

New Push for 529s - Advisers have added reasons to suggest these plans.

By ANNAMARIA ANDRIOTIS

Wall Street Journal Updated November 2, 2012,

If your financial adviser has never mentioned a 529 college-savings plan to you, that could change. A growing number of advisers are rolling out new pitches for this often-ignored investment vehicle.

Ms. Andriotis explains why advisers are talking more about 529 college-savings plans these days.

One reason is that two firms, Edward Jones and Pershing LLC, a Bank of New York Mellon Corp. BK +0.70%affiliate, have rolled out platforms that make it easier for advisers to invest clients' money in the most popular adviser-sold 529 plan and to track those holdings along with clients' other investments. That convenience is likely to expand to more 529s and firms over time.

Meanwhile, pending tax changes have given advisers a timely reason to talk up the tax-favored 529 plans now—although clients should be sure to weigh other considerations along with tax factors.

"It's certainly a vehicle that has come back on the radar screen for a lot of us," says Deborah Fox, a San Diego-based financial planner and founder of Fox College Funding LLC.

The latest push comes as 529 plans, despite being around since the 1990s, remain unused by many potential investors. Roughly 10 million investors have a 529 college-savings plan, according to Financial Research Corp. The firm says only 35% of parents saving for college are using 529s.

It's Getting Easier

The advantage of 529s is that investment gains and withdrawals are free from federal taxes, as long as the money is used for qualified expenses. In most cases you also don't pay state taxes on the earnings, regardless of the state plan you invest in. Many investors go out of state to find better returns, and money can be moved around from one plan to another as often as once every 12 months. Investments are made with after-tax money for federal tax purposes; many states offer a tax deduction for contributions.



Alison Seiffer

Some advisers haven't made a big push for 529 business because of the hassles involved. In most cases, advisers handling 529 investments for their clients have to mail the clients' initial applications and checks for processing.

And subsequent investments can take days to execute.

Those nuisances are now gone for a slice of the 529 market. For clients who want to invest in Virginia's American Funds CollegeAmerica 529 plan—which is available only through financial advisers—advisers at Edward Jones and advisers using the Pershing platform can open an account and make an investment the same day a client makes a request. Subsequent investments for the plan also can be done the day they're requested. (However, you can only go into a 529 plan to make investment changes once every calendar year, says Joe Hurley, founder of Savingforcollege.com, which tracks 529 plans.) If clients have other investments with the firms, advisers can view the 529 assets as part of clients' overall portfolios, so they can look out for red flags like overexposure to one type of asset.

Edward Jones and Pershing say that they chose this Virginia plan partly because it is the largest 529 by assets, with \$33 billion at midyear, and that they plan to expand the program to other plans soon.

Some caveats for investors who may hear a pitch from an adviser to invest in the Virginia 529: While Morningstar Inc. MORN -1.26% says the American Funds plan has among the lowest expenses for an adviser-sold plan, investors may still pay less with a plan they can buy directly. And non-Virginia investors may lose out on state-tax benefits by not buying a plan from their home state. Investors also can consider various plans' historical returns when choosing a 529.

A Tax Angle for Some

Meanwhile, some advisers say they're talking to some wealthy clients—particularly grandparents—about the benefits of using 529 plans right now for estate-planning purposes, before a possible big change in gift taxes.

Investors are allowed to transfer \$13,000 annually to each of their descendants as a tax-free gift. But in addition to that, as of now they can transfer up to \$5.12 million to descendants over their lifetime, including distributions from their estate, tax-free. Next year, unless Congress acts, that lifetime exemption will drop to \$1 million. So this may be a good time to make big contributions to 529 plans for descendants.

While most 529 plans have a total contribution limit of \$250,000 to \$350,000 per beneficiary, investors can contribute to 529 plans for several beneficiaries. And they can retain control of that money: Account owners can withdraw any portion of the balance in their 529 plans if they ever need it. (Any investment gains from the plan that are withdrawn and aren't used for qualified higher-education expenses are taxed at ordinary-income rates and could incur a 10% tax penalty as well.)

Advisers also point out that if all the funds in a 529 plan aren't used by the child for whom the account was created, the beneficiary can be changed so that the plan can be used by another family member.

Ms. Andriotis is a senior writer for MarketWatch.com. Email her at