
529 College-Savings Plans Industry Survey

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Executive Summary

For more than a decade, 529 plans have played an important role for college savers preparing for the costs of higher education. Morningstar provides data on 84 traditional 529 plans, which are included in this study. Assets in 529 plans continue to climb, and plan sponsors have generally hired capable asset managers to run their plans' assets. That said, performance across 529 plans continues to lag that of traditional open-end mutual funds, as the relatively hefty expenses for 529 plans continue to be a tough hurdle. Still, tax benefits can minimize this performance gap on an aftertax basis.

Key Takeaways

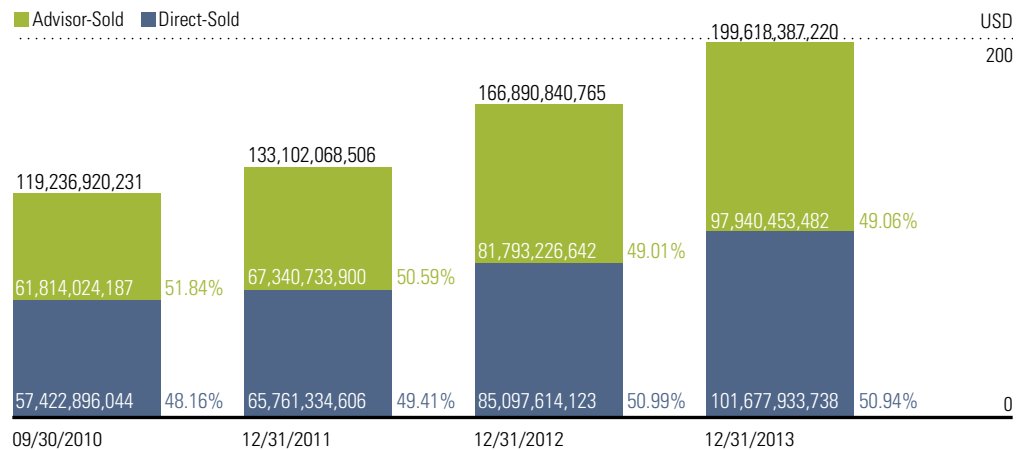
- ▶ Assets in 529 plans grew 20% in 2013 to \$200 billion, fueled in part by strong gains in stocks.
- ▶ Direct-sold and advisor-sold 529 plans have reached nearly equal market share.
- ▶ Direct-sold open-architecture plans have earned higher risk-adjusted results than closed-architecture plans, a shift from prior years.
- ▶ 529 categories continue to lag their traditional open-end counterparts. Age-based 529 options have also lagged behind various blended benchmarks.
- ▶ Costs among 529 plans continue to decrease, although the investment options remain relatively pricey compared with most traditional open-end mutual funds. Dollar-based fees continue to eat away at returns for certain investors in roughly half of 529 plans.
- ▶ Fourteen 529 plans average manager tenure across the underlying funds is greater than 10 years, with open architecture plans and those exclusively featuring Vanguard leading the long-tenure trend.
- ▶ Among the 529 industry's 29 program managers, 15 feature a primary asset manager that's rated Positive by Morningstar, indicating plan sponsors tend to gravitate toward exemplary stewards of capital.
- ▶ The annual Morningstar Analyst Ratings for 529 plans, assigned most recently in October 2013, gave its highest Gold rating to four direct-sold plans. An additional 28 plans earned a Silver or Bronze rating, reflecting Morningstar's view that they are expected to outperform on a risk-adjusted basis after tax benefits over a full market cycle.

Overview

Growth in 529 college-savings plans slowed in 2013 over the year prior, amid strong stock-market gains. Total assets in the industry's traditional college-savings plans rose by 20% to just more than \$200 billion as of Dec. 31, 2013, up from \$166.9 billion a year earlier. This growth excludes prepaid-tuition 529 plans, in which savers purchase tuition contracts from one of a dozen offerings. This growth also excludes two plans, Ivy Funds InvestEd 529 of Arizona and The Louisiana START Saving for College plan, that have not provided timely share-class-level net assets to Morningstar and are therefore excluded from asset-based calculations throughout this paper.

The law of large numbers suggests that the 529 industry's growth will slow as it matures, and a 20% growth rate is admirable, particularly compared with the 12% growth rate for the 15-month period ended Dec. 31, 2011. But it falls a bit short of the 25% calendar-year growth in 2012.

Exhibit 1 Industry Total Assets and Market Share by Direct-Sold and Advisor-Sold Plans



Source: Morningstar, Inc. as of 12/31/2013

Morningstar tracks not only total growth of the 529 industry, but also growth among direct-sold and advisor-sold plans. Direct-sold plans are those in which college savers invest directly in the plans and choose investment options on their own; advisor-sold plans are distributed through financial advisors, who choose investment options on behalf of their clients. In recent years, direct-sold plans had been growing at a faster rate than advisor-sold plans, and in 2012, direct-sold plans held 51% of the industry's assets. In 2013, however, advisor-sold plans' growth rate narrowly exceeded that of direct-sold plans, with the split between assets in direct-sold and advisor-sold plans remaining roughly unchanged.

The 529 industry's 2013 growth undoubtedly was helped by strong returns in the equity markets. The S&P 500 Index was up 32% for the period, while the Barclays Capital U.S. Aggregate Bond Index declined by about 2%. Most college savers choose age-based options, in which their assets are diversified between stocks and bonds and assets are shifted from stocks to bonds as beneficiaries get closer to college enrollment. That structure puts many 529 college savers' nest eggs closer to the Barclays Capital U.S. Aggregate Bond Index's 2% loss than the S&P 500's 32% gain in 2013, but most age-based options' asset allocations still contain at least a sliver of exposure to stocks when beneficiaries are 19 years old. (For more on the average asset allocation of 529 plans' age-based options, see the Process section of this paper.)

Diversified Static Options Gain Most New Cash

College savers' preference for diversified investments also is reflected in flows to the plans' static options. Static 529 investment options do not alter their asset mix over time and often are invested in a single mutual fund or unchanging collection of mutual funds. Morningstar tracks new cash into these investments, which are assigned to peer groups called Morningstar Categories.

