



ADVISER FUND UPDATE

Market Summary and Commentary for Individual Investors from Adviser Investments



February 27, 2015

Adviser Investments Named to *Barron's* Top-5

Adviser Investments has been ranked #4 on *Barron's* list of the "Best Massachusetts Financial Advisors" in its Feb. 23, 2015 issue. The ranking is based on assets under management, revenues generated, regulatory record, quality of practice and philanthropic work as determined by *Barron's* editors.

This follows Adviser Investments placing 24th on *Barron's* ranking of the Top 100 Independent Financial Advisors in the U.S. and 8th on its list of "Best Massachusetts Financial Advisors" in 2014.

We think this is a great testament to our firm's dedication to offering top-quality investment management to a broad range of investors, and we're honored to be recognized once again.

To read our full press release, [please click here](#).

529 Plans in the Spotlight

In January's State of the Union address, President Obama proposed a fundamental change to the tax benefits of 529 plans. He suggested that investment earnings be taxed as income and that the revenue be used to expand a tuition tax credit targeted at the middle class. Within a week, he had abandoned the proposal amid uproar from both political parties and parents nationwide. The volume of the backlash was telling testimony of the popularity of these college-savings plans with people who use them, and provides a good time to review what they are and how they work.

A Smarter Way to Save for College

529 plans are fantastic, tax-advantaged vehicles designed specifically for investors helping a child, relative, friend or even themselves save for tuition and expenses related to higher education. Plans are sponsored by states, generally in partnership with a mutual fund company or institute of learning, and usually offer either a number of investment options to choose among or a means of locking in a tuition rate. Anyone can set up a 529 plan for a designated beneficiary, and all withdrawals that go towards "qualified educational expenses" (which include tuition, room and board, books, a computer and peripherals, and even internet

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access) are exempt from federal and (usually) state taxes.

There are no income restrictions and no limit to the number of plans you can enter into, though withdrawals above and beyond the costs of those qualified education expenses (or non-qualified withdrawals in general) are subject to federal and state income tax, as well as a 10% penalty.

Even though 529 plans have been around since 1996 (the "529" comes from the relevant section of the Internal Revenue Service's tax code), a May 2014 Edward Jones survey found that 70% of participants did not know what they were. Despite this relative lack of awareness, as of June 2014, there were 11.8 million active 529 accounts nationwide, accounting for more than \$244 billion in total assets.

With the average annual cost of tuition, room and board at a four-year private college continuing to soar (up 3.6% year-over-year to \$42,419 in the 2014–2015 school year, and considerably more at the most exclusive schools), parents, grandparents and other interested benefactors cannot start saving soon enough.

Two Types of 529s, Equally Tax Exempt

529 plans come in two flavors: Savings plans and prepaid tuition plans—take a look at the table below to see a list of characteristics for each. States have their own unique plans, and are allowed to offer both savings plans and prepaid tuition plans. Many states do offer additional tax benefits for residents, but you are not restricted to the plan in your home state. For certain investors, it will be worthwhile to explore plans in other states to find the best fit.

Savings Plans

A good comparison for savings plans is a Roth IRA, to which you contribute after-tax income and then can make tax-free withdrawals from in retirement (for more on Roth IRAs, [please click here](#)). A 529 plan operates under the same basic principle (contributions cannot be deducted from your federal taxes), but is solely geared to the costs of college or university. Your 529 will be invested in mutual funds, so your return depends on the performance of the holdings in your portfolio. You'll have the opportunity to invest in a selection of individual stock, bond and money market funds, and many plans feature pre-made portfolios, including age-based options that automatically reallocate funds from stock holdings to lower-risk bond and money market funds as the beneficiary gets closer to college age.

The Two Types of 529 Plans

College Savings Plan	Prepaid Tuition Plan
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No lock on secondary education costs.	Locks in tuition prices at eligible public and private colleges and universities.
Covers all qualified higher education expenses: Tuition, room and board, fees, books, computers, internet access.	Plans cover tuition and mandatory fees only.
Many plans have contribution limits in excess of \$300,000 per beneficiary.	Most plans set lump sum and installment payments prior to purchase based on age of beneficiary and number of years of tuition purchased.
Investment options are subject to market risk. Your investment could decline in value.	Many state plans backed or guaranteed by the state.
No age limit. Open to adults and children.	Most plans have age/grade limit for the beneficiary.
No residency requirement. Nonresidents may only be able to purchase some plans through financial advisers or brokers.	Most state plans require owner or beneficiary to be state resident.
Can change beneficiary to another family member if money is no longer needed.	Refunds or transfer options vary state by state.
Enrollment open all year.	Most plans have limited enrollment period.

Source: *Smart Saving for College*, NASD.

Investors have two types of savings plans to choose from. In direct-sold savings plans, investors buy 529s directly from a given state's plan, are responsible for their own research and pay no sales charges. This type of plan is good for the cost-conscious, do-it-yourselfer who doesn't mind taking the time to research which state's plan is the best fit and is comfortable choosing among the available investment options.

If you do not wish to pick your own investments, you can go through a broker, who will invest your money for you, but at a price. Broker-sold programs can be subject to fees, sales charges and/or annual distribution fees, all of which can cut into your potential gains.

Prepaid Tuition Plans

Any college, university, vocational school or other postsecondary education institution is generally eligible to participate in prepaid tuition plans. This type of 529 plan enables college savers to buy credits at participating schools to lock in future tuition prices. Most prepaid tuition plans are sponsored by state governments for

residents, and cover tuition and fees only (books and room and board are excluded). They are typically guaranteed by the state backing them.

With prepaid tuition plans, you are not investing in mutual funds—instead, you are making a bet against rising tuition prices. Depending on the state or plan, there may be some flexibility as to where you can apply your credits, but these types of plans are often optimized for in-state school tuition—for out-of-state or private schools, you may find yourself having to make up the difference between the plan's assigned value and tuition out of pocket (some private schools do participate in prepaid tuition plans, however). It should be noted that many of these plans require you to start investing years before your beneficiary is of college age, and they do not guarantee admission to participating schools. If your beneficiary chooses not to attend college or is not accepted, most states have refund options, or the plan can be transferred to another family member. Prepaid plans can be a good fit for some, but they have more strings attached than savings plans and offer less of an opportunity to grow your investment beyond the cost of in-state college tuition.

Next Steps

There are many considerations in finding the best college savings investment plan for you. We recommend consulting with a trusted financial adviser to determine the best fit. Stay tuned for updates in the coming months that delve deeper into individual states' plans and benefits.

About Adviser Investments

Adviser Investments and its subsidiaries operate as an independent, professional money management firm with particular expertise in Fidelity and Vanguard mutual funds. With 2,600 clients and more than \$3 billion under management, Adviser Investments is one of the nation's largest mutual fund research and money management firms. Our investment professionals focus on helping individual investors, trusts, foundations and institutions meet their investment goals. Our minimum account size is \$350,000. In 2014, Adviser Investments was named to *Barron's* list of the top 100 independent financial advisers nationwide and its list of the top advisory firms in Massachusetts for the second time in 2015. We are also recognized on the *Financial Times* 300 Top Registered Investment Advisers list.

For more information, please visit www.adviserinvestments.com or call 800-492-6868.

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The *Barron's* rankings reflect the volume of assets overseen by the advisers and their teams, revenues generated for the firms and the quality of the advisers' practices, as determined by its editors.

Editors at the *Financial Times* bestowed "elite" status on 300 firms in the U.S., as determined by assets under management, asset growth, longevity, compliance record, industry certifications and online accessibility.