

FUND SPY

# Morningstar Names Best 529 College-Savings Plans for 2016

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Each year, Morningstar assigns Analyst Ratings to college-savings plans based on five key pillars—Process, People, Parent, Price, and Performance. When evaluating 529 plans, Morningstar also takes into consideration the unique benefits that plans offer to college savers, including local tax breaks, grants, and scholarships, which can influence a plan's Morningstar Analyst Rating but usually do not drive the overall outcome.

In 2016, Morningstar identified 33 plans that it believes to be best-in-class options, assigning these programs Analyst Ratings of Gold, Silver, and Bronze. These plans for the most part follow industry best practices, offering some combination of the following attractive features: a strong set of underlying investments, a solid manager selection process, a well-researched asset-allocation approach, an appropriate set of investment options to meet investor needs, low fees, and strong oversight from the state and program manager. These features improve the odds that the plan will continue to represent a strong option for investors. Gold-rated plans have all or a vast majority of these attributes. Silver- and Bronze-rated plans embody most of these qualities but often have some room for improvement.

Meanwhile, 27 plans earned Neutral ratings. These plans remain unexceptional, either because weaker aspects offset stronger ones or an element of uncertainty, such as an investment team change, clouds their prospects. Some Neutral-rated programs may hold appeal for in-state residents because of meaningful added benefits, such as local tax breaks, so investors should research their state's particular benefits.

Just three plans received Negative ratings in 2016. These plans generally lack compelling traits and have at least one major flaw that makes them worth avoiding. Nationwide, there are 84 529 savings plans, and these ratings represent 97% of assets invested in 529 plans.

## Ratings Changes

This year, Morningstar upgraded six plans and downgraded six, compared with five upgrades and one downgrade in 2015. We also initiated coverage on two plans from Rhode Island and dropped coverage on two small, unexceptional plans: Nevada's Putnam 529 for America and Iowa's IAdvisor 529 Plan; both programs received Neutral Morningstar Analyst Ratings in 2015.

In general, the industry continues to take steps in the right direction, with a number of plans cutting fees, beefing up their asset-allocation resources and processes, or improving the quality of their investment lineups. This article focuses on this year's upgrades. Part two of this series publishes on Thursday and will detail the downgrades. [In-depth analyses of all 63 plans under coverage](#) are located on Morningstar.com.

2016 Morningstar Analyst Ratings for 529 College-Savings Plans					
	Issuing State	Program Manager	Rating Change	Distrib	2015 Mstar Analyst Rating
<b>Gold-Rated Plans</b>					
Vanguard 529 College Savings Plan	NV	Ascensus	—	Direct	Gold
Utah Educational Savings Plan	UT	Utah Educational Savings Plan	—	Direct	Gold
Virginia529 inVEST	VA	Virginia College Savings Plan	Upgrade	Direct	Silver
<b>Silver-Rated Plans</b>					
Maryland College Investment Plan	MD	T. Rowe Price	Downgrade	Direct	Gold
T. Rowe Price College Savings Plan	AK	T. Rowe Price	Downgrade	Direct	Gold
MOST Missouri's 529 Plan	MO	Ascensus	Upgrade	Direct	Neutral
Bright Directions Coll Savings Program	IL	Union Bank & Trust	—	Advisor	Silver
CollegeAdvantage 529 Savings Plan	OH	Ohio Tuition Trust Authority	—	Direct	Silver
CollegeAmerica	VA	American Funds	—	Advisor	Silver
Michigan Education Savings Program	MI	TIAA Tuition	—	Direct	Silver
New York's 529 Program (Direct)	NY	Ascensus	—	Direct	Silver
ScholarShare College Savings Plan	CA	TIAA Tuition	—	Direct	Silver
CollegeBound Saver (Direct)	RI	Ascensus	New Coverage	Direct	—
<b>Bronze-Rated Plans</b>					
CollegeCounts 529 Fund	AL	Union Bank & Trust	—	Direct	Bronze
Bright Start College Savings (Direct)	IL	OFI Private Invest	—	Direct	Bronze
College Savings Iowa 529 Plan	IA	Vanguard	—	Direct	Bronze
CollegeChoice 529 Direct Savings Plan	IN	Ascensus	—	Direct	Bronze
CollegeChoice Adv 529 Savings Plan	IN	Ascensus	—	Advisor	Bronze
CollegeCounts 529 Fund Advisor Plan	AL	Union Bank & Trust	—	Advisor	Bronze
CollegeInvest Direct Portfolio	CO	Ascensus	—	Direct	Bronze
Connecticut Higher Education Trust	CT	TIAA Tuition	—	Direct	Bronze