Exhibit 2 Cash Flows to Static 529 Categories in USD

■ Highest ■ Lowest

Morningstar Category	2013	2012	2011	2010	2009
Conservative Allocation	889,547,970	1,109,143,801	892,100,265	1,014,673,687	586,794,615
Moderate Allocation	840,245,303	1,418,321,493	809,780,775	1,368,769,199	496,214,706
Large Blend	828,980,219	693,922,866	1,103,888,955	757,278,823	519,326,996
Aggressive Allocation	708,433,451	394,566,654	257,504,647	1,174,528,061	169,277,720
Money Market	471,518,110	419,185,876	591,856,476	292,662,445	479,895,688
Non US Equity	214,991,638	-39,579,820	433,956,230	648,306,056	427,525,467
Mid-Cap Equity	181,103,410	58,770,975	101,377,562	102,418,306	45,462,796
Large Growth	173,595,659	68,420,179	160,345,596	371,864,853	286,231,098
Large Value	156,765,572	151,065,642	134,129,318	182,830,912	12,076,063
Small-Cap Equity	134,403,478	131,447,169	70,083,363	108,109,470	36,381,032
Short-Term Bond	71,944,206	282,058,502	281,590,144	316,554,191	356,784,904
US Government	-193,643,664	164,206,929	99,887,204	116,918,667	113,411,600
Intermediate Bond	-255,002,380	1,287,182,092	733,340,119	961,147,602	917,899,315

Source: Morningstar, Inc. as of 12/31/2013

In 2013, three of the top four categories by new assets are allocation categories, which contain a mix of stocks, bonds, and cash. Options in the static conservative allocation category took in the most new assets in the group--about \$890 million. These investments typically have between 20% and 50% of assets in equities and between 50% and 80% in fixed-income and cash. The calendar-year flows figures above show that conservative allocation investments have consistently been among the top recipients of new assets in recent years.

The two static categories in net outflows in 2013 were both bond peer groups, US government and intermediate bond. The withdrawals in these categories may stem from families tapping their 529 accounts to pay for college expenses, but the recent activity also may reflect concerns about rising interest rates, which contributed to the Barclays Capital U.S. Aggregate Bond Index's 2% loss for the calendar year.

Virginia Still on Top of Assets Heap

In addition to tracking assets under management by investment type, Morningstar also looks at assets by state and by plan within the state, as many states have more than one plan. One might expect assets under management to correlate with the state's population, but that isn't necessarily the case.

Exhibit 3 Assets and Market Share by State, Distribution Channel

State	Overall 529 Industry		Advisor-Sold		Direct-Sold			
	Assets USD	Market Share %	Assets USD	% of State Assets	Market Share %	Assets USD	% of State Assets	Market Share %
Virginia	46,780,914,523	23.41	44,225,300,021	94.54	45.06	2,555,614,502	5.46	2.51
New York	17,580,086,509	8.80	2,972,678,847	16.91	3.03	14,607,407,662	83.09	14.37
Nevada	12,788,270,167	6.40	336,403,463	2.63	0.34	12,451,866,704	97.37	12.25
New Hampshire	11,885,546,123	5.95	4,109,187,326	34.57	4.19	7,776,358,797	65.43	7.65
Ohio	7,772,271,812	3.89	4,506,243,889	57.98	4.59	3,266,027,923	42.02	3.21
Rhode Island	7,713,683,579	3.86	7,517,867,057	97.46	7.66	195,816,522	2.54	0.19
Maine	7,595,973,875	3.80	7,450,377,188	98.08	7.59	145,596,687	1.92	0.14
Utah	6,733,533,313	3.37	0	0.00	0.00	6,733,533,313	100.00	6.62
Illinois	6,286,228,739	3.15	3,258,862,030	51.84	3.32	3,027,366,709	48.16	2.98
Alaska	6,070,185,845	3.04	3,917,232,089	64.53	3.99	2,152,953,756	35.47	2.12
California	5,556,746,227	2.78	0	0.00	0.00	5,556,746,227	100.00	5.47
Colorado	5,381,771,878	2.69	3,354,728,392	62.34	3.42	2,027,043,486	37.66	1.99
Kansas	4,232,755,637	2.12	239,382,133	5.66	0.24	3,993,373,504	94.34	3.93
Michigan	3,949,450,020	1.98	268,476,899	6.80	0.27	3,680,973,121	93.20	3.62
Massachusetts	3,905,910,184	1.95	0	0.00	0.00	3,905,910,184	100.00	3.84
New Jersey	3,731,555,588	1.87	2,853,228,049	76.46	2.91	878,327,539	23.54	0.86
Iowa	3,638,171,157	1.82	184,998,820	5.08	0.19	3,453,172,337	94.92	3.40
Maryland	3,621,865,592	1.81	0	0.00	0.00	3,621,865,592	100.00	3.56
Wisconsin	3,453,059,379	1.73	1,512,153,373	0.00	1.54	1,940,906,006	0.00	1.91
Nebraska	3,382,230,321	1.69	1,160,955,771	34.33	1.18	2,221,274,550	65.67	2.18
Indiana	2,598,906,949	1.30	1,488,300,860	57.27	1.52	1,110,606,089	42.73	1.09
Connecticut	2,324,773,510	1.16	224,708,279	9.67	0.23	2,100,065,231	90.33	2.07
New Mexico	2,270,348,982	1.14	1,828,070,646	80.52	1.86	442,278,336	19.48	0.43
Missouri	2,269,761,638	1.14	208,221,860	9.17	0.21	2,061,539,778	90.83	2.03
West Virginia	2,093,958,115	1.05	1,538,616,166	0.00	1.57	555,341,949	0.00	0.55
Oregon	2,038,281,302	1.02	1,024,429,266	50.26	1.04	1,013,852,036	49.74	1.00
South Carolina	1,955,613,828	0.98	1,323,425,677	67.67	1.35	632,188,151	32.33	0.62
Georgia	1,506,628,047	0.75	0	0.00	0.00	1,506,628,047	100.00	1.48
Pennsylvania	1,505,089,123	0.75	0	0.00	0.00	1,505,089,123	100.00	1.48
North Carolina	1,351,211,172	0.68	0	0.00	0.00	1,351,211,172	100.00	1.33
South Dakota	1,165,234,737	0.58	1,138,722,528	97.72	1.16	26,512,209	2.28	0.03
Alabama	1,137,610,978	0.57	944,075,998	82.99	0.96	193,534,980	17.01	0.19
Minnesota	1,097,194,549	0.55	0	0.00	0.00	1,097,194,549	100.00	1.08
Oklahoma	683,232,331	0.34	83,144,663	12.17	0.08	600,087,668	87.83	0.59
Delaware	505,031,256	0.25	0	0.00	0.00	505,031,256	100.00	0.50

