Choosing a 529 Investment

Morningstar Manager Research
October 2015

Janet Yang, CFA
Director, Multi-Asset-Class Strategies
+1 312 244-7270
janet.yang@morningstar.com

Investors looking to save for college using a 529 plan face myriad choices. They do so in a corner of the financial industry that's less transparent and therefore more difficult to navigate. However, a few basic choices—centered on areas such as tax benefits and personal preferences—can put many investors on the right path. Those considerations often play important roles in how Morningstar analysts evaluate and rate the merits of 529 plans.

Exhibit 1 summarizes the basic choices that do-it-yourself investors will encounter in their search for the right 529 investment in a direct-sold plan. Investors can open direct-sold plans through 529 plan managers without the aid of a financial advisor. College savers working with advisors presumably already have guidance on these issues, so while many of the same principles apply, this research does not go into detail on advisor-sold plans, which must be opened through an advisor.

Exhibit 1 Choosing a 529 Investment

Here are the basic questions that investors should ask themselves when choosing a 529 investment. The answers here should help college savers balance the sometimes competing pulls of state tax benefits and compelling investment lineups, as well as to choose the right portfolio for their goals and desired level of investment involvement.

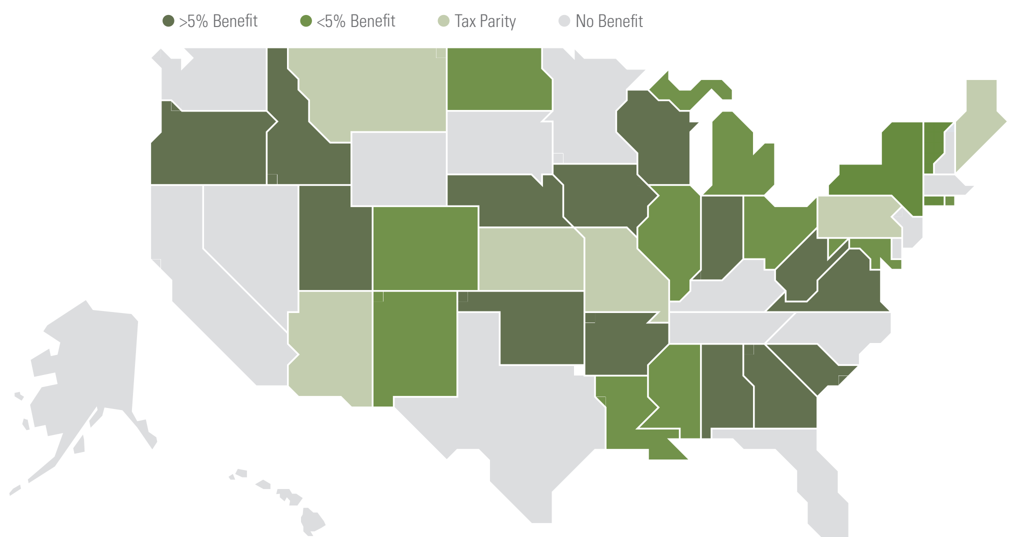
Do you have a state tax benefit for investing in a 529 plan?	Do you want an age-based or static portfolio?	Do you want to use active or passive management within your portfolio?
Yes —It's greater than 5%: Generally, stay in state. —It's less than 5%: Staying in state may still make sense, but fees, investment merit, regularity of contributions, and other factors play an increasingly important role in the decision. —It's in a tax-parity state (Arizona, Kansas, Maine, Missouri, Montana, and Pennsylvania). Look nationwide for the best plan. **No** —Look nationwide for the best plan.	**Age-based** A good approach for more-hands-off investors. The vast majority of 529 savings go into age-based portfolios, where asset allocations automatically adjust over time, becoming more bond- and cash-heavy as beneficiaries approach college age. **Static** These portfolios run the gamut, with some holding single asset classes and others combining them. Since these investments generally stick to the same or target asset allocation, investors may need to proactively rebalance or adjust the level of risk in their accounts.	**Passive** Index-based investments have lately put forth strong results versus their actively managed peers. Low fees are key to their appeal, and it's important to make sure that the layers of fees often associated with 529 programs don't take away that advantage. **Active** These investments try to beat the market, but whether or not they'll accomplish it is a different matter. A focus on low fees and Morningstar Medalists may help. **Combination** A common, intuitive approach here is to use index-based strategies for more-efficient areas of the market, such as U.S. large-cap stocks, and active management for its less-efficient corners, such as small-cap stocks. Some age-based offerings take this tack.

Source: Morningstar, Inc.

