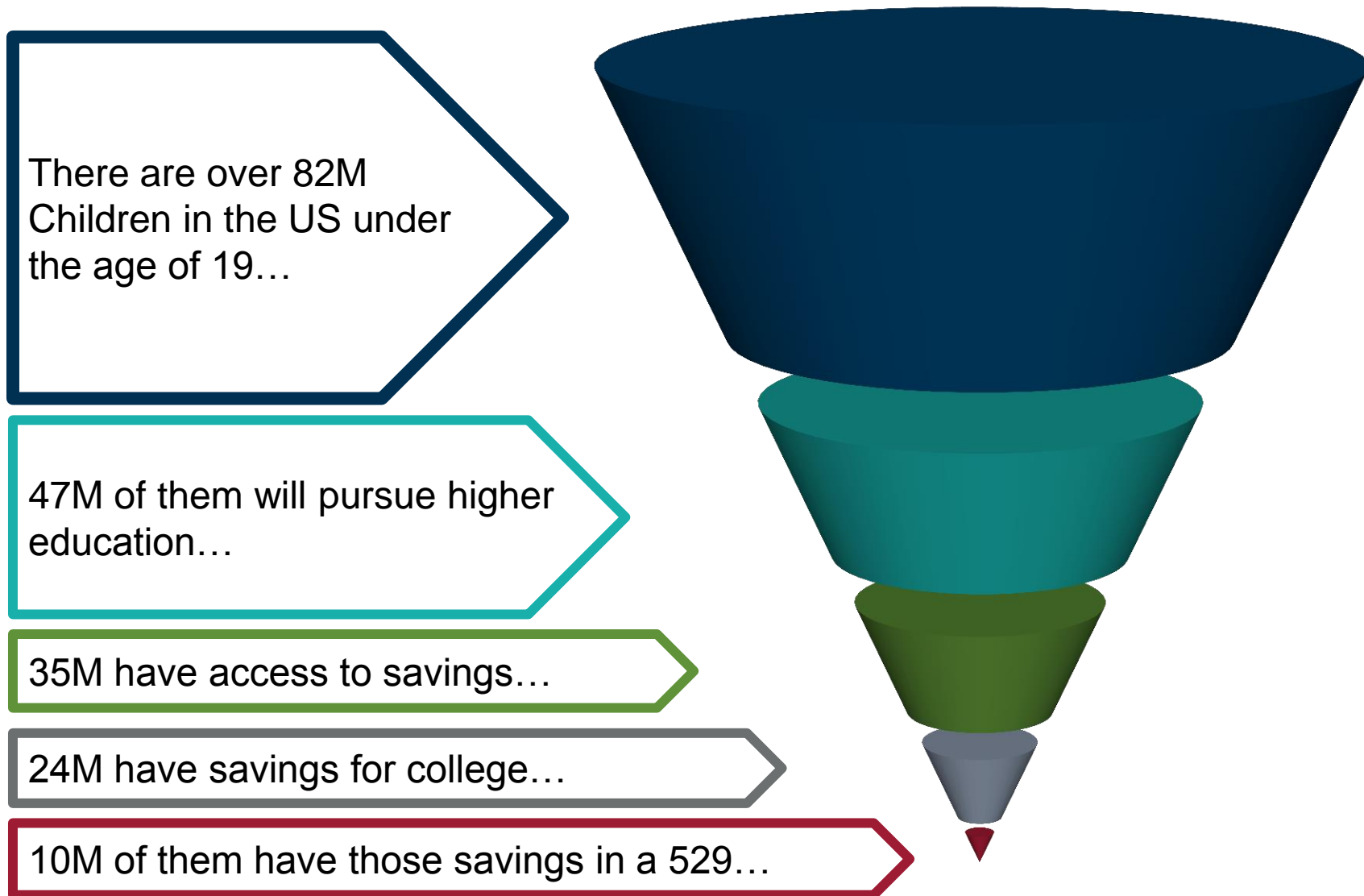


# 529 Plans: Case Study for State Sponsored Private Sector Offering

John Heywood, February 12, 2015

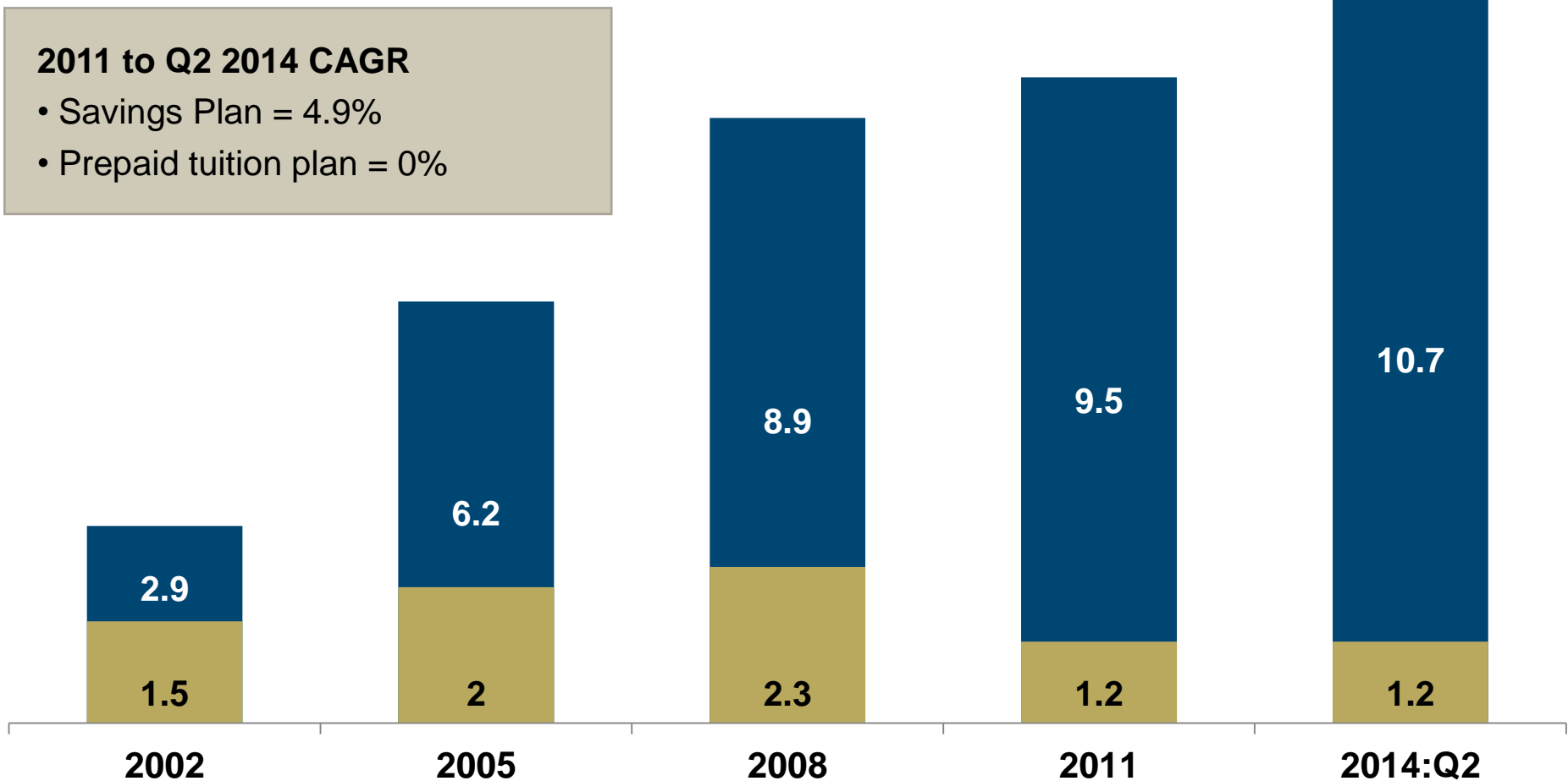
# College Savings: Market Size & Potential Growth



# 529 Account Penetration

529 Plan Accounts: *Millions of accounts/contracts, end-of-period, 2002-2014:Q2*

- 529 Savings plan accounts (M)
- 529 Prepaid tuition plan accounts (M)



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Source: ICI, as of 06.30.2014 [http://www.ici.org/research/stats/529s/529s\\_14\\_q2](http://www.ici.org/research/stats/529s/529s_14_q2)