Exhibit 3 Assets and Market Share by State, Distribution Channel (Continued)

State	Overall 529 Industry		Advisor-Sold			Direct-Sold		
	Assets USD	Market Share %	Assets USD	% of State Assets	Market Share %	Assets USD	% of State Assets	Market Share %
Arkansas	485,596,115	0.24	206,500,445	42.53	0.21	279,095,670	57.47	0.27
Texas	464,112,347	0.23	171,627,895	36.98	0.17	292,484,452	63.02	0.29
North Dakota	360,141,060	0.18	0	0.00	0.00	360,141,060	100.00	0.35
Florida	347,489,695	0.17	0	0.00	0.00	347,489,695	100.00	0.34
District of Columbia	315,902,909	0.16	89,315,877	28.27	0.09	226,587,032	71.73	0.22
Idaho	279,124,365	0.14	0	0.00	0.00	279,124,365	100.00	0.27
Arizona	255,025,895	0.13	—	0.00	0.00	255,025,895	100.00	0.25
Vermont	222,951,782	0.11	0	0.00	0.00	222,951,782	100.00	0.22
Mississippi	169,307,430	0.08	0	0.00	0.00	169,307,430	100.00	0.17
Kentucky	163,038,420	0.08	0	0.00	0.00	163,038,420	100.00	0.16
Montana	117,285,885	0.06	0	0.00	0.00	117,285,885	100.00	0.12
Hawaii	62,817,142	0.03	0	0.00	0.00	62,817,142	100.00	0.06
Tennessee	9,289,215	0.00	0	0.00	0.00	9,289,215	100.00	0.01
Louisiana	—	0.00	—	0.00	0.00	—	0.00	0.00
Washington	0	0.00	0	0.00	0.00	0	0.00	0.00
Wyoming	0	0.00	0	0.00	0.00	0	0.00	0.00

Source: Morningstar, Inc. as of 12/31/2013

Among direct-sold plans, the state's population certainly has an impact. New York, for example, has the nation's third-largest state population and the second-largest pool of 529 assets at \$17.6 billion as of Dec. 31, 2013. New York offers the nation's largest direct-sold plan at \$14.6 billion.

But less-populous states that market their 529 plans nationally have attracted assets beyond what one would expect given their number of residents. Take Virginia: Its population ranks 12th, but its 529 asset total is by far the nation's largest at \$46.8 billion. It is home to CollegeAmerica, the nation's largest 529 plan at \$44.2 billion. The advisor-sold plan's program manager is American Funds, which distributes its 529 plan nationally through advisors who use American Funds in their clients' portfolios.

Also unexpectedly large from an assets-under-management standpoint is New Hampshire at \$11.9 billion. The direct-sold UNIQUE College Investing Plan and Fidelity Advisor 529 Plan market their Fidelity investment options nationwide. Meanwhile, Nevada sponsors four 529 plans, each of which is advertised nationally. The asset managers represented in Nevada's plans are Putnam, SSgA, USAA, and Vanguard, and they bring the state to number three in 529 assets at \$12.8 billion.

Morningstar's Five Pillars

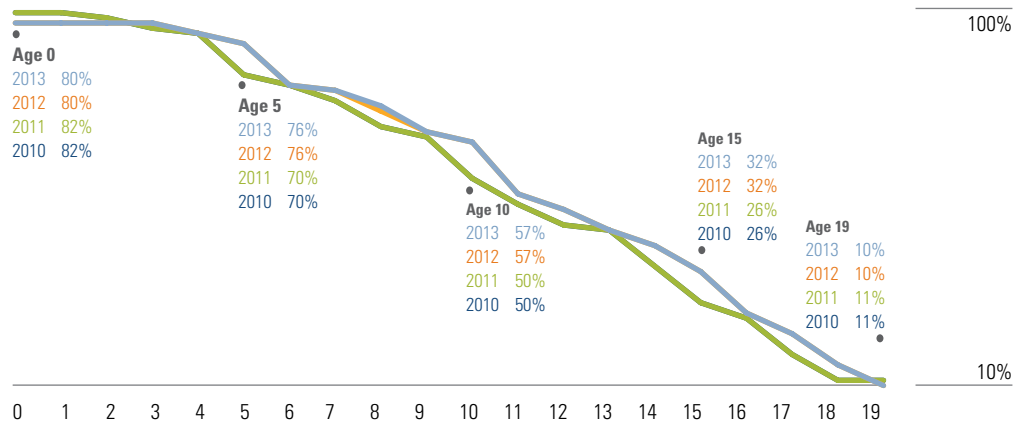
From here, this research paper is organized around the same framework that Morningstar's analysts use when evaluating 529 plans. Morningstar has been providing qualitative research

on 529 plans for more than a decade. In 2010, Morningstar introduced the Morningstar Analyst Rating for 529 Plans, a forward-looking rating that indicates which plans are expected to outperform their peers on a risk-adjusted basis over a full market cycle, inclusive of tax benefits. To determine a plan's Analyst Rating, Morningstar's fund analysts consider five factors: the plan's strategy and investment process; the plan's risk-adjusted performance; an assessment of the plan's manager; the stewardship practices of the plan's administration and parent firm; and whether the plan's investment options are a good value proposition compared with its peers'. The following sections of this survey provide details on select inputs for each component, Process, Performance, Price, People, and Parent.

Process

Most 529 plans offer a range of investments to help plan participants build a diversified portfolio. One of the most popular investments is an age-based track that shifts its asset allocation over time. Age-based tracks (as well as enrollment-based tracks, which are similar but are structured around the beneficiary's college enrollment year) start out with equity-heavy investments when beneficiaries are more than a decade from college enrollment and become primarily invested in bonds and cash by the enrollment date. The timing and degree to which the equity exposure changes are depicted by the track's glide path, which shows the track's equity allocation at various ages of the beneficiary.