Tax Benefits Drive the In-State or Out-of-State Investing Decision

Investors have their pick among the nation's more-than 50 state-sponsored, direct-sold 529 college savings plans, and they have no obligation to stay with their state's plan. All 529 investors skip federal taxes on growth and distributions to pay for beneficiaries' higher education costs. About 45% of the U.S. population lives in states that offer their residents additional state-specific tax benefits for investing within the state's 529 plan; 10% enjoy state tax benefits regardless of the state 529 plan used (these are commonly referred to as tax-parity states); and 45% reside in states that offer no additional tax benefits (either because the state has no state income tax or no 529-specific tax benefit). Exhibit 2 shows how states fall into the different scenarios.

Exhibit 2 529 Tax Benefits by State



Source: Morningstar, Inc. Data as of 9/30/15.

For the 45% of the population living in areas with state-specific tax benefits, calculating the merits of staying in-state or going to an outside 529 plan can get complicated. Consider the state-specific tax benefit as a way to shrink the gap between plans with similar investment merits but differing fees, or for plans with similar fees but less-competitive investment options (such as when choosing between plans that have Morningstar Analyst Ratings of Bronze or Neutral). The size of the benefit matters, but so does the length of time that investors expect to hold on to their accounts, the regularity of contributions, and investors' tax brackets, among other areas. As a general rule of thumb, those who enjoy a tax benefit that's equal to at least 5% of their initial year's investment (states shaded in dark green) tend to have the strongest incentives to stay.

We determined that 5% threshold by evaluating scenarios for a household consisting of a couple with two kids filing a joint tax return under various saving and income levels. Under the first situation, the couple earns $60,000 a year—the median income of a four-person household in the United States—and invests $100 each month per child, culminating in total annual savings of $2,400. The second scenario holds those assumptions steady, save for a bump up in income to $200,000 per year in order to capture potential changes from states with progressive income taxes. Federal Reserve data shows that 70% of 529 account balances were held by households earning $200,000 or more annually. Of the states that offer a 529 tax benefit, Exhibit 3 shows how they rank, as sorted by the benefits enjoyed by households earning $60,000 annually.

Exhibit 3 Value of 529 Tax Benefits for $60,000 and $200,000 Income Households

				$60,000 Annual Income			**$200,000 Annual Income**		
State	State Tax Deduction Basis	State Tax Deduction/ Credit Contribution Limit for Joint Filers	Tax Parity	Marginal Tax Rate	Dollar Value of Tax Benefit	Tax Benefit % of Savings	Marginal Tax Rate	Dollar Value of Tax Benefit	Tax Benefit % of Savings
Indiana	$5,000, Credit–20%	Per Taxpayer	—	3.30	480.00	20.00	3.30	480.00	20.00
Vermont	$5,000, Credit–10%	Per Beneficiary	—	3.55	240.00	10.00	7.80	240.00	10.00
Oregon	4,530	Per Taxpayer	—	9.00	216.00	9.00	9.00	216.00	9.00
Iowa	6,326	Per Beneficiary	—	7.92	190.08	7.92	8.98	215.52	8.98
Idaho	8,000	Per Taxpayer	—	7.40	177.60	7.40	7.40	177.60	7.40
Arkansas	10,000	Per Taxpayer	—	7.00	168.00	7.00	7.00	168.00	7.00
District of Columbia	8,000	Per Taxpayer	—	7.00	168.00	7.00	8.50	204.00	8.50
South Carolina	318,000	Per Taxpayer	—	7.00	168.00	7.00	7.00	168.00	7.00
Montana	6,000	Per Taxpayer	Yes	6.90	165.60	6.90	6.90	165.60	6.90
Nebraska	10,000	Per Taxpayer	—	6.84	164.16	6.84	6.84	164.16	6.84
New York	10,000	Per Taxpayer	—	6.45	154.80	6.45	6.65	159.60	6.65
Wisconsin	3,100	Per Beneficiary	—	6.27	150.48	6.27	6.27	150.48	6.27
Georgia	2,000	Per Beneficiary	—	6.00	144.00	6.00	6.00	144.00	6.00
Missouri	16,000	Per Taxpayer	Yes	6.00	144.00	6.00	6.00	144.00	6.00
West Virginia	265,620	Per Beneficiary	—	6.00	144.00	6.00	6.50	156.00	6.50
Virginia	4,000	Per Account	—	5.75	138.00	5.75	5.75	138.00	5.75
Oklahoma	20,000	Per Taxpayer	—	5.25	126.00	5.25	5.25	126.00	5.25
Alabama	10,000	Per Taxpayer	—	5.00	120.00	5.00	5.00	120.00	5.00
Connecticut	10,000	Per Taxpayer	—	5.00	120.00	5.00	5.50	132.00	5.50
Mississippi	20,000	Per Taxpayer	—	5.00	120.00	5.00	5.00	120.00	5.00
Utah	$3,800, Credit–5%	Per Beneficiary	—	5.00	120.00	5.00	5.00	120.00	5.00
New Mexico	294,000	Per Beneficiary	—	4.90	117.60	4.90	4.90	117.60	4.90
Maryland	5,000	Per Beneficiary	—	4.75	114.00	4.75	5.25	126.00	5.25
Colorado	350,000	Per Taxpayer	—	4.63	111.12	4.63	4.63	111.12	4.63
Kansas	6,000	Per Beneficiary	Yes	4.60	110.40	4.60	4.60	110.40	4.60
Michigan	10,000	Per Taxpayer	—	4.25	102.00	4.25	4.25	102.00	4.25
Louisiana	4,800	Per Beneficiary	—	4.00	96.00	4.00	6.00	144.00	6.00
Illinois	20,000	Per Taxpayer	—	3.75	90.00	3.75	3.75	90.00	3.75
Ohio	2,000	Per Beneficiary	—	3.70	88.75	3.70	4.91	117.74	4.91
Arizona	4,000	Per Taxpayer	Yes	3.36	80.64	3.36	4.24	101.76	4.24
Pennsylvania	28,000	Per Beneficiary	Yes	3.07	73.68	3.07	3.07	73.68	3.07
Maine	250	Per Beneficiary	Yes	7.95	39.75	1.66	7.95	39.75	1.66
Rhode Island	1,000	Per Taxpayer	—	3.75	37.50	1.56	5.99	59.90	2.50
North Dakota	10,000	Per Taxpayer	—	1.22	29.28	1.22	2.52	60.48	2.52