Edvest 529 Plan	WI	TIAA Tuition	—	Direct	Bronze
Future Scholar 529 (Direct)	SC	Columbia	—	Direct	Bronze
MFS 529 Savings Plan	OR	MFS	—	Advisor	Bronze
NEST Advisor College Savings Plan	NE	First National Bank Of Omaha	—	Advisor	Bronze
NEST Direct College Savings Plan	NE	First National Bank Of Omaha	—	Direct	Bronze
New York's 529 Program (Adv-Guided)	NY	Ascensus	—	Advisor	Bronze
NextGen College Investing Plan Direct	ME	Merrill Lynch	—	Direct	Bronze
Delaware College Investment Plan	DE	Fidelity	Upgrade	Direct	Neutral
Fidelity Arizona College Savings Plan	AZ	Fidelity	Upgrade	Direct	Neutral
U.Fund College Investing Plan	MA	Fidelity	Upgrade	Direct	Neutral
UNIQUE College Investing Plan	NH	Fidelity	Upgrade	Direct	Neutral
CollegeBound 529 (Advisor)	RI	Ascensus	New Coverage	Advisor	—
<b>Neutral-Rated Plans</b>					
Future Scholar 529 (Advisor)	SC	Columbia	Downgrade	Advisor	Bronze
iShares 529 Plan	AR	Ascensus	Downgrade	Advisor	Bronze
Path2College 529 Plan	GA	TIAA Tuition	Downgrade	Direct	Bronze
BlackRock CollegeAdvantage 529 Plan	OH	BlackRock	—	Advisor	Neutral
Bright Start College Savings (Advisor)	IL	OFI Private Invest	—	Advisor	Neutral
College SAVE	ND	Ascensus	—	Direct	Neutral
Fidelity Advisor 529 Plan	NH	Fidelity	—	Advisor	Neutral
Florida 529 Savings Plan	FL	Florida Prepaid College Board	—	Direct	Neutral
Franklin Templeton 529 Coll Sav Plan	NJ	Franklin Templeton	—	Advisor	Neutral
GIFT College Investing Plan	AR	Ascensus	—	Direct	Neutral
IDeal-Idaho College Savings Program	ID	Ascensus	—	Direct	Neutral
John Hancock Freedom 529	AK	T. Rowe Price	—	Advisor	Neutral
LearningQuest 529 Program (Direct)	KS	American Century	—	Direct	Neutral
Minnesota College Savings Plan	MN	TIAA Tuition	—	Direct	Neutral
National College Savings Program	NC	College Foundation	—	Direct	Neutral
NextGen College Investing Plan Select	ME	Merrill Lynch	—	Advisor	Neutral
NJBEST 529 College Savings Plan	NJ	Franklin	—	Direct	Neutral
Oklahoma College Savings Plan	OK	TIAA Tuition	—	Direct	Neutral
Oregon College Savings Plan	OR	TIAA Tuition	—	Direct	Neutral
Pennsylvania 529 Investment Plan	PA	Penn Treasury Dept	—	Direct	Neutral
Scholars Choice College Savings Prog	CO	Legg Mason	—	Advisor	Neutral
Scholar's Edge	NM	OFI Private Invest	—	Advisor	Neutral
Schwab 529 College Savings Plan	KS	American Century	—	Direct	Neutral
SSgA Upromise 529 Plan	NV	Ascensus	—	Direct	Neutral
TD Ameritrade 529 Coll Savings Plan	NE	First National Bank Of Omaha	—	Direct	Neutral
Tomorrow's Scholar 529 Plan	WI	TIAA Tuition	—	Advisor	Neutral
USAA College Savings Plan	NV	Ascensus	—	Direct	Neutral
<b>Negative-Rated Plans</b>					

CollegeAccess 529	SD	Allianz Global	—	Advisor	Negative
Ivy Funds InvestEd 529 Plan	AZ	Waddell & Reed	—	Advisor	Negative
The Hartford SMART529	WV	Hartford Life	Downgrade	Advisor	Neutral
Source: Morningstar Direct.					