Exhibit 4 Average Historical Target Equity Allocation by Beneficiary Age



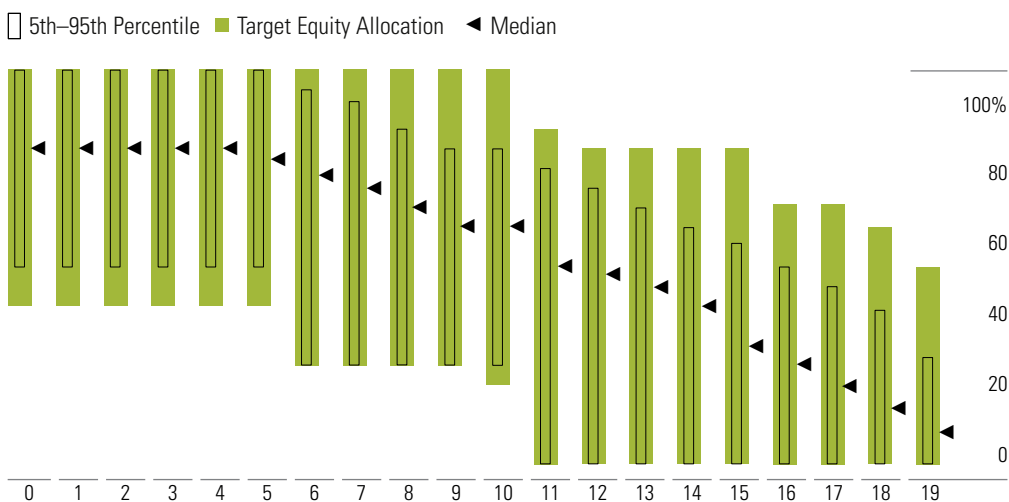
Source: Morningstar, Inc. as of 12/31/2013

The industry's average glide path has shifted only slightly in recent years. For example, when Morningstar first began publishing glide-path data for 529 plans in 2010, the average glide path had slightly more equity exposure at the earliest stages than it does today, a difference of 2 percentage points at ages 0 and 1 year. The middle years of the average glide path have increased their equity exposure since 2010, with the largest differences at age 5, 10, and 15 years; at those ages, today's average glide path has between 6 and 7 percentage points more in equity exposure than the average glide path at the end of 2010. Overall, the typical age-based track starts with an 80% allocation to stocks and gradually cuts that exposure to 10% at the age of enrollment.

Within each age level, however, there is a wide range of equity exposures across 529 plans. For example, Exhibit 5 shows that the most conservative age-based tracks start with a mere 40% stock allocation and move entirely out of equities at age 11. In contrast, the most

aggressive track maintains a 100% equity allocation until the beneficiary reaches age 10 and continues to hold 50% in equities as the beneficiary reaches college age.

Exhibit 5 Target Equity Allocation Dispersion Among Plans



Source: Morningstar, Inc. as of 12/31/2013

Many plans offer multiple age-based tracks, commonly marketed as conservative, moderate, and aggressive. Rather than evaluating the suitability of each age-based track within a plan for a hypothetical investor, Morningstar maintains that the 529 plan investor is in the best position to evaluate which age-based track is appropriate given the investor's risk appetite and individual circumstances. As such, the Process component of the qualitative Morningstar Analyst Rating for 529 College Savings Plans is based on the overall quality of the investment options for different types of college savers given the expected risks. In addition, Morningstar's analysts look for a sensible, clearly defined, and repeatable objective and investment process from the options across each plan.

When evaluating the quality of the age-based and stand-alone options in a 529 plan, Morningstar analysts like to see a lineup of high-quality investments from reputable asset managers. In some cases, even though investment options may be similar across plans, there may be subtle differences among the plans that merit different Process ratings. For example, Vanguard options dominate the lineups of several plans. The low-cost, broad-based, and diversified exposure from the set of indexes earns most Vanguard-based plans a Positive Process rating. However, New York's 529 Program (Direct) does not include any international-stock exposure in the age-based track, a deviation from similarly managed plans. Because the New York plan is not as well-diversified as some of its competitors, it receives a Neutral rating for Process.

Open Architecture Offers Mixed Results

Some 529 plans feature investment options from a mix of asset managers, while others include offerings from only a single asset manager. Morningstar refers to plans with the former model as having “open architecture,” while the latter has “closed architecture.” Proponents of open-architecture plans often assert that by choosing the best-of-breed offerings from multiple investment shops, they are able to create an investment plan with superior performance. In contrast, closed-architecture advocates reply that by selecting a single investment provider, the plan can save on costs, one of the few things an investor can control that leads to meaningfully higher returns.

Morningstar has compared returns of both models to see if one approach is superior. Among direct-sold plans, open-architecture plans have earned a higher overall Morningstar Rating, on average, compared with closed-architecture plans. This represents a shift from prior years, when closed-architecture plans have maintained an edge. The outcome is reversed for those plans sold through advisors, with closed-architecture plans outperforming open-architecture, albeit by a relatively small margin in both instances. Of note, for the 2014 study, Morningstar more strictly classified open-architecture plans as those having any investable option from the nondominant asset manager included as a stand-alone option in the plan or as a mutual fund component in an age-based track.

Given the relatively narrow difference in performance over various time periods, it isn't clear that one structure necessarily offers a distinct advantage.

Exhibit 6 Plan Performance by Sales Channel and Plan Architecture

Sales Channel	Plan Architecture	Annualized Return %			Average Total Expense Ratio %	Total Investment Options	Investment Options		
		Average Overall Morningstar Rating	3-Year	5-Year			Overall Morningstar Rating	3-Year Return	5-Year Return
Advisor-Sold	Closed	2.88	8.28	12.46	1.37	594	420	440	428
	Open	2.53	7.72	11.56	1.37	2710	1894	1948	1196
Direct-Sold	Closed	3.11	7.41	9.75	0.50	487	345	370	341
	Open	3.17	7.70	10.38	0.50	804	492	521	373

Source: Morningstar, Inc. as of 12/31/2013

In addition, the investment options in open-architecture plans have noticeably shorter histories than the options within closed-architecture plans. For example, only 65% of the investment options in direct-sold open-architecture plans have at least a three-year performance record, while 76% of the options within direct-sold closed-architecture plans have at least a three-year history. As the open-architecture plans accrue longer track records, the comparison may show more-meaningful differences in performance.