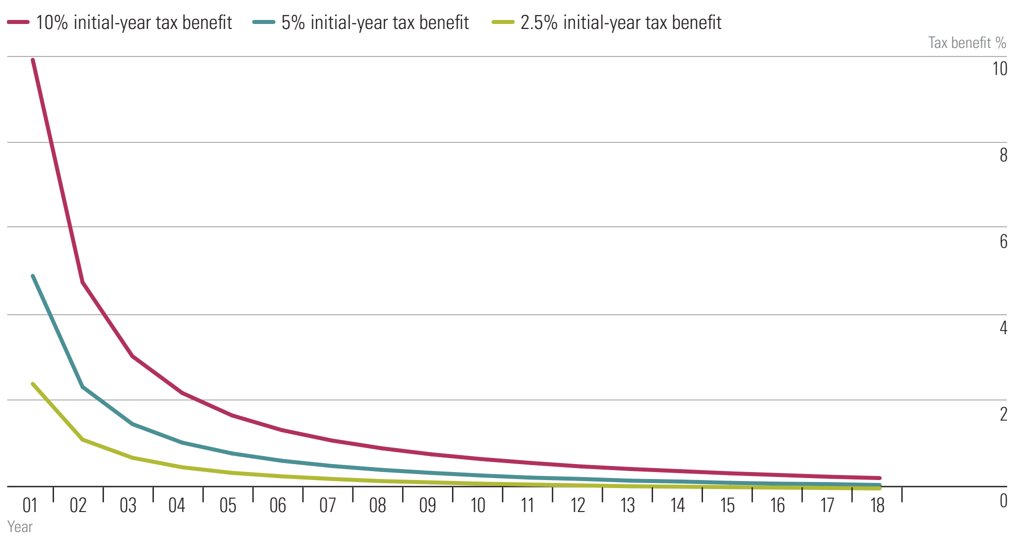
Source: Morningstar, Inc. Data as of 9/30/15.

Investors living in states with the most-generous tax benefits, such as Indiana and Vermont, have compelling financial incentives to stay within their states. In contrast to most states, which offer their benefits as tax deductions, those two states (as well as Utah) use a tax credit, which gives a dollar-for-dollar reduction in residents' tax bills. The $480 dollar value of Indiana's tax benefit amounts to 20% of the $2,400 invested. That's also equivalent to a 25% instant return on investment ($480/($2,400-$480) = 25%).The investment merits of Indiana's 529 plan don't stand out on their own accord—fees are notably high, for instance. But its tax benefits are too generous to ignore, helping bump the plan's Analyst Rating to Bronze. It's key to note, though, that the endorsement only applies to Indiana state residents.

Even states with the smallest tax benefits give residents a notable head start over investing out of state, at least in the initial year of investment. North Dakota's College SAVE plan, for instance, has an average total expense ratio of 0.85%, so its tax benefit, which amounts to 1.22% in the example, pays for that year's investment fees, and then some.

