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Where 529 Plans Are Failing



By KAREN BLUMENTHAL

Parents and grandparents have entrusted some \$160 billion to 529 college-savings plans. But when it comes to disclosure and transparency, the tax-advantaged plans score, at best, an incomplete.

In fact, 529 plans fall down in several areas that mutual-fund investors now take for granted. This fall, investment-research firm [Morningstar](#) looked at dozens of 529 plans to see if they disclose basic information, including fund managers, performance and details about popular portfolios.



Claire Manning

Investors who want more details about a plan should start with the plan's disclosure document.

All too often, the researchers came up empty-handed.

"There is not a lot of sunshine in this industry," says Laura Pavlenko Lutton, who leads Morningstar's 529-plan research.

The Municipal Securities Rulemaking Board, which regulates broker-dealers and other underwriters of 529 plans, has been trying to improve disclosures, though industry participants have pushed back. (Because states sponsor them, the plans are considered municipal securities.)

Last year, the MSRB proposed collecting data on 529 plans, including total assets, contributions and withdrawals, and making some of it available to investors through its EMMA website

(www.emma.msrb.org). Last month, after two rounds of industry comment, the MSRB said it would move forward in smaller steps and keep the data private for now.

It also agreed to accept disclosures semiannually instead of quarterly and to set the reporting deadline at 60 days after the end of the reporting period, instead of 30.

The next round of comments is due Dec. 21, and new rules, which must be approved by the Securities and Exchange Commission, could take effect next year.

Down the road, the agency said it hopes to move toward quarterly reports and shorter deadlines and to make some data public, but that would require yet another set of rules.

"The MSRB wants to ensure that 529-plan investors have the information necessary to make informed decisions—especially for something as vital as saving for a child's education," says MSRB Chairman Jay Goldstone. "A comprehensive database of 529-plan information will help us achieve this goal."

Right now, there is little standardized presentation of 529 plans, in which participants typically invest in a basket of mutual funds and avoid federal taxes on gains when the money is used for qualified educational expenses.

Here are some ways the plans could become more transparent.

Include investment performance relative to a benchmark. David Falkof, a Morningstar fund analyst, looked at the age-based investment options at nearly 80 529 plans, which are invested heavily in stocks when kids are young and more conservatively as they age.

He found that less than 20% presented their performance relative to an industry benchmark. About two dozen didn't offer performance data on the age-based options at all, leaving it to investors to look up individual mutual funds and do the math.

Publicly report daily prices. Morningstar asks 529-plan managers to voluntarily report daily net asset values so that it can track performance and compare plans. But of the approximately 4,000 investment options available, it receives daily prices on only about half.

Among the plans that report only monthly: Upromise Investments, a unit of Sallie Mae and the largest provider of 529 plans sold directly to individuals, and TIAA-CREF, the second-largest provider of direct-sold 529 plans. Both companies say they post daily prices on plan websites, and Upromise says it is in discussions about sending data more frequently to Morningstar.

Give more information on age-based options. These options are by far the most popular investment choice. But finding out the specific mutual funds in the portfolio, how those funds have performed and the thinking behind the so-called glide path—how allocations change over time—can take some online sleuthing, even at big providers such as Vanguard Group and [T. Rowe Price Group](#).

By contrast, on Web pages for their so-called target-date funds—the retirement equivalent of age-based options—those firms list the underlying mutual funds on the overview pages and provide more details about performance and how the funds are constructed.

One reason, the firms say: The 529 sites get less attention than target-date fund pages, which attract far more investment dollars. T. Rowe Price says its 529 site will get a makeover next year.

Provide information on assets and other details. Mutual-fund investors have grown accustomed to seeing a fund's assets and information about the portfolio manager, as well as details about the underlying stock holdings or the credit quality of the bond holdings. But little of this is available at 529 sites, requiring investors to look up individual mutual funds on their own.

In addition, 529 plans rarely disclose the total assets invested in various options or contributions or withdrawals to plans. In letters to the MSRB, some firms argued that this is proprietary information that might confuse investors.

So what can you do to be more informed? Investors who want more details about a plan, such as the thinking behind the age-based investment options and what is in them, should start with the plan's disclosure document.

If the document isn't easily available on the plan's website, you will find most of them listed on EMMA under 529 plans.

You also can call the fund companies or the state office that runs the plan and ask for more information. And if you think your plan should be more transparent or offer more disclosure, let the state officials in charge know.

"I'm elected," says Michael Fitzgerald, treasurer of the state of Iowa and chairman of the College Savings Plan Network, the states' network for sharing 529-plan information. If investors aren't satisfied, he says, "I'll pay the consequences."

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