. 31, 2015.



Source: Morningstar, Inc.

Topic: Stepping and Sliding Down the Asset-Allocation Glide Path (Cont.)

- ▶ Large allocation changes remain present within 529 plans' age-based tracks.
 - ▶ 23 tracks with 10% to 19% steps
 - ▶ 67 tracks with 20% to 29% steps
 - ▶ Five tracks with 30% to 39% steps
 - ▶ Nine tracks with 40% to 49% steps
 - ▶ Two tracks with 50% or greater steps

Topic: Not All Asset-Allocation Teams Are Created Equal

- ▶ The five largest managers of target-date mutual fund assets—Vanguard, Fidelity, T. Rowe Price, J.P. Morgan, and American Funds—each have a presence in the 529 market and rely on the same asset-allocation team for both approaches.

Issuing State	Plan Name	Distribution Channel	Investment Manager	529 Plan Assets (\$Bil)	% of 529 Industry Assets
NY	New York's 529 Program (Direct)	Direct	Vanguard	17.5	7.7
NV	The Vanguard 529 College Savings Plan	Direct		11.8	5.2
IA	College Savings Iowa 529 Plan	Direct		4.0	1.8
CO	CollegInvest Direct Portfolio	Direct		2.5	1.1
MO	MOST Missouri's 529 Plan	Direct		2.3	1.0
NC	National College Savings Program	Direct		1.7	0.7
ND	College SAVE	Direct		0.4	0.2
ID	IDeal - Idaho College Savings Program	Direct		0.3	0.1
AR	GIFT College Investing Plan	Direct		0.3	0.1
NH	UNIQUE College Investing Plan	Direct	Fidelity	9.9	4.4
MA	U.Fund College Investing Plan	Direct		4.8	2.1
NH	Fidelity Advisor 529 Plan	Advisor		4.2	1.9
DE	Delaware College Investment Plan	Direct		0.6	0.3
AZ	Fidelity Arizona College Savings Plan	Direct		0.4	0.2
AK	John Hancock Freedom 529	Advisor	T. Rowe Price	4.2	1.8
MD	Maryland College Investment Plan	Direct		3.5	1.6
AK	T. Rowe Price College Savings Plan & University of Alaska Coll Savings Plan*	Direct		2.5	1.1
NY	New York's 529 Program (Advisor-Guided)	Advisor	JPMorgan	3.6	1.6
VA	CollegeAmerica	Advisor	American Funds	48.7	21.4

Source: Morningstar, Inc. Data as of 12/31/2015.

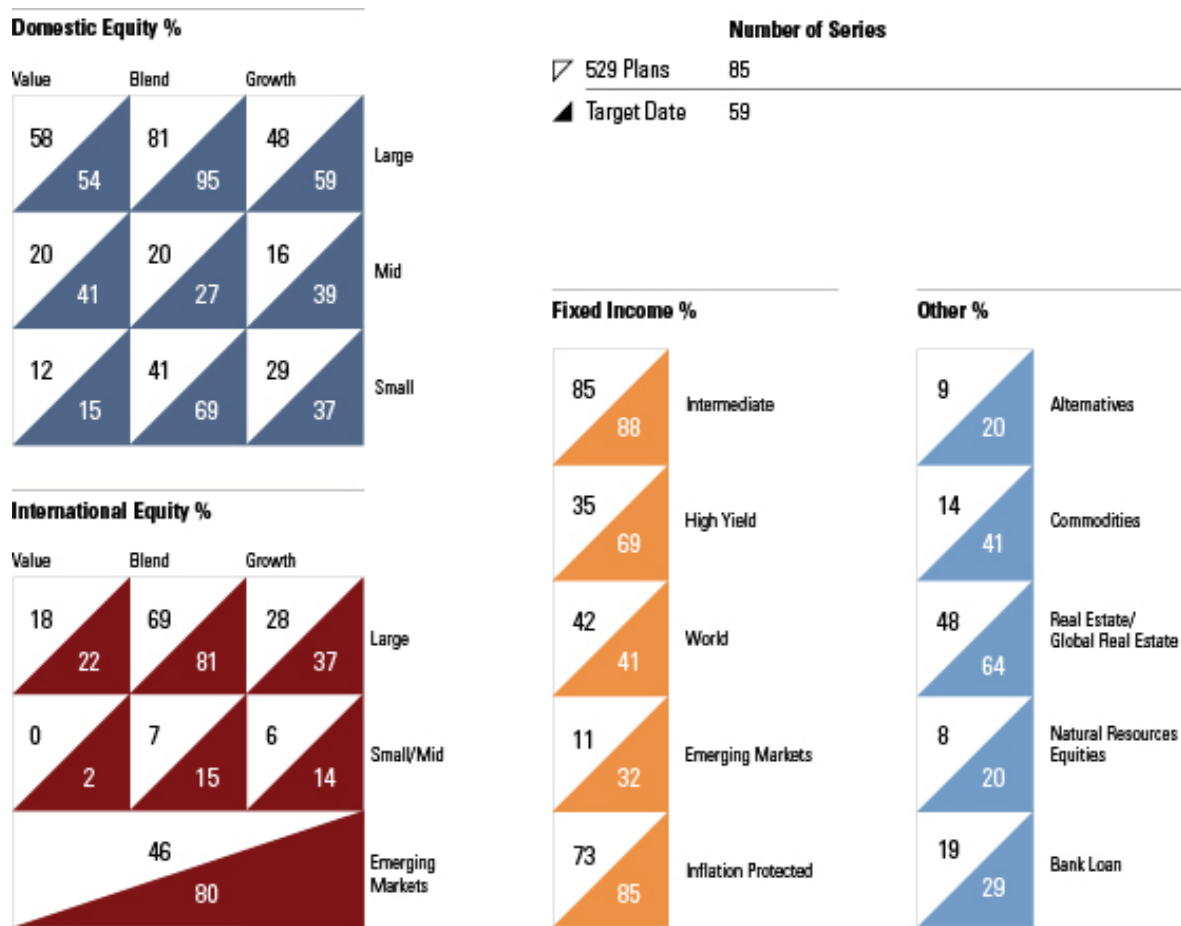
*T. Rowe Price manages these plans similarly and does not disclose assets separately.