Any of these benefits become less meaningful over time as balances grow, however. Assuming a constant $2,400 annual investment and a 6% annual return, Exhibit 4 illustrates how an initial year's tax benefit of 10%, 5%, or 2.5% diminishes over an 18-year time horizon. By the time a beneficiary reaches 18 years old, for instance, a tax benefit that was worth 10% of the balance at age 1 would only be worth 0.32% in year 18.

Exhibit 4 Change in Magnitude of Tax Benefits as Savings Grow



Source: Morningstar, Inc.

Finding the level at which a benefit is too generous to ignore is tricky, but tax benefits that initially make up 5% of savings tend to be a good starting point. At that level, the annual tax benefit will basically pay for the average 0.36% expense ratio of a passively managed direct-sold plan over the full 18 years. It also pays for more than a decade of the average 0.76% expense ratio of an actively managed direct-sold plan.

Investors living in states with less-generous state-specific tax benefits may also have a reason to invest in state if their state's plan boasts compellingly cheap expense ratios or particularly strong investment options. That's also true if they're facing a shorter investing time horizon, as the benefit's value won't erode as much as it otherwise would for an investor with a longer time horizon. The key to these scenarios, though, is that college savers invest every year rather than in a more sporadic manner in order to take full advantage of each year's tax benefit.

A Similar Story for Higher-Income Earners and More-Diligent Savers

The state rankings may slightly differ, but the data show households in the higher $200,000 income bracket can also generally follow the 5% guideline. The progressive taxing system of a number of states essentially magnifies the tax benefit of investing in the state's 529 plan. So whereas couples earning $60,000 in Louisiana have a 4% benefit, for instance, couples earning $200,000 have a 6% benefit because of the higher marginal tax rate they face.

Fewer states make the 5% hurdle for households who want to contribute more money. Those investing $10,000 per year—roughly the amount needed over 18 years to fund two in-state tuitions for the average public university—will hit more states' maximum deduction and credit limits; the tax benefit will be proportionally less valuable as well. Investing $20,000 per year, which gets families close to the amount needed to pay for two kids going to the average private university, dilutes those benefits more. Exhibit 5 displays how the tax benefit as a percentage of the initial investment changes at those various savings and income levels.

Exhibit 5 Changes in Magnitude of Initial Tax Benefits at Higher Savings Rates (%)

	$60,000			$200,000		
State	$2,400	$10,000	$20,000	$2,400	$10,000	$20,000
Indiana	20.0	10.0	5.0	20.0	10.0	5.0
Vermont	10.0	10.0	5.0	10.0	10.0	5.0
Oregon	9.0	4.1	2.0	9.0	4.1	2.0
Iowa	7.9	7.9	5.0	9.0	9.0	5.7
Idaho	7.4	5.9	3.0	7.4	5.9	3.0
Arkansas	7.0	7.0	3.5	7.0	7.0	3.5
District of Columbia	7.0	5.6	2.8	8.5	6.8	3.4
South Carolina	7.0	7.0	7.0	7.0	7.0	7.0
Montana	6.9	4.1	2.1	6.9	4.1	2.1
Nebraska	6.8	6.8	3.4	6.8	6.8	3.4
New York	6.5	6.5	3.2	6.7	6.7	3.3
Wisconsin	6.3	3.9	1.9	6.3	3.9	1.9
Georgia	6.0	2.4	1.2	6.0	2.4	1.2
Missouri	6.0	6.0	4.8	6.0	6.0	4.8
West Virginia	6.0	6.0	6.0	6.5	6.5	6.5
Virginia	5.8	4.6	2.3	5.8	4.6	2.3
Oklahoma	5.3	5.3	5.3	5.3	5.3	5.3
Alabama	5.0	5.0	2.5	5.0	5.0	2.5
Connecticut	5.0	5.0	2.5	5.5	5.5	2.8
Mississippi	5.0	5.0	5.0	5.0	5.0	5.0
Utah	5.0	3.8	1.9	5.0	3.8	1.9
New Mexico	4.9	4.9	4.9	4.9	4.9	4.9
Maryland	4.8	4.8	2.4	5.3	5.3	2.6
Colorado	4.6	4.6	4.6	4.6	4.6	4.6
Kansas	4.6	4.6	2.8	4.6	4.6	2.8
Michigan	4.3	4.3	2.1	4.3	4.3	2.1
Louisiana	4.0	3.8	1.9	6.0	5.8	2.9
Illinois	3.8	3.8	3.8	3.8	3.8	3.8
Ohio	3.7	1.5	0.7	4.9	2.0	1.0
Arizona	3.4	1.3	0.7	4.2	1.7	0.8
Pennsylvania	3.1	3.1	3.1	3.1	3.1	3.1
Maine	1.7	0.4	0.2	1.7	0.4	0.2
Rhode Island	1.6	0.4	0.2	2.5	0.6	0.3
North Dakota	1.2	1.2	0.6	2.5	2.5	1.3

Source: Morningstar, Inc.

