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529 plans merit study to achieve high client marks

By Hilary Johnson

College savings plans are gaining ground, and possibly even a few improvements, making it a good time for financial advisers to revisit their value.

State-sponsored 529 plans, numbering over 100 in 49 U.S. states and Washington, D.C., had an estimated $248 billion in assets as of December 2014, reflecting a growth rate of over 9 percent since 2013, according to data from the College Savings Plans Network, an affiliate of the National Association of State Treasurers.

Politicians have also rallied around the tax-advantaged plans, following a kerfuffle earlier this year when President Barack Obama suggested that 529s lose their tax-advantaged status.

Instead, the U.S. Congress may soon pass a bill that improves upon 529 plans, including a new provision allowing students to buy computers with the funds.

Still, there is some room for client education.

General savings accounts are widely used for college savings, according to a recent survey by education lender Sallie Mae. Nearly half of the 1,988 parents surveyed stashed funds in savings accounts compared to 27 percent who had 529 plans.

The 529 plans are similar to Roth IRAs because they allow federally tax-deferred growth of assets, and often at the state level as well. The money is potentially tax-free if clients use it for approved higher education costs.

"They are the best gift the government has given us for education savings," said Michael Nunno, a Wells Fargo & Co adviser in Doylestown, Pennsylvania.

Sorting through all the options - state by state - takes work. The analysis for financial advisers is trickier, because clients often seek help when their children are teenagers, or past the ideal time to realize the benefits of compounding that could have began when their children were toddlers. By then, the prospect of retirement planning is also pressing.

Nonetheless, they can still be a viable tool at least three years before college, or when graduate school may also be in the offing, said Tony D'Amico, chief executive of The Fidato Group in Strongsville, Ohio.

At that stage, families can effectively buy a little more time for compounding, and if plans change midstream, other family members, or even a parent, can use the funds.

The plans also give D'Amico a way to offer clients a break. He favors low-cost Ohio plans for state residents, sold directly by the state. He helps clients fill out the forms, but then keeps that money out of the 1 percent to 1.5 percent he charges on assets under management.

Nathan Bachrach, chief executive of Simply Money in Cincinnati, said he also considers 529s "courtesy accounts." Still, he stressed, they should not be automatic for every client. Parents must consider factors such as choosing a public or private school, and how much to contribute to their children's education, if anything.

Moreover, focusing on college but not retirement can leave parents in a predicament, said Beth Walker, a financial planner for Wealth Consulting Group in Las Vegas.

College planning "is not just this easy-button answer," Walker said. "It has to be done in the context of a bigger-picture plan."

(The writer is a Reuters columnist. The opinions expressed are her own.)

(Reporting by Hilary Johnson; editing by Suzanne Barlyn and G Crosse)