## The Gold Standard

Virginia's direct-sold plan, Virginia529 inVEST received a notable upgrade, increasing to Gold from Silver. The plan's sensible approach and strong underlying manager lineup has long made it a compelling option for investors. With fee cuts over the last year, the plan also looks attractive from an expense standpoint, and it now represents one of the best choices available to college savers.

In partnership with an investment consultant, the plan's state administrators built the age-based options with a thoughtful asset-allocation approach. Unlike most plans that abruptly cut equity exposure by double-digit percentage points at various dates as the beneficiary ages, the track gradually reduces stock exposure, which limits the risk of shifting out of equities at inopportune times. The portfolios diversify into specialty areas often not found in 529 plans, such as emerging-markets debt and global REITs, and they use a practical approach in blending active and passive management, favoring index strategies in more-efficient pockets of the market. The plan's manager-selection process also sets it apart from competitors. It has used open architecture to its advantage, choosing best-in-class skippers from a variety of investment shops. It mixes inexpensive Vanguard index funds with well-regarded, actively managed strategies from firms such as American Funds, Dimensional Fund Advisors, and Franklin Templeton. The majority of the plan's assets reside in Morningstar Medalist funds, meaning the analysts believe they will outperform competitors over the long haul.

In 2016, Virginia cut the plan's program management fee by one third to 10 basis points, and it reduced expenses further by switching to cheaper share classes for some of its underlying funds. Investors can now buy the age-based options for an average fee of 0.43%, which is very reasonable considering the portfolios' significant use of actively managed strategies. Both residents and nonresidents will find plenty to like with this plan.

Virginia529 inVEST joins just two other plans that receive Gold ratings. Investors looking for low-cost, broad diversification should also consider Nevada's Vanguard 529 College Savings Plan, which uses all passively managed strategies. Although many plans have adopted a similar set of

inexpensive Vanguard indexes, as the third-largest 529 plan by assets, this plan benefits from economies of scale. The plan has continued to share its cost savings with investors by cutting its program-management fee as it has grown. The most recent cut came in May 2016, when the age-based options' fee dropped to 0.17% from 0.19%.

Meanwhile, investors looking to build customized portfolios will find Gold-rated Utah Educational Savings Plan particularly appealing. The plan allows account holders to design their own age-based tracks using a wide array of investment options from Vanguard and DFA. Moreover, the standout oversight provided by Utah has resulted in multiple years of small but steady fee cuts for these well-regarded investment options. Most recently, reductions of 1 basis point or less in several portfolios result in age-based portfolios that now charge between 0.17% and 0.21%.

### **A New Silver-Rated Plan**

Missouri's direct-sold MOST 529 plan received a notable upgrade in 2016, with a rating increase to Silver from Neutral. It's not often that a plan's rating jumps by two rungs, but a program overhaul made it possible here.

In an effort to leverage economies of scale and offer investors a single, best-in-class option, the state consolidated its advisor-sold plan (MOST 529 Advisor Plan) into this plan. In the process, it also cut fees on its age-based options by 5 basis points to 0.23% while also eliminating the \$10 account maintenance fee, which can be particularly punishing to accounts with small balances.

The plan also improved its appeal for do-it-yourself investors. In addition to a set of index-based funds, the stand-alone lineup now includes five actively managed DFA funds; four replaced similar--but more expensive--Vanguard options. Overall, these changes reflect strong oversight and provide confidence that the plan will continue to be a top choice for investors.

### **Boosted to Bronze**

Lastly, we upgraded four direct-sold plans managed by Fidelity to Bronze from Neutral. Increased familiarity with Fidelity's tactical asset-allocation approach as well as reduced fees on the plan's index-based portfolios spurred the upgrades.

In 2014, Fidelity introduced tactical management within its age-based track that invests in actively managed Fidelity funds. Fidelity lacked a public track record in the space, and it was afforded significant leeway in positioning the portfolios, creating uncertainty. While Fidelity still

hasn't proved an ability to add long-term value with tactical moves, it has operated within fairly strict guardrails, making it unlikely that such moves will take performance meaningfully off track.