When to Look Beyond State Borders for a 529 Plan

For the 55% of the population living in states shaded light green (who enjoy tax parity) or grey (who have no state-specific benefits) on Page 2, those investors should generally look across the nation for the best 529 plan for them. Among direct-sold plans, Morningstar considers the best to be the four Gold-rated and five Silver-rated 529 plans, which come with a variety of investment options. Morningstar analysts have confidence in a number of Bronze-rated plans as well, though state tax benefits often tip the scales to Bronze from Neutral for those plans, so it's important to read the plan's Morningstar analyst report to determine whether or not that figured into the rating. Among those plans, out-of-state investors can generally find better options elsewhere.

A few states—including tax-parity states and states with no state tax benefit—offer other incentives in the form of savings matches, outright grants, or scholarships, which can make their 529 programs more compelling. Some of those benefits are limited to certain income thresholds or a certain number of participants, among other restrictions. Exhibit 6 shows the 14 states that currently run those programs.

Exhibit 6 States With 529 Program Matches, Grants, or Scholarships

States with additional 529 benefit programs as of the beginning of 2015 are listed to the right. Eligibility rules and application deadlines run the gamut, so consult each state's 529 program for specific details.

No Tax Benefit	Tax Parity	State-Specific Tax Benefit
Alaska	Kansas	Arkansas
Nevada	Maine	Colorado
New Jersey	Pennsylvania	Connecticut
Tennessee		Louisiana
		North Dakota
		Utah
		West Virginia

Source: Morningstar, Inc. Data as of 9/30/15.

Maine's NextStep Matching Grant program stands out for its potential generosity and wide applicability, as it has no income restrictions and only requires that the account owner or beneficiary be a Maine state resident. It provides a 50% match of up to $300 on annual contributions. Investors contributing $600, then, would have a full 50% match, while those saving $2,400, $10,000, or $20,000 would enjoy initial-year benefits equal to 12.5%, 3.0%, or 1.5%, respectively, of that year's investment. Similar to the tax-benefit analysis already covered, investors with more-modest $600 or $2,400 annual savings goals may be well-served here. Those on the higher end—aiming to save $10,000 or $20,000 per year—may find those benefits to be less compelling in the face of their higher balances, even after considering the state's tax-parity benefits.

Choosing a Portfolio: Age-Based or Static

After deciding whether to stay in state or not, investors can further narrow their pool of choices by deciding between dynamic age-based portfolios or static portfolios composed of single or multiasset classes. Most direct-sold 529 plans have all three options, and Exhibit 7 presents a typical, if somewhat simplified, 529 plan investment menu.

Exhibit 7 Typical 529 Plan Investment Menu

Single-Asset Class Portfolios	Balanced/Mixed-Asset Portfolios	Age-Based/College Enrollment Portfolios
U.S. Stock	60% Stock/40% Bond	0-6 Years
International Stock	Aggressive	7-9 Years
Core Bond	Moderate	10-11 Years
Cash Equivalent	Conservative	12-14 Years
		15-17 Years
		18 Years
Static More customization Involved Investor		Dynamic Less customization Hands-off Investor

Source: Morningstar, Inc.

Investors who eschew age-based portfolios (also known as college-enrollment-based portfolios when their names use a college matriculation year instead of a beneficiary's age) have the most freedom to customize their portfolio mix. For highly engaged investors, that may involve sophisticated methods of optimizing their allocations between taxable and nontaxable accounts within the context of their overall assets. For instance, there's logic in keeping higher-growth and higher-turnover strategies in a tax-sheltered 529 account, especially for those who might have already maximized their contributions in other tax-sheltered accounts. Legislation passed in 2014 that allows investors to reallocate and rebalance their portfolios twice a year—up from once a year—gives investors more control of their investments, making this a more viable strategy.

Most investors, though, tend to pick age-based portfolios, which gradually shift investor balances from more-volatile asset classes, such as equities, into less-volatile ones, such as fixed income and cash, over time. Doing so hands allocation decisions and rebalancing responsibilities to the asset managers that run the portfolios. The quality of those teams and their investment processes may vary (both criteria figure greatly into the forward-looking Morningstar Analyst Ratings for 529 plans), but they at least have the ability to rebalance more frequently than semiannually, which helps to mitigate market-timing risk.