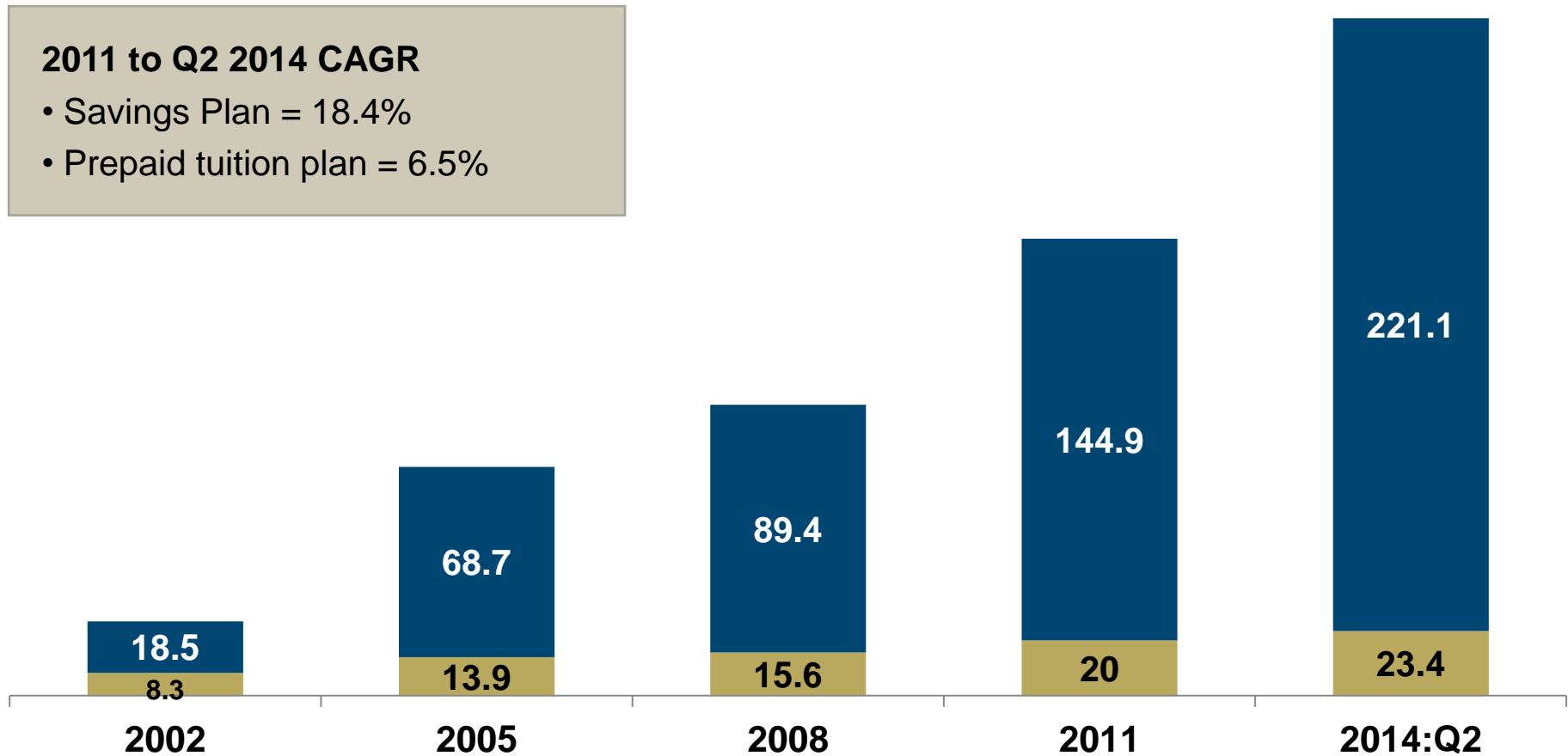
# 529 Plan Assets

529 Plan Assets: *Billions of dollars, end-of-period 2002-2014:Q2*

- 529 Savings Plan Assets (\$B)
- 529 Prepaid tuition plan assets (\$B)

