
Fund Spy**Morningstar Names Best 529 College-Savings Plans for 2014**

By [Kathryn Spica, CFA](#) | 10-21-14 | 09:00 AM | [Email Article](#)

In an annual review of the largest 529 college-savings plans, Morningstar identified 29 plans that rose above their typical peers, awarding those plans Gold, Silver, and Bronze Morningstar Analyst Ratings for 2014.

These forward-looking, qualitative ratings signal Morningstar's conviction in the plans' abilities to outperform their relevant benchmark and peer groups on a risk-adjusted basis over the long term. Morningstar evaluates college-savings plans based on five key pillars--Process, Performance, People, Parent, and Price. Gold- and Silver-rated plans are those that our analysts consider the most appealing to college savers, with reasonable fees, strong investment options, and capable oversight. Analysts award Bronze ratings to those plans that also have attractive features, although these plans don't garner as much conviction as the Gold- and Silver-rated plans.

In addition to these top tiers, Morningstar also assigned 32 Neutral ratings, a reflection of the team's belief that while these plans are unlikely to deliver standout risk-adjusted returns, they are also unlikely to significantly underperform. These plans may have shorter track records or untested components. Relatively expensive plans with meaningful state benefits may also earn a Neutral rating, as while these plans' price tags will continuously drag on results, they could have appeal for in-state residents.

Only three plans earned Negative ratings, an indication that the plans have one or more significant flaws that are likely to hold them back over the long term. In general, the 529 industry has taken great strides to improve its offerings over the years, and it's rare to see plans with weak underlying investments or extremely high fees.

This year, Morningstar upgraded five plans and downgraded 10, compared with seven upgrades and one downgrade in 2013. Although more plans moved down than up this year, those on the rise lowered expenses or increased the quality of their investment lineups. Meanwhile, the downgraded plans' investment options either had deteriorated or were unproven.

2014 Morningstar Medalist 529 College-Savings Plans

Table 1: Gold-Rated Plans

	Issuing State	Program Manager	Distribution
Maryland College Investment Plan	MD	T. Rowe Price Associates	Direct
T. Rowe Price College Savings Plan	AK	T. Rowe Price Associates	Direct
The Vanguard 529 College Savings Plan	NV	Upromise Investments	Direct
Utah Educational Savings Plan	UT	Utah Educational Savings Plan	Direct

Source: Morningstar.

Table 2: Silver-Rated Plans

	Issuing State	Program Manager	Distribution
CollegeAdvantage 529 Savings Plan	OH	Ohio Tuition Trust Authority	Direct
CollegeAmerica	VA	American Funds	Advisor
Michigan Education Savings Program	MI	TIAA Tuition Financing	Direct
Virginia529 inVEST	VA	Virginia College Savings Plan	Direct

Source: Morningstar.

Table 3: Bronze-Rated Plans

	Issuing State	Program Manager	Distribution
Bright Directions Coll Savings Program	IL	Union Bank & Trust Company (Lincoln, NE)	Advisor
Bright Start College Savings (Direct)	IL	OFI Private Investments	Direct
College Savings Iowa 529 Plan	IA	Vanguard Group	Direct
CollegeChoice 529 Direct Savings Plan	IN	Upromise Investments	Direct
CollegeChoice Advisor 529 Savings Plan	IN	Upromise Investments	Advisor
CollegeCounts 529 Fund	AL	Union Bank & Trust Company (Lincoln, NE)	Direct
CollegeCounts 529 Fund Advisor Plan	AL	Union Bank & Trust Company (Lincoln, NE)	Advisor
CollegeInvest Direct Portfolio	CO	Upromise Investments	Direct
Connecticut Higher Education Trust	CT	TIAA Tuition Financing	Direct
Edvest 529 Plan	WI	TIAA Tuition Financing	Direct
Future Scholar 529 (Advisor)	SC	Columbia Management Inv Distri	Advisor
Future Scholar 529 (Direct)	SC	Columbia Management Inv Distri	Direct
iShares 529 Plan	AR	Upromise Investments	Advisor
MFS 529 Savings Plan	OR	MFS	Advisor
NEST Advisor College Savings Plan	NE	First National Bank Of Omaha	Advisor
NEST Direct College Savings Plan	NE	First National Bank Of Omaha	Direct
New York's 529 Program (Advisor-Guided)	NY	Upromise Investments	Advisor
New York's 529 Program (Direct)	NY	Upromise Investments	Direct
Path2College 529 Plan	GA	TIAA Tuition Financing	Direct
ScholarShare College Savings Plan	CA	TIAA Tuition Financing	Direct
USAA College Savings Plan	NV	Upromise Investments	Direct

Source: Morningstar.

