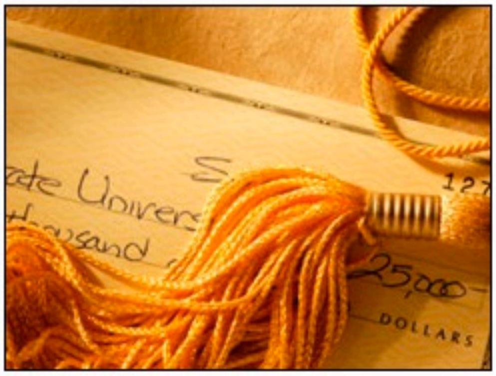
December 19, 2011 7:00 AM

Consumers are wising up on 529 college plans

By **Allan Roth**



(iStockphoto)

Savers are pulling money from 529 college plans, according to Investment News magazine. A recent article notes that for the first time in three years, more money flowed out of 529 plans than they took in.

About $354 million was yanked out of the plans in the third quarter, compared with $900 million of inflows a year earlier. This was the first time the plans suffered net outflows since the third quarter of 2008, when the stock market began a plunge.

Total assets in 529 plans amounted to $134.6 billion for the most recent period, down from $149.8 billion in the previous quarter. The drop reflected not only withdrawals, but market declines and costs as well.

All 529 plans are not equal

Digging one layer deeper, the $354 million of net withdrawals comprised $577 million pulled out of advisor-sold plans, which was partially offset by $223 million of inflows into direct-sold plans. Advisor-sold plans have much higher fees, which goes to compensate the advisors.

I've done extensive research into 529 plans, and based on my findings, I have the bulk of my son's college money in the Utah 529 plan, which I think is the best in the nation. I spoke with Lynne Ward, director of the Utah plan, who told me that they took in about $54 million for the most recent quarter, or nearly 25 percent of the nation's direct-sold assets for that three-month period.

Could it be that consumers are wising up and bypassing advisors to achieve higher returns by paying lower costs? Though one quarter certainly doesn't qualify as a trend, it's a hopeful sign.

What this means for you

In selecting a 529 plan, always start with your home state -- see if it offers a tax deduction or credit. SavingforCollege.com or Morningstar are great places to start your search. If your home state does offer a tax deduction or credit, see if it also has a direct-sold plan with total expenses under 0.50 percent annually. You're probably better off contributing to your own state plan, as the value of the tax deduction is usually greater than the losses from higher fees.

On the other hand, if your state does not give you a deduction -- or it has outrageously high fees -- consider one of the lowest cost direct plans that I wrote about earlier this year. If you contribute to a college 529 savings plan, make sure the money is working for your beneficiary, rather than for your advisor.