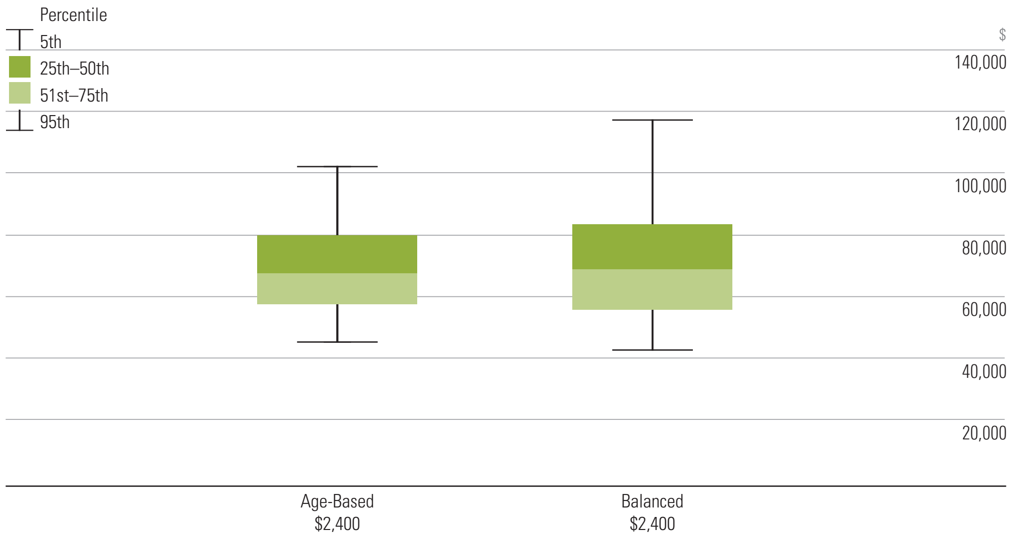
Asset Allocation Matters, but Only so Much

Static balanced and risk-based portfolios tend to stand as natural alternatives to dynamic age-based portfolios. This is also true in the retirement savings world, where the Department of Labor's Pension Protection Act of 2006 gave as much of an endorsement to static balanced funds as it did to dynamic target-date retirement funds.

On average, the two options could even be expected to produce similar results, which we determined by comparing the industry average asset-allocation glide path for a 529 age-based portfolio with a balanced fund that has a 60% allocation to equities and 40% allocation to fixed income. We assume that for both portfolios, international equities make up 30% of the equity allocation. Working with the household that saves $2,400 annually over 18 years and using Ibbotson's 2015 capital market assumptions, the expected and median value for both portfolios at the end of 18 years stands at about $70,000.

As Exhibit 8 shows, though, there's a difference in the range of potential outcomes. By ramping down equity exposure over time, particularly in the later years when balances are at their highest, the age-based portfolio essentially decreases downside volatility compared with the static balanced portfolio. The worst-case outcomes for age-based portfolios—shown by the 95th and 75th percentile results—are both better compared with the balanced fund's 95th and 75th percentile outcomes. Protecting on the downside comes with giving up upside participation, as demonstrated by the higher account values for the balanced fund's 5th and 25th percentile balances versus those of the typical age-based portfolio.

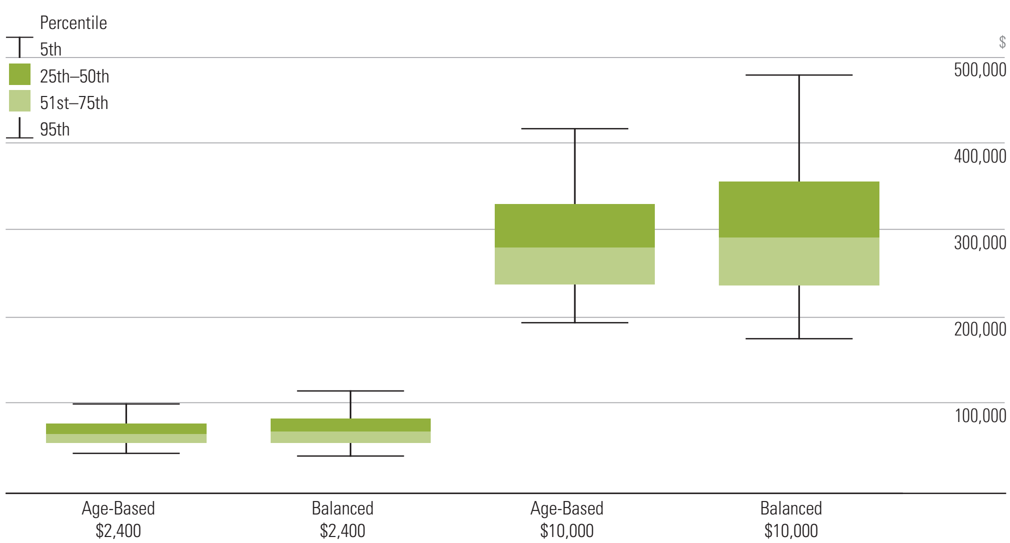
Exhibit 8 Savings Projections for Age-Based Versus Balanced Portfolio At Year 18.