Gold Medalists

The list of 529 plans receiving a Gold rating is unchanged from recent years, as these plans continue to lead the industry and represent some of the best options available for college savers. Maryland College Investment Plan and Alaska's T. Rowe Price College Savings Plan, both overseen by program manager T. Rowe Price, continue to offer some of the most compelling actively managed investments among direct-sold plans. While many direct-sold plans offer less-expensive passively managed options, these two plans' fees are reasonable given their active approach. The plans' underlying funds have been strong performers, which contributes to the plans' attractive risk-adjusted results.

Nevada's The Vanguard 529 College Savings Plan is Vanguard's hallmark plan. Although a number of states have also adopted the same set of low-cost and broad-based Vanguard index funds used here, the size of the plan creates savings from

economies of scale that are continuously passed along to college savers in the form of fee cuts. As fees are one of the strongest predictors of future performance, especially among index-based investments, Vanguard's commitment to keeping costs in check gives this plan an edge and makes it a fantastic choice for cost-conscious investors.

The final Gold medal was awarded to the Utah Educational Savings Plan, a leader in creating customizable options. This plan also features low-costs Vanguard index funds, which form the base of its age-based and stand-alone investment options, but it also provides college savers with a large suite of investments that can be combined into an age-based track of the account-holder's choosing, offering flexibility at an affordable price.

Silver Medalists

Silver-rated plans are also a compelling group and include our highest-rated advisor-sold plan, Virginia's CollegeAmerica. At nearly \$47 billion in assets, this plan is the nation's largest by a wide margin. It features an attractive menu of actively managed funds from program manager American Funds. These strategies are stand-alone options as well as components of relatively newer age-based options. American Funds has consistently demonstrated that it is a strong steward of investor capital, and its options are among the least expensive advisor-sold choices, especially for those providing active management.

Virginia's direct-sold plan, Virginia529 inVEST, also earned a Silver-rating, an upgrade from 2013's Bronze rating. This plan offers a suite of active and passive investments from several talented investment firms, such as Vanguard, American Funds, and Aberdeen. Its diversified portfolios, strong underlying funds, and recent fee reduction helped lift the plan's rating this year.

Two other Silver medalists maintained their ratings. With both an all-index age-based track and an age-based track that blends index and actively managed funds, Ohio's CollegeAdvantage offers a breadth of options at generally attractive prices. Elsewhere, the Michigan Educational Savings Program's age-based options feature a suite of index-based funds from program manager TIAA-CREF, providing broad exposure at an affordable price.

Bronze Medalists

The list of Bronze medalists contains an appealing mix of plans, including both direct- and advisor-sold programs, featuring actively managed and mostly passively managed investment options. Occasionally, very generous state tax benefits will boost a plan's overall rating to Bronze, as is the case with Indiana's College Choice 529 Direct Savings Plan and College Choice Advisor 529 Savings Plan; Indiana offers residents a 20% tax credit on contributions to the state's 529 plan, a benefit that can reduce a college saver's tax bill by up to \$1,000 each year.

Three new plans also joined the Bronze-rated grouping this year. Alabama's CollegeCounts 529 Fund Advisor Plan received an upgrade based on a boost in its Parent rating. The plan has multiple layers of competent, transparent oversight, which has led to a quality lineup. Wisconsin's EdVest 529 Plan also was added to the

Bronze-rated cohort, as it continued to add strong underlying funds to its well-priced suite of investment options. New York's advisor-sold plan also joined the Bronze group this year, as its relatively new investment manager, J.P. Morgan, continues to show its commitment to and competency with multiasset, goal-based investments.