Meanwhile, the plan improved by slashing fees on its passively managed age-based track. Investors can purchase this track for an average fee of 0.15%, making it one of the lowest-priced age-based options available nationwide. Expenses on the plan's multifirm track also decreased, though fees for those options remain high.

## **New Coverage**

In 2016, Morningstar assumed coverage on Rhode Island's advisor-sold CollegeBound 529 plan and its direct-sold CollegeBound Saver program. The state overhauled both plans in July 2016, replacing former program manager AllianceBernstein with Invesco and Ascensus. Invesco manages the plans' investments and distributes them nationally, while Ascensus serves as the program manager and recordkeeper.

Both plans offer one age-based track that follows a sensible asset-allocation approach, gradually ratcheting down stock exposure over time. The gradual shifts help college savers avoid the potential of locking in losses from making a big move out of equities after a market dip. The direct-sold plan invests primarily in well-regarded Vanguard and iShares index-based strategies, while the advisor-sold plan blends actively and passively managed strategies from Invesco with PowerShares exchange-traded funds.

The direct-sold plan offers extremely low fees for Rhode Island residents--the plan's primary investors--earning it a Silver rating. (Nonresidents should look elsewhere, because they must pay much higher fees than Rhode Islanders.) The advisor-sold plan's fees aren't as compelling, though they land below average compared with similarly sold peers that blend active and passive management. The plan receives a Bronze rating.

## **Morningstar 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:

- Process: Did the plan hire an experienced asset allocator to design a thoughtful, well-diversified glide path for the age-based portfolios? What suite of investment options is offered?

- People: What is Morningstar's assessment of the underlying money managers' talent, tenure, and resources?
- Parent: Is the program manager a good caretaker of college savers' capital? Is the state managing the plan professionally?
- Performance: Have the plan's options earned their keep with solid risk-adjusted returns over relevant time periods? How is the plan expected to perform going forward?
- Price: Are the investment options a good value?

Want to learn more about your plan's strengths and weaknesses? Go beyond the Morningstar Analyst Rating and read detailed analyses of 63 of the largest 529 plans. Click [here](#) to try a Premium Membership, free for 14 days.

# Utah Educational Savings Plan |

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- Analysis**
- Options



by  
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## Analysis 10/25/2016

Utah Educational Savings Plan offers compelling investment options at attractive prices, resulting in the plan's Morningstar Analyst Rating of Gold. Most investors here choose between the plan's four premixed age-based tracks. Two of those, Aggressive Domestic and Aggressive Global, follow the same asset-allocation path as beneficiaries approach college age, with the former keeping its stock allocation invested only in U.S. stocks, while the latter has U.S. and non-U.S. stock exposure. The Moderate and Conservative tracks also provide global exposure within their equity sleeves. Each of the tracks invests in low-cost, broad-based Vanguard index funds, which are also used within the plan's static balanced portfolios.

Do-it-yourself investors and the advisors increasingly turning to this plan will appreciate the flexibility provided by its customizable options. This was the first plan to offer set-it-yourself age-based options, allowing investors to build an asset-allocation path from scratch and select from a broad suite of funds to fill each portfolio.

The underlying funds available in the custom investment options, as well as additional stand-alone choices, are a mix of proven strategies. In addition to a suite of Vanguard index funds, the plan offers nine portfolios from Dimensional Fund Advisors. DFA takes a slightly more active approach to constructing its funds but, like Vanguard, keeps a keen eye on controlling costs. Seven of the DFA funds in the plan are Morningstar Medalists, reflecting the team's view that these funds are likely to outperform both their peers and benchmarks on a risk-adjusted basis over the long term.

In addition, the standout oversight provided by Utah has resulted in multiple years of small but steady fee cuts for these well-regarded investment options. Most recently, reductions of 1 basis point or less in several portfolios result in age-based portfolios that now charge between 0.17% and 0.21%; that continues to be on the low end of predominately index-based, direct-sold plans. The plan charges nonresidents an annual maintenance fee of up to \$12 that can eat into their returns, though the fee is waived for those who choose electronic delivery of program statements and communications.

The plan offers a tax credit for Utah residents and some other matching grant programs, adding to its appeal for those who qualify. But both residents and nonresidents will be well-served by its low cost and appealing set of investment options.

### Morningstar Pillars

Process	+ Positive
Performance	+ Positive
People	+ Positive
Parent	+ Positive
Price	+ Positive

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