## 2011 to Q2 2014 CAGR

- Savings Plan = 18.4%
- Prepaid tuition plan = 6.5%

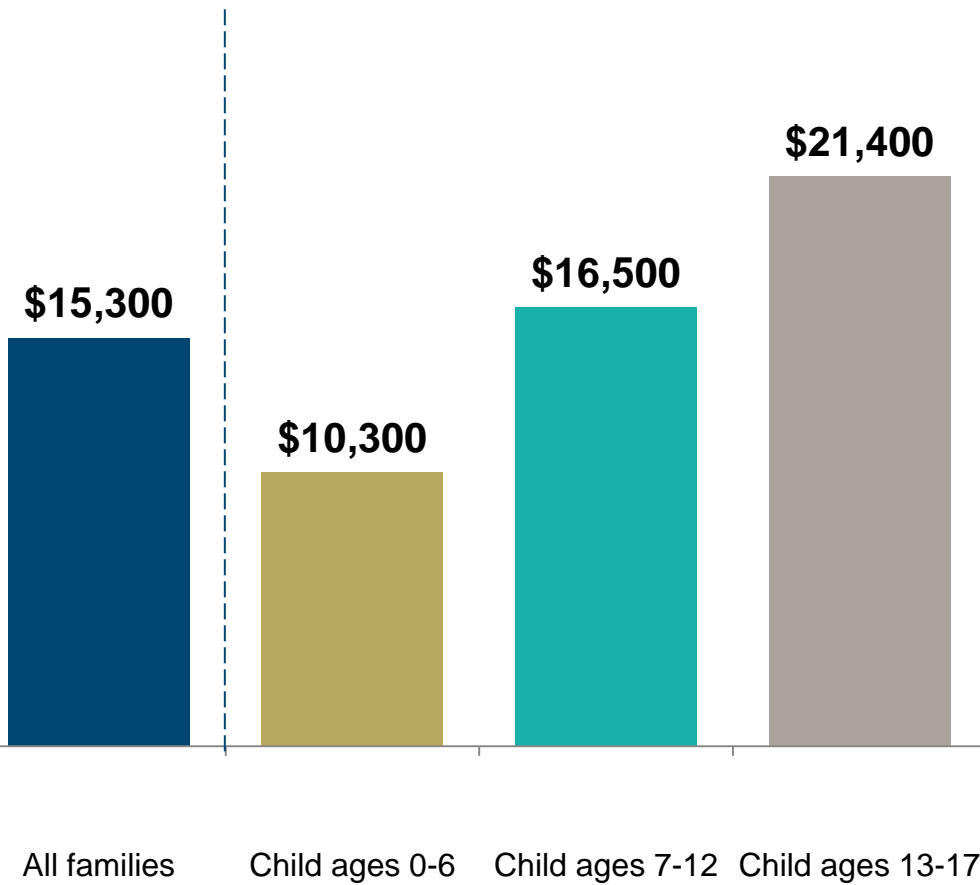


Source: ICI, as of 06.30.2014 [http://www.ici.org/research/stats/529s/529s\\_14\\_q2](http://www.ici.org/research/stats/529s/529s_14_q2)

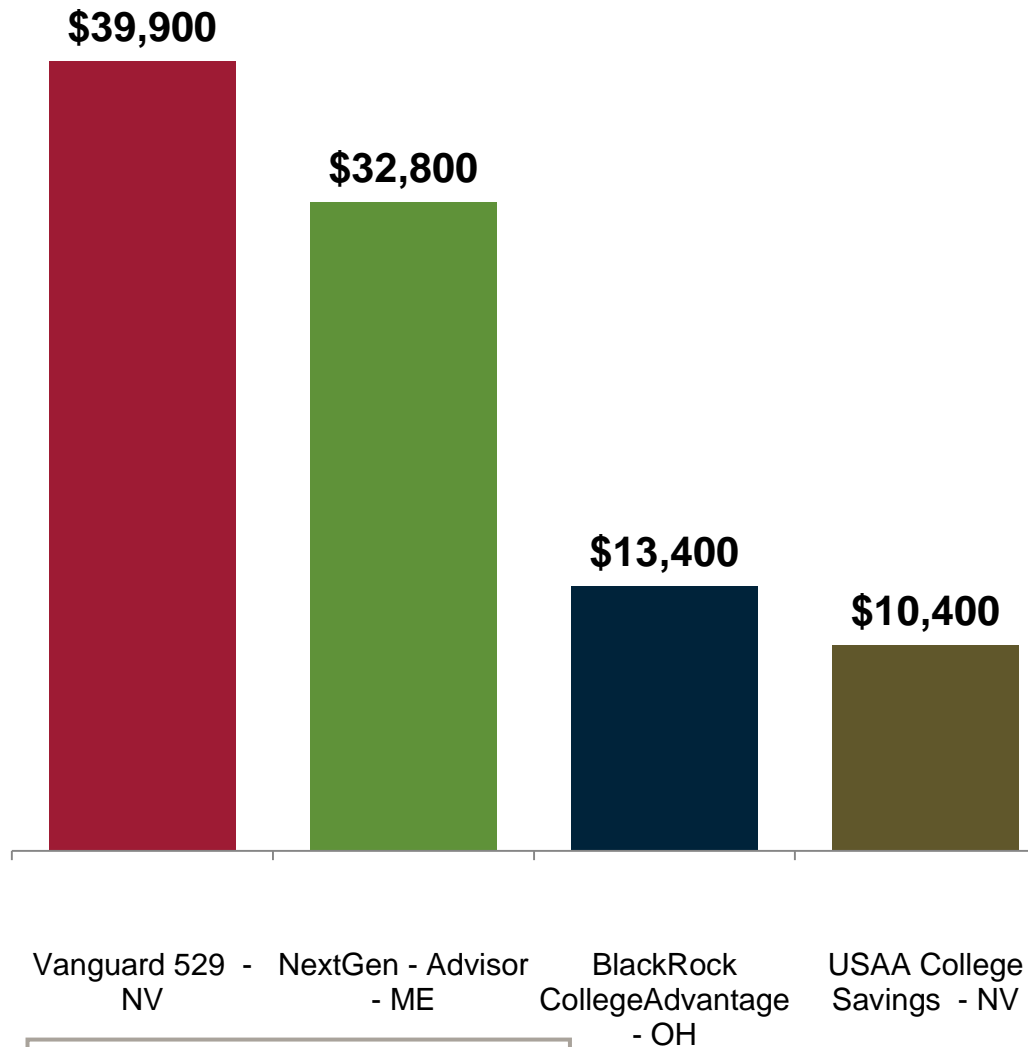
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# Average Amount Saved for College