Topic: Not All Asset-Allocation Teams Are Created Equal (Cont.)

- ▶ Other plans use investment managers that don't run target-date mutual funds.
 - ▶ TIAA Tuition Financing, a subsidiary of TIAA, serves as program manager for 12 plans from 10 different states, most of which bring in consultants to inform the asset-allocation decisions.
 - ▶ Kansas' Schwab 529 College Savings Plan relies on members from Schwab's brokerage side of the business to determine the asset allocation of the age-based portfolios.
 - ▶ Several other notable plans managed by firms without target-date retirement offerings include:
 - ▶ UT Utah Educational Savings Plan (\$8.5B)
 - ▶ IL Bright Start College Savings (Direct) (\$3.8B)
 - ▶ VA Virginia529 invest (\$3.1B)
 - ▶ IL Bright Directions College Savings Program (\$1.9B)
 - ▶ IL Bright Start College Savings (Advisor) (\$1.9B)

Topic: Do Age-Based Funds Draw the Short End of the Diversification Stick?

- ▶ As compared with target-date retirement funds, 529 plans' age-based options tend to have less exposure to more-peripheral asset classes, such as high-yield bonds, alternatives, commodities, and bank loans.



Source: Morningstar, Inc. Data as of 12/31/2015.

Topic: Sizing Up Past Returns

- ▶ The average Morningstar Ratings of funds within the plans' age-based options represents one way to compare risk-adjusted performance among plans.

Direct-Sold Plans

	Average Star Rating	# Portfolios
Top Ten		
FL Florida 529 Savings Plan	4.6	5
IL Bright Start College Savings (Direct)	4.2	12
NY New York's 529 Program (Direct)	4.1	15
OH CollegeAdvantage 529 Savings Plan	4.1	20
MO MOST Missouri's 529 Plan	3.9	15
MD Maryland College Investment Plan	3.9	7
UT Utah Educational Savings Plan	3.9	28
PA Pennsylvania 529 Investment Plan	3.8	15
SC Future Scholar (Direct)	3.8	18
HI Hawaii's College Savings Program	3.8	4

Advisor-Sold Plans*

	Average Star Rating	# Portfolios
AZ Ivy Funds InvestEd 529 Plan	3.7	3
NV Putnam 529 for America	3.2	18
SC Future Scholar 529 (Advisor)	2.5	17
AK John Hancock Freedom 529	2.4	5
OR MFS 529 Savings Plan	2.3	4
CO Scholars Choice College Savings Prog	2.3	12
NH Fidelity Advisor 529 Plan	2.2	11
IL Bright Start College Savings (Advisor)	2.2	6
VA CollegeAmerica	2.2	6
IN CollegeChoice Advisor 529 Savings Plan	2.2	6

Source: Morningstar, Inc. Data as of 12/31/2015. *Only A share classes were included.

Topic: Sizing Up Past Returns (Cont.)

- ▶ To compare total returns across plans, calculate the return that would have been earned in age-based tracks for beneficiaries of various ages (such as 6, 12, and 18 years old).