Also, several open-architecture plans continue to have the lion's share of assets invested with a single asset manager, so although the plans are open, a single provider is driving most of the returns. For example, Ohio's BlackRock CollegeAdvantage 529 Plan has offerings from program manager BlackRock, including its exchange-traded fund provider iShares, as well as Wells Fargo, ING, and Rainier. Still, more than 96% of the plan's assets are invested in BlackRock open-end mutual funds or iShares ETFs, indicating that investors have not diversified their assets among the diverse lineup of managers.

Exhibit 7 Allocation to Asset Manager by Plan

State	Plan Name	Firm Name	Morningstar Analyst Rating Parent Pillar	Allocation %
OH	BlackRock CollegeAdvantage 529 Plan	BlackRock	Neutral	83.82
		iShares	NA	12.44
		Wells Fargo Advantage	Neutral	2.02
		ING Funds	Neutral	1.22
		Rainier	Neutral	0.49
IL	Bright Directions College Savings Program	Northern Funds	Neutral	22.67
		PIMCO	Positive	21.99
		T. Rowe Price	Positive	14.96
		Dimensional Fund Advisors	Positive	10.39
		BlackRock	Neutral	5.48
		Dodge & Cox	Positive	4.50
		OppenheimerFunds	Neutral	4.46
		American Century Investments	Neutral	4.03
		Delaware Investments	Neutral	2.48
		Franklin Templeton Investments	Positive	2.12
		ING Funds	Neutral	1.76
		Causeway	Positive	1.64
		Eagle Funds	NA	1.56
		William Blair	Neutral	0.72
		Sit	NA	0.47
Ariel Investments, LLC	Positive	0.45		
Calvert Investments	Negative	0.32		
IL	Bright Start College Savings (Advisor)	OFI Private Investments Inc	NA	55.95
		OppenheimerFunds	Neutral	31.02
		American Century Investments	Neutral	13.02
IL	Bright Start College Savings (Direct)	Vanguard	Positive	69.15
		OppenheimerFunds	Neutral	15.61
		OFI Private Investments Inc	NA	14.84
		American Century Investments	Neutral	0.40
CT	CHET Advisor College Savings Plan	Hartford Mutual Funds	Neutral	94.18
		State Street Global Advisors	NA	5.82

Exhibit 7 Allocation to Asset Manager by Plan (Continued)

State	Plan Name	Firm Name	Morningstar Analyst Rating Parent Pillar	Allocation %
ND	College SAVE	Vanguard	Positive	100.00
IA	College Savings Iowa 529 Plan	Vanguard	Positive	100.00
SD	CollegeAccess 529	PIMCO	Positive	51.79
		Allianz Funds	Neutral	24.57
		TIAA-CREF Mutual Funds	Neutral	9.63
		Franklin Templeton Investments	Positive	2.72
		Royce	Positive	2.68
		Thornburg	Positive	2.66
		ING Funds	Neutral	2.46
		Dreyfus	Negative	1.28
		Dodge & Cox	Positive	1.25
		Morgan Stanley	Neutral	0.96
OH	CollegeAdvantage 529 Savings Plan	Vanguard	Positive	92.55
		PIMCO	Positive	6.44
		GE Asset Management	NA	1.01
VA	CollegeAmerica	American Funds	Positive	100.00
RI	CollegeBoundfund	AllianceBernstein	Negative	63.18
		iShares	NA	20.71
		Vanguard	Positive	15.70
		Kennedy Wilson	NA	0.18
		F&C Asset Management PLC	NA	0.07
		Ignis Asset Management	NA	0.05
		3i Asset Management Ltd	NA	0.03
		Wendel	NA	0.02
		Eurafrance	NA	0.01
		Atrium European Real Estate Ltd.	NA	0.01
		Redefine International Prop Management	NA	0.01
		SCB Asset Management Co., Ltd.	NA	0.01
		MedicX Fund Group	NA	0.01
		Picton Capital Limited	NA	0.00
		Schroders Investment Management	NA	0.00
		Standard Life Investments	NA	0.00
RI	CollegeBoundfund Direct	AllianceBernstein	Negative	63.19
		iShares	NA	20.71
		Vanguard	Positive	15.70
		Kennedy Wilson	NA	0.18
		F&C Asset Management PLC	NA	0.07
		Ignis Asset Management	NA	0.05
		3i Asset Management Ltd	NA	0.03
		Wendel	NA	0.02
		Eurafrance	NA	0.01
		Atrium European Real Estate Ltd.	NA	0.01
		Redefine International Prop Management	NA	0.01

Exhibit 7 Allocation to Asset Manager by Plan (Continued)

State	Plan Name	Firm Name	Morningstar Analyst Rating Parent Pillar	Allocation %
		SCB Asset Management Co., Ltd.	NA	0.01
		MedicX Fund Group	NA	0.01
		Picton Capital Limited	NA	0.00
		Schroders Investment Management	NA	0.00
		Standard Life Investments	NA	0.00
IN	CollegeChoice 529 Direct Savings Plan	Vanguard	Positive	86.29
		Natixis Funds	Positive	6.12
		Dodge & Cox	Positive	4.14
		Scout	Neutral	2.19
		Legg Mason	Neutral	1.26
IN	CollegeChoice Advisor 529 Savings Plan	iShares	NA	80.72
		Columbia	Neutral	5.40
		BlackRock	Neutral	5.19
		T. Rowe Price	Positive	4.90
		PIMCO	Positive	3.79
AL	CollegeCounts 529 Fund	Vanguard	Positive	95.12
		PIMCO	Positive	3.18
		T. Rowe Price	Positive	1.70
AL	CollegeCounts 529 Fund Advisor Plan	Northern Funds	Neutral	28.28
		PIMCO	Positive	16.03
		T. Rowe Price	Positive	13.99
		Neuberger Berman	Positive	8.43
		Cohen & Steers	Neutral	7.25
		American Century Investments	Neutral	5.33
		BlackRock	Neutral	4.47
		Lazard	Neutral	3.27
		ING Funds	Neutral	2.76
		Lord Abbett	Neutral	2.32
		Franklin Templeton Investments	Positive	1.81
		Touchstone	Neutral	1.78
		Dimensional Fund Advisors	Positive	1.56
		Credit Suisse (New York, NY)	Neutral	1.48
		William Blair	Neutral	1.25
CO	CollegeInvest Direct Portfolio	Vanguard	Positive	100.00
CT	Connecticut Higher Education Trust	TIAA-CREF Mutual Funds	Neutral	90.30
		Franklin Templeton Investments	Positive	4.92
		Dimensional Fund Advisors	Positive	3.39
		GE Asset Management	NA	0.75
		Thornburg	Positive	0.30
		GMO	Positive	0.21
		T. Rowe Price	Positive	0.13