Average Amount Saved for College, by Age of Child



Highest & Lowest Average Account Size (Top 25 529 Plans)



*Industry average \$17,300*

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Source: Sallie Mae, as of 04.09.2014, Strategic Insight, as of 09.30.2014

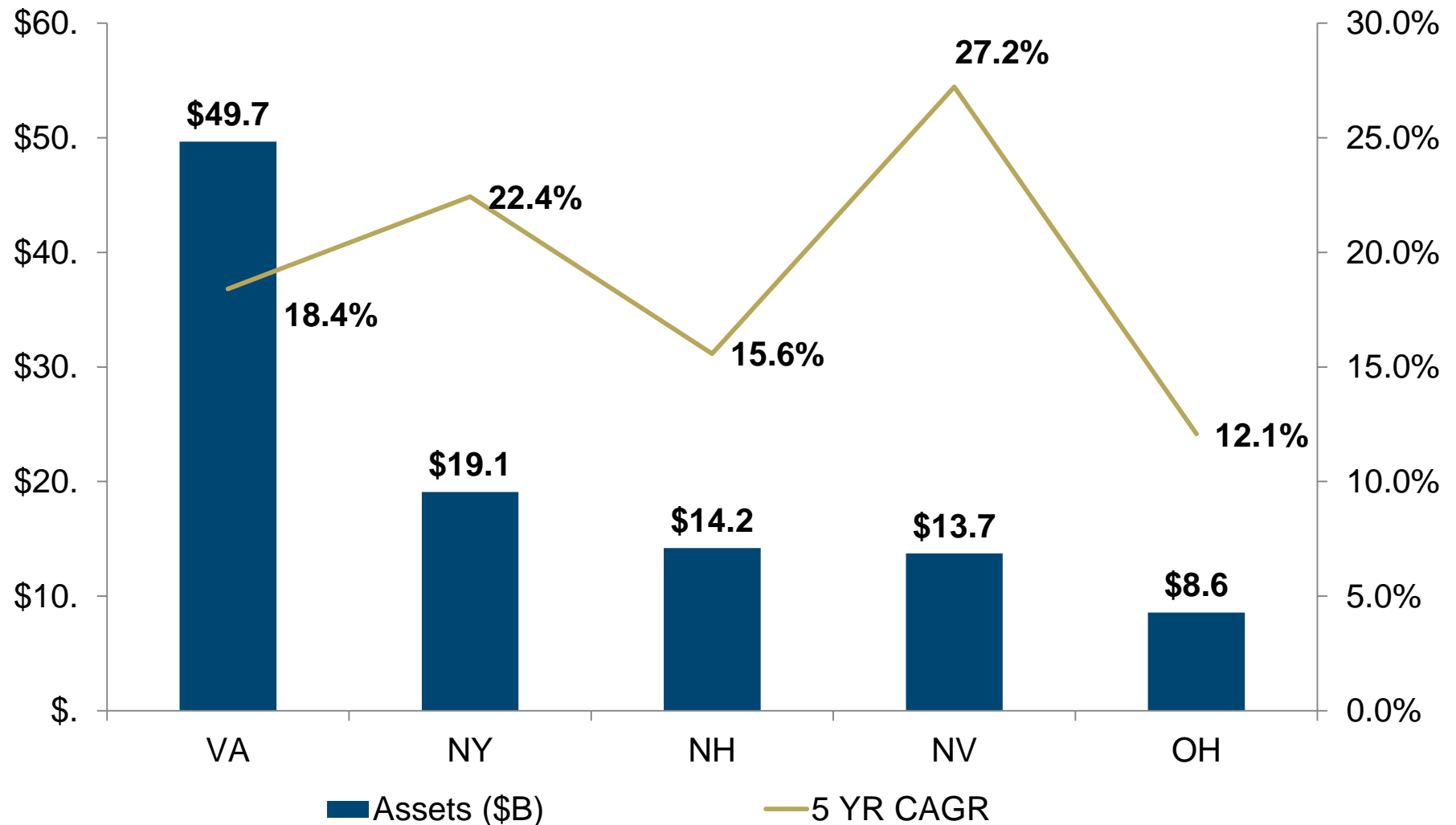
# 529 Plans: Balance Size – Impact on Expense

