THE WALL STREET JOURNAL.
WSJ.com
September 28, 2012, 10:38 a.m. ET
SAVING FOR COLLEGE

Age-Based 529s Get More Complicated

There can be multiple choices within a single state 529 plan—and a range of asset mixes from state to state

By RACHEL LOUISE ENSIGN

Age-based portfolios within 529 college-savings plans are supposed to make things easier for parents who lack investment savvy. But they've gotten a lot more complicated in recent years.

These accounts, which automatically shift into more conservative investments as a child nears college age, have long held the majority of assets in state-sponsored, tax-advantaged 529 plans. In recent years, many 529 plans have come to offer not one, but three or four age-based tracks that vary by risk levels or type of fund management.

There are aggressive tracks geared toward parents with higher risk tolerance who are particularly worried about returns keeping up with skyrocketing tuition costs. There are cautious tracks for parents who remember the beating many standard age-based portfolios took in 2008. For parents skeptical of active management and worried about fees, there are options that use index funds as the underlying holdings.

In all, there were 170 age-based investment tracks within 529 plans as of mid-September, according to Morningstar Inc. In 2006, there were 100.

Wide Variations

But all of this choice can be overwhelming for parents who aren't buying through an adviser. "You're in your living room at 10 p.m. after you put your kids to bed trying to figure this out," says Laura Pavlenko Lutton, head of Morningstar's 529-plan research and ratings team.

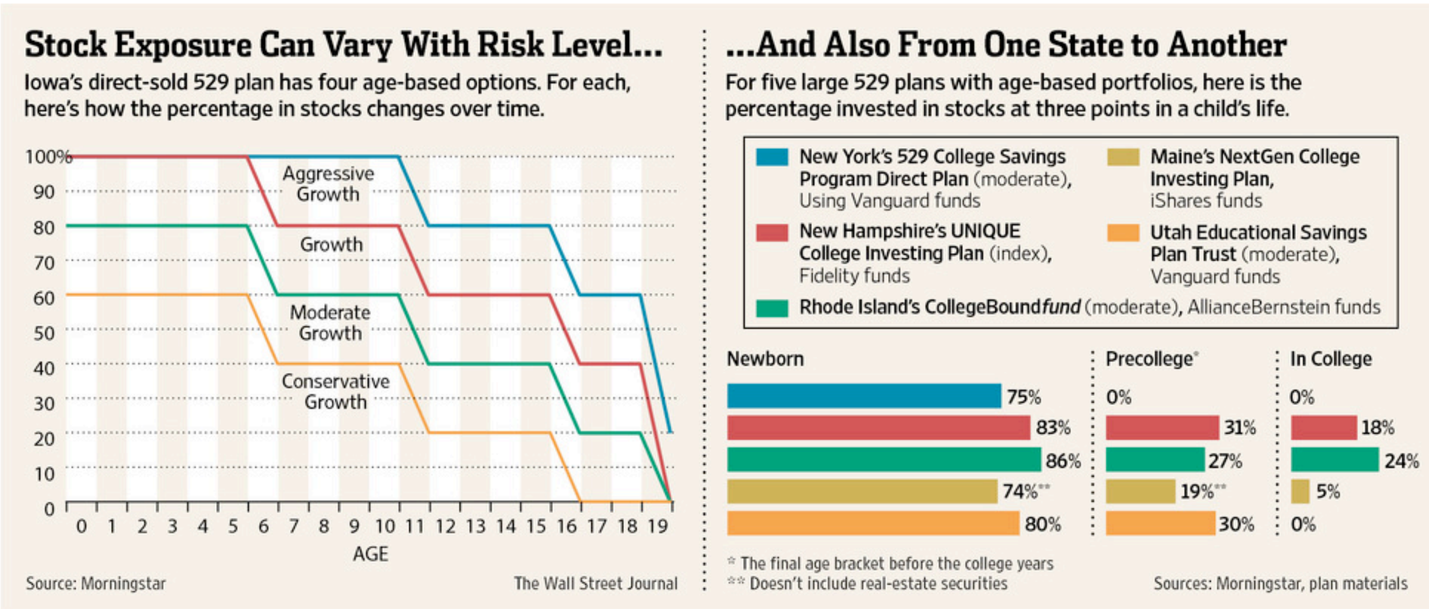
The difference between a plan's most and least aggressive tracks can be wide. In the direct-sold College Savings Iowa 529 plan, the most aggressive age-based option leaves 20% of the portfolio in equity funds when a child is in college; the least aggressive has 0% in stocks then.

Making things even more complicated, age-based options with the same supposed risk level can vary widely between plans. New York's 529 College Savings Program Direct Plan's moderate-risk option has no money in equities at the point right before a child's freshman year. Rhode Island's CollegeBoundfund's moderate option, however, has 11% to 28% in stocks at that time.

Age-based portfolios also differ in terms of the supposedly safe investments they shift into as a child gets older. Some use money-market funds or savings accounts, while others opt for bonds, says Mark Kantrowitz, publisher of financial-aid website finaid.org. But with interest rates near historic lows, bonds could be risky now, he says. When interest rates move up, bond prices will move down.

The 529 plans run by Fidelity Investments in four states offer a menu of age-based options based on fund type, not risk. Two options invest in actively managed funds (one holds only Fidelity funds; the other buys across fund companies). Another invests only in index funds.

Despite the trend toward offering parents more choice, some states have opted against giving 529 investors too many options.



Maryland's 529 plan offers only one age-based investment track. Those running the plan think multiple tracks would confuse parents, since many aren't experienced investors.

"It is sometimes even challenging to explain how the age-based portfolios work. I couldn't imagine layering on top of that conservative, moderate and aggressive tracks," says Joan Marshall, executive director of the College Savings Plans of Maryland, which administers the state's 529 plan.

Maryland's single age-based track is fairly aggressive; it leaves 20% of the portfolio in stocks when a child enters college.

Little Help

There are few resources out there to help parents decide which age-based plan is right for them. Savingforcollege.com rates 529 plans overall and offers online tools to help parents compare them. Morningstar also provides this, and breaks out some data for the specific age-based tracks.

Plan representatives legally cannot advise families on which direct-sold age-based track to pick, says Andrea Feirstein, a consultant to state 529 plans, though they can explain the risks associated with each track. Of course, advice is available with plans sold through financial advisers—but those tend to come with higher fees to compensate the adviser, says Ms. Lutton.

So, for families that plan on buying direct, the decision often comes down to introspection. "It's all how much risk you can take and still sleep well at night in your attempt to increase your overall returns," says Joe Hurley, the founder of Savingforcollege.com. "It's no different than retirement investing."

Ms. Ensign is a Wall Street Journal reporter in New York. Email her at rachel.ensign@wsj.com .

A version of this article appeared October 3, 2012, on page C19 in the U.S. edition of The Wall Street Journal, with the headline: Age-Based 529s Get More Complicated.