Exhibit 7 Allocation to Asset Manager by Plan (Continued)

State	Plan Name	Firm Name	Morningstar Analyst Rating Parent Pillar	Allocation %
DC	DC College Savings Program	Calvert Investments	Negative	79.60
		State Street Global Advisors	NA	20.40
DE	Delaware College Investment Plan	Fidelity Investments	Positive	99.55
		JPMorgan	Neutral	0.08
		Aston	Positive	0.07
		MFS	Positive	0.05
		PIMCO	Positive	0.04
		Harbor	Positive	0.03
		Legg Mason	Neutral	0.03
		OppenheimerFunds	Neutral	0.03
		William Blair	Neutral	0.03
		Causeway	Positive	0.02
		BlackRock	Neutral	0.02
		Invesco	Positive	0.01
		Eaton Vance	Neutral	0.01
		Artisan	Positive	0.01
		Acadian Funds	Positive	0.01
		Credit Suisse (New York, NY)	Neutral	0.01
Natixis Funds	Positive	0.01		
Royce	Positive	0.01		
WI	EdVest 529 Plan	TIAA-CREF Mutual Funds	Neutral	97.79
		Dimensional Fund Advisors	Positive	1.73
		PIMCO	Positive	0.48
NH	Fidelity Advisor 529 Plan	Fidelity Investments	Positive	100.00
AZ	Fidelity Arizona College Savings Plan	Fidelity Investments	Positive	97.43
		JPMorgan	Neutral	0.44
		Aston	Positive	0.39
		MFS	Positive	0.29
		PIMCO	Positive	0.19
		Harbor	Positive	0.17
		OppenheimerFunds	Neutral	0.16
		William Blair	Neutral	0.15
		Legg Mason	Neutral	0.15
		Causeway	Positive	0.14
		BlackRock	Neutral	0.10
		Invesco	Positive	0.09
		Eaton Vance	Neutral	0.07
		Artisan	Positive	0.06
		Acadian Funds	Positive	0.06
		Credit Suisse (New York, NY)	Neutral	0.04
Natixis Funds	Positive	0.04		
Royce	Positive	0.04		
NJ	Franklin Templeton 529 College Savings Plan	Franklin Templeton Investments	Positive	95.93
		JPMorgan	Neutral	4.07

Exhibit 7 Allocation to Asset Manager by Plan (Continued)

State	Plan Name	Firm Name	Morningstar Analyst Rating Parent Pillar	Allocation %
SC	Future Scholar 529 (Advisor)	Columbia	Neutral	79.76
		Vanguard	Positive	14.66
		iShares	NA	3.32
		Dimensional Fund Advisors	Positive	0.95
		Fidelity Investments	Positive	0.64
		American Century Investments	Neutral	0.41
		MFS	Positive	0.10
		Franklin Templeton Investments	Positive	0.08
		Nuveen	Neutral	0.05
JPMorgan	Neutral	0.03		
SC	Future Scholar 529 (Direct)	Columbia	Neutral	81.06
		Vanguard	Positive	15.72
		iShares	NA	3.21
AR	GIFT College Investing Plan	Vanguard	Positive	100.00
HI	HI529 - Hawaii's College Savings Program	Vanguard	Positive	100.00
IA	IAdvisor 529 Plan	ING Funds	Neutral	72.45
		ING Retirement Funds	Neutral	27.55
ID	IDeal - Idaho College Savings Program	Vanguard	Positive	100.00
AR	iShares 529 Plan	iShares	NA	100.00
AZ	Ivy Funds InvestEd 529 Plan	Waddell & Reed	Negative	100.00
AK	John Hancock Freedom 529	T. Rowe Price	Positive	54.90
		John Hancock	Neutral	37.94
		OppenheimerFunds	Neutral	4.75
		American Funds	Positive	2.41
KY	Kentucky Education Savings Plan Trust	TIAA-CREF Mutual Funds	Neutral	100.00
KS	LearningQuest 529 Program (Advisor)	American Century Investments	Neutral	87.74
		Principal Funds	Neutral	7.58
		T. Rowe Price	Positive	3.75
		American Beacon	Positive	0.93
KS	LearningQuest 529 Program (Direct)	American Century Investments	Neutral	60.51
		Vanguard	Positive	39.49
TX	LoneStar 529 Plan	OppenheimerFunds	Neutral	49.17
		Dreyfus	Negative	26.76
		TIAA-CREF Mutual Funds	Neutral	12.60
		Thornburg	Positive	11.46

Exhibit 7 Allocation to Asset Manager by Plan (Continued)