Table 4: Neutral-Rated Plans

	Issuing State	Program Manager	Distribution
BlackRock CollegeAdvantage 529 Plan	OH	BlackRock Advisors	Advisor
Bright Start College Savings (Advisor)	IL	OFI Private Investments	Advisor
College SAVE	ND	Upromise Investments	Direct
Delaware College Investment Plan	DE	Fidelity Investments	Direct
Fidelity Advisor 529 Plan	NH	Fidelity Investments	Advisor
Fidelity Arizona College Savings Plan	AZ	Fidelity Investments	Direct
Florida 529 Savings Plan	FL	Florida Prepaid College Board	Direct
Franklin Templeton 529 Coll Savings Plan	NJ	Franklin Templeton Distributors	Advisor
GIFT College Investing Plan	AR	Upromise Investments	Direct
IAdvisor 529 Plan	IA	Voya Investment Management (US)	Advisor
IDeal - Idaho College Savings Program	ID	Upromise Investments	Direct
John Hancock Freedom 529	AK	T. Rowe Price Associates	Advisor
LearningQuest 529 Program (Direct)	KS	American Century Inv Mgt	Direct
Minnesota College Savings Plan	MN	TIAA Tuition Financing	Direct
MOST Missouri's 529 Plan	MO	Upromise Investments	Direct
National College Savings Program	NC	College Foundation	Direct
NextGen College Investing Plan Direct	ME	Merrill Lynch Pierce Fenner & Smith	Direct
NextGen College Investing Plan Select	ME	Merrill Lynch Pierce Fenner & Smith	Advisor
NJBEST 529 College Savings Plan	NJ	Franklin Templeton Distributors	Direct
Oklahoma College Savings Plan	OK	TIAA Tuition Financing	Direct
Oregon College Savings Plan	OR	TIAA Tuition Financing	Direct
Pennsylvania 529 Investment Plan	PA	Pennsylvania Treasury Department	Direct
Putnam 529 for America	NV	Putnam Investment Management	Advisor
Scholars Choice College Savings Program	CO	Legg Mason Global Asset Allocation	Advisor
Scholar's Edge	NM	OFI Private Investments	Advisor
SSgA Upromise 529 Plan	NV	Upromise Investments	Direct
TD Ameritrade 529 College Savings Plan	NE	First National Bank Of Omaha	Direct
The Hartford SMART529	WV	Hartford Life Insurance Company	Advisor
Tomorrow's Scholar 529 Plan	WI	TIAA Tuition Financing	Advisor
U.Fund College Investing Plan	MA	Fidelity Investments	Direct
UNIQUE College Investing Plan	NH	Fidelity Investments	Direct
Vermont Higher Education Investment Plan	VT	TIAA Tuition Financing	Direct

Source: Morningstar.

Neutral Ratings

The most-issued Morningstar Analyst Rating for 2014 was Neutral. The 32 plans earning this rating are not seriously flawed, but in Morningstar's view, they're unlikely to outperform over a full market cycle. College savers who choose a Neutral-rated plan should expect returns near their peer-group norms over the long term--a reasonable outcome. But for those living in states with no local tax benefits, it may be worth upgrading to a top-rated plan.

Table 5: Negative-Rated Plans

	Issuing State	Program Manager	Distribution
CollegeAccess 529	SD	Allianz Global Investors Dist	Advisor
Ivy Funds InvestEd 529 Plan	AZ	Waddell & Reed	Advisor
Schwab 529 College Savings Plan	KS	American Century Inv Mgt	Direct

Source: Morningstar.

Lagging Behind

Morningstar's analysts identified three plans this year that lag the rest of the industry. Kansas' Schwab 529 College Savings Plan continues to carry some of the most expensive options among direct-sold plans. Without any meaningful improvement in fees from previous years, it lags an increasingly competitive industry and continues to receive a Negative rating.

The remaining two plans with Negative ratings were downgraded in 2014. Like the Schwab plan in Kansas, South Dakota's CollegeAccess 529 is held back by egregious fees. While in-state residents have access to lower-cost share classes, out-of-staters--which represent the majority of investors in this plan--have a significant fee hurdle to overcome. Leadership disruptions at PIMCO, a wholly owned subsidiary of program manager Allianz and a prominent asset manager featured in this plan, also detract from the plan's appeal.

The other newcomer to the Negative list, Arizona's Ivy Funds InvestEd 529 Plan, also has seen its share of disruption at program manager Waddell & Reed. Several high-level managers have left the firm in recent months, stretching too thin an already-slim investment team. Elsewhere, college savers can find plenty of stronger, more stable, and less-expensive options to choose from.

Analyst Rating Inputs

Since 2012, ratings for 529 plans use the same scale as the Morningstar Analyst Rating for mutual funds. Both Analyst Rating methodologies consider the same five factors to arrive at the final rating, though the 529 ratings reflect the quality of the entire plan--not a single investment, as is the case for the fund rating. To arrive at an Analyst Rating for 529 plans, analysts consider:

- People--Are the managers and researchers directing the plan's investments skilled and well-supported?
- Process--Are the strategies sensible and are past successes likely to be repeated? Are the asset-allocation and fund selection for the age-based options based on solid research and implemented well?

- Parent--Is the program manager a good caretaker of college savers' capital? Is the state managing the plan professionally?
- Performance--Has the plan delivered strong risk-adjusted performance, and is it likely to continue?
- Price--Are the investment options a good value?

In 2011, the Morningstar Analyst Rating for 529 plans employed the same methodology, but the overall rating was expressed as Top, Above Average, Average, Below Average, and Bottom.

Want to learn more about your plan's strengths and weaknesses? Go beyond the Morningstar Analyst Rating and read detailed analyses of 64 of the largest 529 plans. Click [here](#) to try a Premium Membership, free for 14 days.

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