	State	Plan Name	Track Name	6-Year-Old		12-Year-Old		18-Year-Old	
				6-Year Return	% Rank	6-Year Return	% Rank	6-Year Return	% Rank
Top 10	NY	New York's 529 Program (Direct)	Aggressive	12.61	1	10.29	1	6.64	6
	UT	Utah Educational Savings Plan	Age-Based Aggressive Domestic	12.10	2	9.51	4	7.39	2
	IA	College Savings Iowa 529 Plan	Aggressive Growth	10.07	18	10.16	2	8.07	1
	OH	CollegeAdvantage 529 Savings Plan	Age-Based Aggressive	11.03	5	9.31	5	6.17	17
	IA	College Savings Iowa 529 Plan	Growth	10.15	16	9.03	9	6.83	4
	PA	Pennsylvania 529 Investment Plan	Aggressive	10.14	17	9.09	8	6.57	8
	CO	CollegInvest Direct Portfolio	Age-Based Aggressive	10.49	10	8.88	10	5.89	25
	MD	Maryland College Investment Plan	Enrollment Based	10.22	14	8.57	17	6.19	16
	MO	MOST Missouri's 529 Plan	Aggressive	9.70	25	8.65	16	6.52	9
	UT	Utah Educational Savings Plan	Age-Based Aggressive Global	11.29	4	8.78	13	5.48	33

Source: Morningstar, Inc. Data as of 12/31/2015.

Topic: Plans — and Investors — Keep Lowering Their Fees

- ▶ Investors continue to favor cheaper investment options.

	12/31/2015 %	12/31/2014 %
Advisor	46.6	48.1
Active	39.7	41.3
Blend	4.3	4.3
Passive	2.6	2.5
Direct	53.4	51.9
Active	8.8	9.2
Blend	7.4	7.4
Passive	37.2	35.2

Source: Morningstar, Inc. Data as of 12/31/2015.

Topic: Plans — and Investors — Keep Lowering Their Fees

- ▶ The asset-weighted fee across the industry fell to 0.74% from 0.79% in 2015.
- ▶ Plans continue to cut expenses: The average fee for 529 investment options fell to 1.08% from 1.10% in 2015.

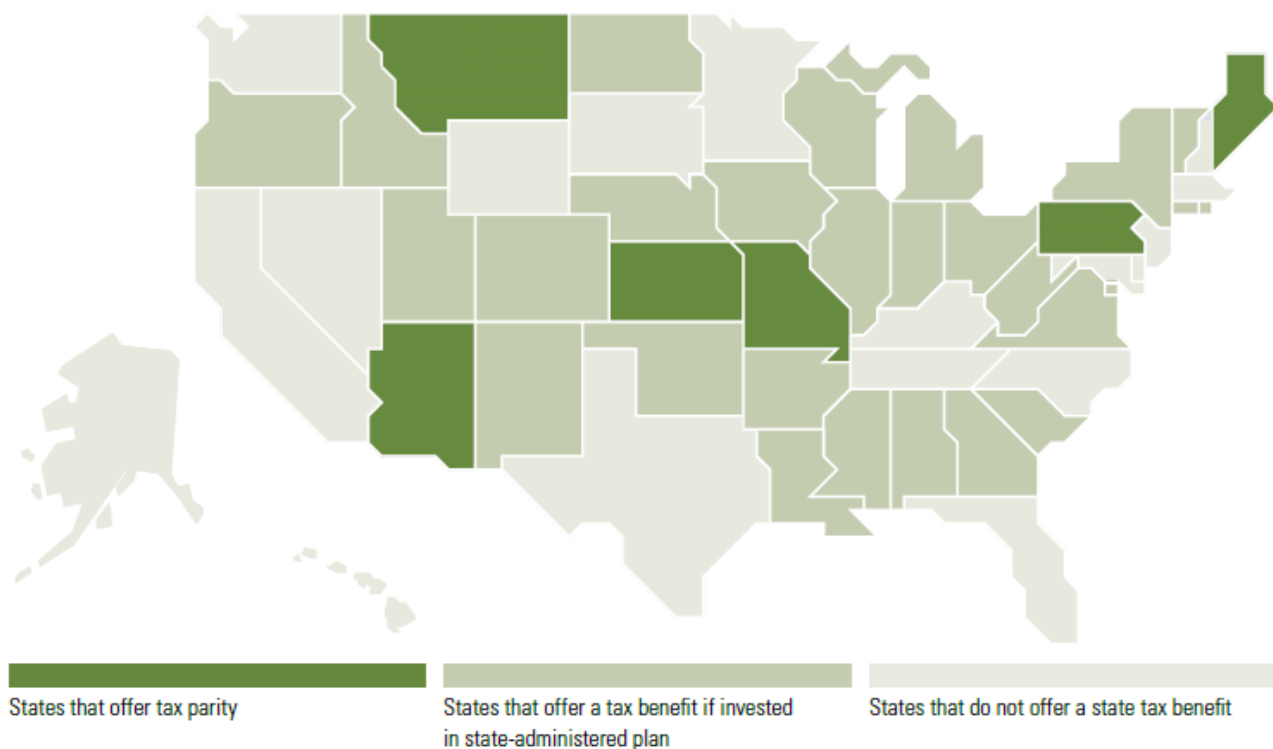
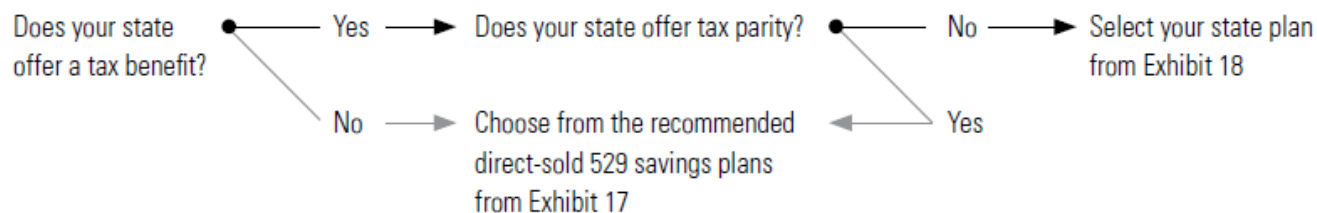
	Straight Average		Asset-Weighted Average	
	2015	2014	2015	2014
Advisor	1.33	1.36	1.13	1.18
Age-Based	1.27	1.28	1.24	1.29
Active	1.30	1.30	1.25	1.30
Blend	1.25	1.30	1.22	1.26
Passive	0.96	0.96	1.00	1.01
Static	1.37	1.41	1.08	1.13
Direct	0.47	0.48	0.39	0.42
Age-Based	0.48	0.49	0.48	0.50
Active	0.89	0.93	0.78	0.78
Blend	0.62	0.61	0.62	0.63
Passive	0.34	0.36	0.26	0.28
Static	0.47	0.47	0.33	0.36
Grand Total	1.08	1.10	0.74	0.79

