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The Top Five College Savings Plans

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This blog is about financial deceptions, swindles and costly untruths. FULL BIO
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Everywhere I talk, I always get questions about 529 College Savings Plans. I generally recommend them for any family saving for college, but you have to be careful which ones you choose.There are many false ideas out there on how to shop for these plans. Yes, you can choose a plan from *any* state. No, you don't have to choose the individual mutual funds. Every plan has an "age-adjusted" portfolio that will reduce risk the older a child gets.

And no, you don't need a financial adviser or broker to sell them to you. They will overcharge you and you can buy "direct" plans at no commission. My general advice is to find the plan with the lowest costs and the best state-tax benefits (Hint: Always check out your own state's plan first).

You should also know that some plans perform better than others. They are largely composed of mutual funds managed by large fund companies such as T.Rowe Price and Vanguard. The returns on the funds within these plans vary quite a bit.

For example, you could have a very conservative portfolio that holds mostly bonds that will do well when the stock market swoons. Or, when stocks are in a bullish mood, you can do much better with a portfolio that's mostly stocks.

The deciding factor in how much risk to take? If you have at least 10 years, it's best to lean toward a stock-dominated portfolio. You need growth over time. If you're within three years of college application, then stick with portfolios that preserve principal. Keep in mind that age-adjusted portfolios do this for you automatically.

Since returns can vary dramatically from portfolio to portfolio, my best advice is to look at long-term returns — preferably 10 years or more. There's a lot of fluctuation in stock returns from year to year and it can be misleading. You want consistent performers.

With a long-term perspective in mind, here are some top funds as rated by savingforcollege.com, one of my favorite college savings sites:

1. Utah Educational Savings Plan
2. Louisiana START Saving Program
3. New York's 529 Savings Program
4. Florida 529 Savings Plan
5. University of Alaska College Savings Plan

Note: For tax purposes, when you *contribute* to a 529 plan, there's no federal tax write-off. But you do have to report any withdrawals. In that case, you have to submit a 1099-Q form along with your tax return.

If the money from the 529 was used for qualified educational expenses, there's no tax due. But be careful with how you spend this money. If you're not paying for tuition, fees, books and computers, any withdrawals for non-educational expense can be considered taxable income.

John F. Wasik is the author of "Lightning Strikes," "The Debt-Free Degree," "Keynes's Way to Wealth"and 13 other books on innovation, money and life. Follow him on Twitter and Facebook.