



Simple Truth:
It's important to weigh costs

*Source: Lipper Inc. as of 12/31/2007



The average investment company charges six-times more than Vanguard.*

[Learn more »](#)



Vanguard

Obtain prospectus. All investments are subject to risk. Vanguard Marketing Corporation, Distributor.
© 2009 The Vanguard Group, Inc.

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit www.djreprints.com

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

THE WALL STREET JOURNAL.

WSJ.com

THE INTELLIGENT INVESTOR | MARCH 20, 2009, 5:55 P.M. ET

Did Your College Savings Plan Blow Up on You?

By JASON ZWEIG



It hurts to lose your own money in the market, but losing the money you have set aside for your children is agonizing. Just look at what has happened to "529" plans.

At their best, 529s are a safe and sensible way to save, tax free, for your children's college expenses. At their worst, they offer irresponsibly risky exposure to stocks and appallingly bad investments that can blow parents' money and students' dreams to smithereens.

All too many families have gotten the worst. Of the 3,506 options (including funds with different sales charges) in college plans tracked by Morningstar, 93% fell in value over the past year, and 1,098 lost at least 40%.

Of course, the stock market was down 43% over the same period. But the popular "age-based option" for 529s is supposed to protect investors. It should work like this: A young child's account starts out primarily in stocks; with each passing year, more money moves into bonds and cash. By the time the student hits college, less than 20% of the money should be at risk in stocks -- limiting the potential damage from even an epic bear market to 10% or so.

That is vital. Students typically have a finite period, often only four years, during which they spend their 529 savings. They don't have the luxury of waiting for stocks to recover.

Nevertheless, some states pushed students into stocks or out of cash. Last April, Oregon doubled the stock exposure in its "1-3 Years to College" portfolio to 40%. In 2004, an in-college student in Rhode Island's aggressive age-based portfolio would have had 40% stocks, 31% bonds and 29% cash. By 2008, the equivalent was 40% stocks (including real estate), 55% bonds and a measly 5% cash.

Other plans took too much risk all along. In Utah, college enrollees could have 65% in stocks. Several states, including Maine and New Mexico, offered 529 portfolios with no allocation to cash for students over the age of 18. Even after North Carolina finally scaled back its risk earlier this month, a college sophomore can still have 43% in stocks, real estate and junk bonds.

Says Mercer Bullard, a securities-law professor at the University of Mississippi: "In some states, the asset allocation for the 16- to 18-year-olds looks as if it was designed by the 5-year-olds."

Unfortunately, the states compounded their bad strategic decisions with even worse tactical choices. One of Maine's portfolios for students 18 or older consisted of the following Oppenheimer funds: 60% Limited-Term Government, 20% Core Bond, 10% Champion Income and 10% International Bond. Gorging on mortgage-backed securities, the first three funds lost 6.3%, 36% and 78%, respectively, in 2008. That portfolio fell 22% over the past 12 months (not including sales charges).

The "Ultra Conservative" portfolio in New Mexico had 0% cash, 20% stocks and 80% in two Oppenheimer bond funds; it fell 23% last year. Some of the same funds blew up 529s in Illinois, Oregon and Texas. "The performance of the Oppenheimer Funds 529-plan portfolios," says a spokeswoman for the fund company, "is not much different than what others have experienced as a result of [the] unprecedented market events [of 2008]."

Assets in 529s, which peaked at \$112 billion at year-end 2007, totaled \$88.5 billion as of this December. Sadly, the public's faith in 529s appears to be based partly on a false premise: that state bureaucrats are good at managing other people's money.

Officials in several states, including Maine, New Mexico and North Carolina, declined or didn't respond to requests for comment; nor did J.&W. Seligman & Co., which ran the riskiest portion of the North Carolina plan.

Contributing to a 529 is still worth it for the tax benefits alone. Visit savingforcollege.com and the plan's own Web site to make sure your teenager is not up to her armpits in the stock market. If she is, transfer to a less-risky option within the same plan. If you can't tell, call the fund company that runs the 529 and demand details on how the money is allocated.

For young children, consider the remarkable deal offered by Ohio's 529: federally insured certificates of deposit from Fifth Third Bancorp with maturities of up to 12 years at yields as high as 5%. But it is tough to beat a risk-free 5% return exempt from federal income tax. What a tragedy that more states didn't offer similar options before it was too late.

Write to Jason Zweig at intelligentinvestor@wsj.com

Copyright 2008 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com