State	Plan Name	Firm Name	Morningstar Analyst Rating Parent Pillar	Allocation %
MD	Maryland College Investment Plan	T. Rowe Price	Positive	100.00
MT	MFESP Investment Plan	Vanguard	Positive	100.00
OR	MFS 529 Savings Plan	MFS	Positive	100.00
MI	MI 529 Advisor	PIMCO	Positive	40.16
		Allianz Funds	Neutral	37.32
		TIAA-CREF Mutual Funds	Neutral	22.52
MI	Michigan Education Savings Program	TIAA-CREF Mutual Funds	Neutral	100.00
MN	Minnesota College Savings Plan	TIAA-CREF Mutual Funds	Neutral	100.00
MS	Mississippi Affordable (Direct)	TIAA-CREF Mutual Funds	Neutral	100.00
MO	MOST 529 Advisor Plan	Upromise Investments, Inc.	NA	31.29
		DWS Investments	Negative	21.24
		American Funds	Positive	13.96
		Franklin Templeton Investments	Positive	8.12
		PIMCO	Positive	7.53
		Invesco	Positive	6.39
		Columbia	Neutral	5.29
		T. Rowe Price	Positive	4.33
		American Century Investments	Neutral	1.85
MO	MOST Missouri's 529 Plan	Vanguard	Positive	100.00
NC	National College Savings Program	Vanguard	Positive	100.00
NE	NEST Advisor College Savings Plan	Vanguard	Positive	20.94
NE	NEST Advisor College Savings Plan	Federated	Neutral	12.64
		T. Rowe Price	Positive	10.92
		Goldman Sachs	Negative	10.28
		American Century Investments	Neutral	9.62
		PIMCO	Positive	9.24
		Dodge & Cox	Positive	9.00
		Dreyfus	Negative	6.31
		SPDR State Street Global Advisors	NA	4.48
		iShares	NA	3.42
		Tributary Funds	NA	3.16
NE	NEST Direct College Savings Plan	Vanguard	Positive	59.36
		T. Rowe Price	Positive	10.46
		Goldman Sachs	Negative	9.76

Exhibit 7 Allocation to Asset Manager by Plan (Continued)

State	Plan Name	Firm Name	Morningstar Analyst Rating Parent Pillar	Allocation %
NE	NEST Direct College Savings Plan (cont'd)	PIMCO	Positive	9.05
		iShares	NA	4.45
		Tributary Funds	NA	3.70
		SPDR State Street Global Advisors	NA	3.22
NY	New York's 529 Program (Advisor-Guided)	JPMorgan	Neutral	73.30
		SPDR State Street Global Advisors	NA	26.70
NY	New York's 529 Program (Direct)	Vanguard	Positive	99.98
		Ignis Asset Management	NA	0.01
		F&C Asset Management PLC	NA	0.01
		Macquarie Group Ltd.	NA	0.00
ME	NextGen College Investing Plan Direct	BlackRock	Neutral	53.83
		iShares	NA	38.37
		Franklin Templeton Investments	Positive	5.45
		MFS	Positive	2.36
ME	NextGen College Investing Plan Select	BlackRock	Neutral	52.60
		Franklin Templeton Investments	Positive	28.41
		MFS	Positive	14.76
		PIMCO	Positive	1.83
		Allianz Funds	Neutral	1.47
		MainStay	Neutral	0.48
		Thornburg	Positive	0.44
NJ	NJBEST 529 College Savings Plan	Franklin Templeton Investments	Positive	94.30
		JPMorgan	Neutral	5.70
OK	Oklahoma College Savings Plan	TIAA-CREF Mutual Funds	Neutral	100.00
OK	OklahomaDream529	PIMCO	Positive	42.51
		Allianz Funds	Neutral	36.20
		TIAA-CREF Mutual Funds	Neutral	21.29
OR	Oregon College Savings Plan	TIAA-CREF Mutual Funds	Neutral	78.32
		Vanguard	Positive	16.08
		LSV Fund	NA	2.36
		T. Rowe Price	Positive	1.68
		Thornburg	Positive	0.34
		TCM Funds	NA	0.32
		Dreyfus	Negative	0.31
		DoubleLine	Neutral	0.30
		PIMCO	Positive	0.30
GA	Path2College 529 Plan	TIAA-CREF Mutual Funds	Neutral	100.00

Exhibit 7 Allocation to Asset Manager by Plan (Continued)

State	Plan Name	Firm Name	Morningstar Analyst Rating Parent Pillar	Allocation %
PA	Pennsylvania 529 Investment Plan	Vanguard	Positive	100.00
NV	Putnam 529 for America	Putnam	Neutral	73.35
		Principal Funds	Neutral	16.12
		Fidelity Investments	Positive	4.56
		MFS	Positive	4.54
		Federated	Neutral	1.43
CO	Scholars Choice College Savings Program	Legg Mason	Neutral	88.01
		Thornburg	Positive	9.57
		Royce	Positive	2.42
NM	Scholar's Edge	OppenheimerFunds	Neutral	67.68
		American Century Investments	Neutral	16.53
		MainStay	Neutral	13.04
		Thornburg	Positive	2.74
CA	ScholarShare College Savings Plan	TIAA-CREF Mutual Funds	Neutral	75.74
		T. Rowe Price	Positive	10.87
		PIMCO	Positive	8.54
		Dimensional Fund Advisors	Positive	4.85
KS	Schwab 529 College Savings Plan	American Century Investments	Neutral	50.82
		Schwab Funds	Negative	18.34
		Laudus Funds	Neutral	10.98
		PIMCO	Positive	7.12
		Metropolitan West Funds	Neutral	4.47
		American Beacon	Positive	4.19
		Baron Capital Group	Neutral	4.08
WV	SMART529 Select College Savings Plan	Dimensional Fund Advisors	Positive	100.00
WV	SMART529 WV Direct College Savings Plan	Vanguard	Positive	77.99
		Hartford Life Insurance Company	NA	22.01
NV	SSgA Upromise 529 Plan	SPDR State Street Global Advisors	NA	89.36
		State Street Global Advisors	NA	10.64
NE	State Farm College Savings Plan	OppenheimerFunds	Neutral	100.00
AK	T. Rowe Price College Savings Plan	T. Rowe Price	Positive	100.00
NE	TD Ameritrade 529 College Savings Plan	Vanguard	Positive	51.37
		Goldman Sachs	Negative	11.29
		T. Rowe Price	Positive	10.32
		PIMCO	Positive	8.63

Exhibit 7 Allocation to Asset Manager by Plan (Continued)