How does average account size impact the cost of administering a plan?

Average Account Size (\$)	Cost of \$25/Account Administration (%)
\$5,000	0.50%
\$10,000	0.25%
\$25,000	0.10%
\$60,000	0.04%

# Top 5 States: 529 Plan Assets

## Top 5 State Sponsors as of Q3 2014



# 529 Plans: Consumer Views

What are some elements of note for consumers of 529 plans?

Appealing elements	Challenges + Issues
1) “Bucketing” of savings towards goals	1) Reduced withdrawal flexibility vs. regular savings; higher costs than mutual funds
2) Endorsements from states and “financial experts”	2) Limited investment options and flexibility
3) Tax Savings <ul style="list-style-type: none"><li>- Federal/State Income</li><li>- State Incentives (30 +/- States)</li><li>- Federal/State Estate Tax benefits</li><li>- No income eligibility limits</li></ul>	3) Tax costs and penalties associated with non-qualified withdrawals; gift tax regulations
4) Professional investment management	4) Administrative rules and lengthy disclosures



# 529 Plans: State Sponsor Views

What are some elements of note for State Sponsors of 529 plans?

Appealing elements	Challenges + Issues
1) A clear value-add service to a wide swath of state constituents	1) Need for private partner to participate with differing motives than state sponsor
2) An ability to direct efforts and pricing to broad population rather than just to large-balance accounts	2) Reputational issue for state government if something goes wrong
3) Flexibility to outsource (or insource) most elements	3) The time intensive challenge of exercising fiduciary role, especially if changes are made
4) An opportunity to generate revenues to cover (or exceed) direct costs	

# 529 Plans: Private Partner Views

What are some elements of note for program managers, investment companies and recordkeepers of 529 plans?

Appealing elements	Challenges + Issues
1) Strong and growing client interest	1) State serving as fiduciary
2) Product that has similarities to retirement plans	2) Small average account size; typically with no low balance fees
3) Sufficient market size that makes fixed/setup costs worthwhile	3) Unique complexities in regulation, recordkeeping and servicing across 86 plans
4) Tax benefits offered at federal + state level	4) State being an “institutional buyer” with negotiating clout and an ability to move all assets at once
5) State endorsement	5) Occasional sharp change in direction with state personnel change
6) An ability to work with new clients or strengthen existing client relationships	6) Complexity of state tax implications for out-of-state clients

# Key Elements for Success

What are the key elements of success of 529 Savings Plans partnerships in public policy goals?



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1) Significant sized opportunity for both state(s) and private sector

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2) Strong consumer interest in plan objective

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3) State-level experimentation and sharing of best practices

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4) The opportunity to incorporate solutions with a wide variety of risk profiles

- Pre-paid plans
  - Investment-based savings plans
  - Bank account plans
-

# Contact Information



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