Source: Morningstar, Inc.

Among both age-based and balanced funds, there's a variety of risk levels. It's not unusual, for instance, for plans to offer three different tracks—aggressive, moderate, and conservative—of age-based portfolios. It's worth noting that while investors should pick a portfolio that reflects their risk tolerance—especially with regard to potential losses that they think they can withstand—the amount saved is more important than the track selected.

Exhibit 9 Savings Projections for Age-Based and Balanced Portfolio at Annual Savings of $2,400 and $10,000.



Source: Morningstar, Inc.

Exhibit 9 illustrates this by comparing savings outcomes for households contributing $2,400 and $10,000 per year to a 529 account over 18 years for the average age-based and balanced portfolios. An 18-year bull market—basically the best 5th percentile outcome—for an investor saving $2,400 a year doesn't come close to achieving the same balance coming from investors saving $10,000 per year and going through extended bear markets—represented by the 95th percentile outcomes of the two rightmost bars. For college savers to significantly move the needle on account balances, they must save more. Investors can't count on asset allocation to fix a savings problem.

Implementing a 529 Portfolio: Whether Active or Passive, Fees Matter

The final decision for investors choosing a 529 investment strategy is portfolio implementation, and that often comes down to a choice between active or passive management. There's already been much written on the subject. In the passive camp's favor, it's hard to ignore numbers that consistently show most active managers lagging their index-based alternatives over various time periods. In 2014, for example, less than 20% of the more than 1,500 mutual funds in the large-blend Morningstar Category beat the S&P 500's 13.7% gain.

Passively managed, index-based investments get their edge from cheap expenses. However, within the 529 space, passive management doesn't necessarily equate with low fees. Expenses can balloon after layering on fees from program managers, states, and others. Hawaii's College Savings Program, for example, uses an array of all index-based investments, but it also has some of the highest fees in the nation. Its average plan fee is 0.75%, comparable with the average 0.85% of an actively managed 529 portfolio but much higher than the 0.36% expense of an average index-based 529 investment. The plan's Vanguard Total Stock Market Index Portfolio has an expense ratio of 0.75% (plus a $20 annual account maintenance fee), which consists of the fund's 0.06% expense ratio and an additional 0.69% plan management fee. Particularly because Hawaii offers no state tax incentives, its residents would do better using a plan such as Utah's, which has similar options for an average fee of 0.21%.

Investors looking to beat passive indexes have to use actively managed investments, though finding successful strategies is difficult. Morningstar analysts have a decent record of choosing the managers that go on to outperform their peers and indexes. Exhibit 10 shows how analysts' forward-looking ratings—as denoted by Gold-rated funds, which were known as Analyst Picks prior to the November 2011 launch of the Morningstar Medalist ratings —have fared. Over the five- and 10-year periods through August 2015, analysts' most highly regarded funds consistently outpace the majority of their peers and represent a disproportionate number of top-quartile investments.

Exhibit 10 Tracking the Success of Gold-Rated Funds

	Trailing 10-Years		Trailing 5-Years	
Asset Group	Batting Average	% Gold in Top Quartile	Batting Average	% Gold in Top Quartile
U.S. Stock	71.40	40.80	70.85	40.91
Taxable Bond	72.19	41.88	61.97	37.33
International Stock	73.99	42.51	75.00	40.10
Municipal Bond	70.03	41.54	49.62	20.00
Balanced	89.11	54.39	86.33	52.10

Source: Morningstar, Inc. Data as of 8/31/15. Batting Average and % picks in top quartiles are for Gold/Analyst Picks funds only. The results are compared with category average.

The recommended funds cover a variety of investment styles, philosophies, and investment team structures, but one shared trait tends to be low expenses. That's consistent with research from Morningstar and others showing that expenses stand as one of the most dependable screens for strong future performers.

