

# What Are The Best 529 Plans? Part I

First off, we're not big advocates of saving for college in a 529 plan. The lack of liquidity, guarantees and risk of your money not being there when you need it doesn't bode well with our philosophy of safety and certainty. That said, we realize that for some families, 529 plans may be the right choice for them, and doing something is better than nothing. However, not every 529 Plan is created equal. So if you're going to go with one, here's what you need to know to choose the right one.

You probably already know that every state offers its own 529 plan. Many states offer more than one.

However, you aren't limited to 529s offered by your state of residence.

The fact is, you can choose from a wide variety of 529s, from virtually every state. And, unless your state offers tax breaks for residents, you'll often find the best plans are found elsewhere.

What's more, the state that offers a 529 has no bearing on where the money goes. You can be a resident of Florida, invest in a Nevada 529, and use the money in for a California school.

With that much freedom, it makes sense to shop around. Here's a helpful rundown of the top-performing 529s to get you started (IMPORTANT NOTE: please remember that past performance is by no means any indication of future results and please make sure to consult with your CPA or tax advisor when determining the deductibility of 529 plan contributions).

## **#1: Nevada's USAA 529 College Savings Plan.**

Not only did this plan show the best return for 2010 as of September (the latest date with data), but it also has the best return over the past three and five years. It's open to everyone – and there are no tax breaks for Nevadans, so you know you're getting about as good a deal as possible (Nevadans have a nominal \$15 annual maintenance fee waived).

There is no enrollment fee, and there's a relatively low investment fee of 0.63%-1.12%. Finally, the plan can be age-based – so investments go from high-risk high-reward to much safer instruments as the beneficiary approaches college age.

## **#2: Louisiana's START Saving Program**

Sadly, this particular plan is only available to Louisiana residents. However, for those who do live in Louisiana, it's subsidized – there are no fees charged to savers. The state covers all costs beyond the actual money being saved and invested.

Considering this plan ranked so high in 2010 – and came in 4<sup>th</sup> for five year performance – it's the clear-cut choice for any resident of the Bayou state.

## **#3: Michigan's Education Savings Program**

On top of having one of the best-performing portfolios, this plan has astoundingly low fees. There are no enrollment or maintenance fees, and the management fee is a skimpy 0.35%. There is even a plan option – the Principal plus Interest option – for which there are absolutely no fees whatsoever.

What's more, until last year, Michigan was offering a matching grant option for state residents. For those earning less than \$80,000, Michigan would pony up a dollar for every three contributed, up to a maximum of \$200 from the state. This bears mentioning because this grant money may return as the economy improves.

If you're in Michigan, you've got nothing to lose – literally. The plan's low-to-no fees makes sure of that. It's arguably the best option for out-of-staters, as well, given how low the fees run. Given its consistency – amongst the top three performers over three and five years as well – this plan should be on everyone's short list.

#### **#4: Virginia's Education Savings Trust (VEST)**

Here's another plan with exceptionally low fees. The VEST plan runs from 0.20%-0.98% of total asset value, with a small \$25 annual maintenance fee.

But that's not all that makes this plan attractive. Not only is its portfolio healthy, but Virginia residents get to deduct contributions up to \$4,000 a year for state income tax purposes. If you go over \$4,000 for one year, you can carry the excess forward to another year when you don't contribute as much.

#### **#5: South Dakota's CollegeAccess 529**

Unlike the first four plans on this list, South Dakota's is direct-sold, meaning it can be bought without the use of a broker. That can save you some transaction fees right at the start.

Unfortunately, only South Dakota residents can take advantage of this, along with the fund's low 0.52%-1.05% management fees. There is no tax break for residents – simply because there is no state income tax whatsoever in South Dakota.