Source: Morningstar, Inc. Data as of 12/31/2015.

- ▶ Beware of annual maintenance fees, which are charged by 40 of 88 plans.

How to Choose a 529 Plan, Revisited

- ▶ Provides a few discussion topics that can help investors working with advisors ensure that they're getting the most value from their college-savings selections.
- ▶ Offers streamlined decision criteria for selecting an optimal direct-sold plan.



529 Industry Best Practices

Pillar	Criteria Evaluated	Best Practices
Process	The design of the plan's investment options, including the glide path followed by the age-based portfolios and the suite of investment options available.	<p>Feature diversified age-based tracks designed by well-resourced asset allocators with strong track records running similar investments.</p> <p>Glide paths follow either fixed tracks with moderate steps or progressive tracks.</p> <p>Advisors can select from robust static lineups.</p>
People	The underlying money managers that build and execute the plan.	Showcase investments boasting the Morningstar Medalist designation and/or investments from asset managers with Positive Parent Pillar ratings.
Parent	The stewardship and oversight practices of those running and governing college 529 plans.	<p><i>States</i></p> <p>Informed and engaged oversight, with staff focused solely or primarily on administering the state's 529 plan and relatively independent of political influence.</p> <p><i>Program and Asset Managers</i></p> <p>Attractive investment cultures with long-tenured portfolio managers, low fees, and incentive structures that align firms' interests with fund shareholders'.</p>
Price	The cost of the plan's investment options.	<p>Low expense ratios that are equal to or just slightly higher than (5 basis points, for example) comparable open-end funds.</p> <p>Scheduled reduction in program management fees as a plan's asset base increases.</p>
Performance	The plan's risk-adjusted track record and its future prospects.	Investments have delivered strong risk-adjusted results and appear well equipped to repeat past successes.

How Can I Get Access to Morningstar's 529 Research?

- ▶ 529 Analyst Reports and Ratings are available in Morningstar's core software platforms: Morningstar[®] Advisor WorkstationSM, Morningstar OfficeSM, and Morningstar DirectSM.
- ▶ Morningstar[®] ByAllAccountsSM aggregates data from more than 50 plans and delivers it to portfolio accounting systems.
- ▶ Morningstar offers a family of 529 college-savings plan indexes.

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