Investors looking for active investments in a 529 plan also may face multiple additional layers of fees, and it pays to look at the details. California's ScholarShare plan has some of the most attractive fees for actively managed plans. That's especially so considering that the plan uses a number of investment strategies not run by TIAA-CREF, the plan's program manager. Using nonproprietary strategies, commonly referred to as open-architecture plans, tends to come with higher costs, so California has done a service for its investors by offering well-priced open-architecture options. Fidelity also draws from an impressive selection of outside investment managers via the multifirm portfolios in the various plans that it manages. However, those portfolios charge fees that are among the highest in the nation, marring their appeal.

A Final Tally

Using the three basic questions, Exhibit 11 summarizes how the 41 direct-sold 529 plans under Morningstar analyst coverage as of October 2015 compare with one another. It's divided into three sections: plans that hold nationwide appeal, plans that should generally only be considered for use by in-state investors, and plans for which investors can find stronger alternatives. The table may seem to be missing a column for "active" plans. However, while there are a number of direct-sold plans that only offer passively managed options, among plans that use active management, all also have index-based offerings.

Direct-sold plans with nationwide appeal (Table A) are good choices regardless of the state of residence for the account owner or beneficiary. Non-residents should take a particularly close look at these plans if their states offer no tax or other benefit for staying within the state or if their state's benefit is relatively small. All of these plans come recommended by Morningstar analysts, as designated by Gold, Silver, or Bronze ratings.

Plans best limited to in-state investors (Table B) generally have more-generous tax benefits. Absent those benefits (including cases where in-state residents cease regular annual contributions), out-of-state investors should look elsewhere because other states have cheaper or better investment options.

The remaining plans are mostly Neutral-rated (save for South Dakota's Negative-rated CollegeAccess 529). Some plans in these states have program matches, grants, or scholarships that make them attractive to the limited number of beneficiaries that qualify for them. On the whole, though, these states either have no tax benefits or are tax-parity states. As such, Morningstar analysts believe that investors from these states should use a medalist plan from Table A. Similarly, non-residents have little reason to consider these plans.

Exhibit 11 Summary of 529 Plan Strengths

A. Direct-Sold 529 Plans for Investors Looking Nationwide
These plans have various components that should be attractive to their state's residents or investors living in states with tax-parity or no state-specific tax benefits.

Plan Rating	Passive	Active and Passive
Gold	NV - The Vanguard 529 College Savings Plan	AK - T. Rowe Price College Savings Plan MD - Maryland College Investment Plan UT - Utah Educational Savings Plan
Silver	MI - Michigan Education Savings Program NY - New York's 529 Program	CA - ScholarShare College Savings Plan OH - CollegeAdvantage 529 Savings Plan VA - Virginia529 inVest
Bronze	—	AL - College Counts 529 Fund CT - Connecticut Higher Education Trust Program WI - Edvest 529 Plan

B. Direct-Sold 529 Plans More Appropriate for In-State Investors
These plans are generally best limited to in-state investors who can use the state-specific tax benefits. The Neutral-rated plans here may not stand out for their investment merits, but valuable state tax benefits or other incentives mean that state residents should strongly consider using them.

Plan Rating	Passive	Active and Passive
Bronze	CO - CollegeInvest Direct Portfolio GA - Path2College 529 Plan IA - College Savings Iowa 529 Plan SC - Future Scholar 529	IL - Bright Start College Savings IN - CollegeChoice 529 Direct Savings Plan ME - NextGen College Investing Plan Direct NE - NEST Direct College Savings Plan
Neutral	AR - GIFT College Investing Plan ID - IDeal, Idaho College Savings Program ND - College SAVE PA - Pennsylvania 529 Investment Plan	OK - Oklahoma College Savings Plan OR - Oregon College Savings Plan

C. Other Direct-Sold 529 Plans Under Morningstar Analyst Coverage
Morningstar Analysts maintain ratings on these plans, but because investors receive no unique tax benefits for investing in these specific plans, they're better served using an investments from Table A of this exhibit.

DE - Delaware College Investment Plan
FL - Florida 529 Savings Plan
KS - Schwab 529 College Savings Plan
KS - LearningQuest 529 Program*
MA - U.Fund College Investing Plan
MN - Minnesota College Savings Plan
MO - MOST Missouri's 529 Plan
NC - National College Savings Program
NH - UNIQUE College Investing Plan
NJ - NJBEST 529 College Savings Plan*
NV - USAA College Savings Plan*
NV - SSgA Upromise 529 Plan*
NE - TD Ameritrade 529 College Savings Plan
SD - CollegeAccess 529

*These programs offer matches, grants, or scholarships with eligibility rules that can make the plans attractive to a limited number of beneficiaries.

Source: Morningstar, Inc. Data as of 10/20/15.