State	Plan Name	Firm Name	Morningstar Analyst Rating Parent Pillar	Allocation %
NE	TD Ameritrade 529 College Savings Plan (cont'd)	American Century Investments	Neutral	6.64
		iShares	NA	5.23
		Tributary Funds	NA	3.74
		SPDR State Street Global Advisors	NA	2.77
TX	Texas College Savings Plan	Vanguard	Positive	31.98
		OppenheimerFunds	Neutral	25.43
		Dreyfus	Negative	23.59
		TIAA-CREF Mutual Funds	Neutral	12.71
		Thornburg	Positive	6.29
NM	The Education Plan	OppenheimerFunds	Neutral	45.93
		Dreyfus	Negative	34.41
		Vanguard	Positive	13.00
		TIAA-CREF Mutual Funds	Neutral	6.66
WV	The Hartford SMART529	Hartford Mutual Funds	Neutral	85.41
		Hartford Life Insurance Company	NA	13.60
		MFS	Positive	0.98
NV	The Vanguard 529 College Savings Plan	Vanguard	Positive	100.00
WI	Tomorrow's Scholar 529 Plan	ING Funds	Neutral	55.08
		ING Retirement Funds	Neutral	30.50
		TIAA-CREF Mutual Funds	Neutral	13.67
		BlackRock	Neutral	0.57
		Columbia	Neutral	0.19
MA	U.Fund College Investing Plan	Fidelity Investments	Positive	99.21
		JPMorgan	Neutral	0.14
		Aston	Positive	0.11
		MFS	Positive	0.09
		PIMCO	Positive	0.07
		Legg Mason	Neutral	0.05
		Harbor	Positive	0.05
		OppenheimerFunds	Positive	0.05
		William Blair	Neutral	0.04
		Causeway	Positive	0.04
		BlackRock	Neutral	0.03
		Invesco	Positive	0.03
		Eaton Vance	Neutral	0.02
		Artisan	Positive	0.02
		Acadian Funds	Positive	0.02
		Credit Suisse (New York, NY)	Neutral	0.01
Natixis Funds	Positive	0.01		
Royce	Positive	0.01		

Exhibit 7 Allocation to Asset Manager by Plan (Continued)

State	Plan Name	Firm Name	Morningstar Analyst Rating Parent Pillar	Allocation %
NH	UNIQUE College Investing Plan	Fidelity Investments	Positive	98.74
		JPMorgan	Neutral	0.22
		Aston	Positive	0.18
		MFS	Positive	0.14
		PIMCO	Positive	0.11
		Legg Mason	Neutral	0.09
		Harbor	Positive	0.08
		OppenheimerFunds	Neutral	0.07
		William Blair	Neutral	0.07
		Causeway	Positive	0.07
		BlackRock	Neutral	0.05
		Invesco	Positive	0.04
		Eaton Vance	Neutral	0.04
		Artisan	Positive	0.03
		Acadian Funds	Positive	0.03
Credit Suisse (New York, NY)	Neutral	0.02		
Natixis Funds	Positive	0.02		
Royce	Positive	0.02		
AK	University of Alaska College Savings Plan	T. Rowe Price	Positive	100.00
NV	USAA College Savings Plan	USAA	Neutral	100.00
UT	Utah Educational Savings Plan	Vanguard	Positive	99.13
		Dimensional Fund Advisors	Positive	0.87
VT	Vermont Higher Education Investment Plan	TIAA-CREF Mutual Funds	Neutral	100.00
VA	Virginia529 inVEST	Vanguard	Positive	66.15
		Morgan Stanley	Neutral	5.99
		Stone Harbor	NA	5.85
		American Funds	Positive	5.85
		Franklin Templeton Investments	Positive	5.80
		Aberdeen	Neutral	5.04
		Prudential Portfolio Managers	NA	4.56
Parnassus	Positive	0.76		

Source: Morningstar, Inc. as of 12/31/2013

The previous exhibit illustrates that 529 plans often feature investments from a broad swath of firms, but there are a few asset managers that show up more frequently than others. Looking across the industry, 529 college savers have more assets with Vanguard than any other firm, resulting in 29% market share. American Funds, which manages the largest advisor-sold plan, comes in second at nearly 18% market share, while Fidelity comes in third at about 11% of assets.

Exhibit 8 Top 10 Asset Managers by Market Share

Firm Name	Morningstar Analyst Rating: Parent Pillar	Market Share %
Vanguard	Positive	29.20
American Funds	Positive	17.50
Fidelity Investments	Positive	10.93
T. Rowe Price	Positive	6.73
TIAA-CREF Mutual Funds	Neutral	5.78
BlackRock	Neutral	3.82
Franklin Templeton Investments	Positive	3.69
American Century Investments	Neutral	1.88
OppenheimerFunds	Neutral	1.80
Columbia	Neutral	1.77
Total Market Share of Top 10 Asset Managers		83.10

Source: Morningstar, Inc. as of 12/31/2013

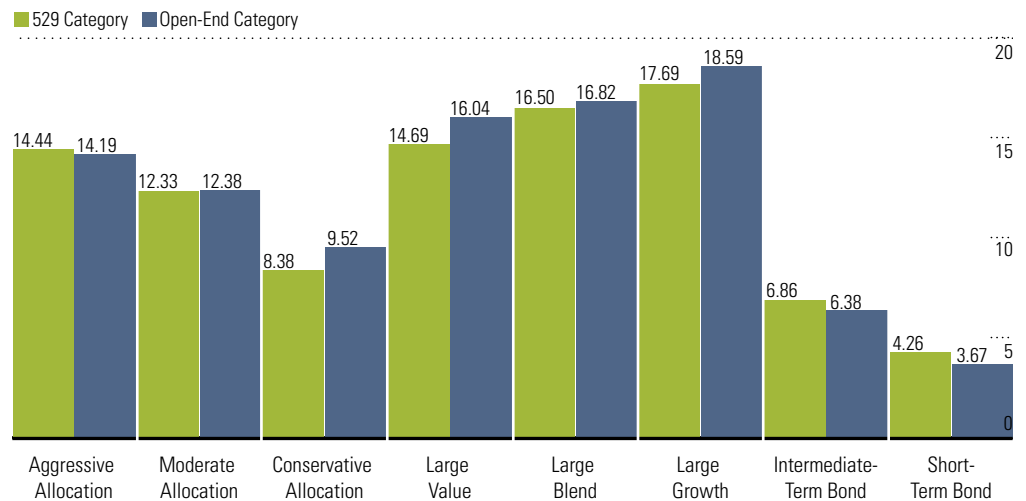
All three of the market leaders have their investments represented in more than one plan, which suggests a broader validation of these firms' investment processes. This also suggests that 529 program managers purposely seek strong stewards of capital, as captured by a Positive Morningstar Parent rating, a component of the Morningstar Analyst Rating. For more on how these asset managers stack up from a stewardship-of-capital perspective, see the Parent section of this paper.

Performance

On average, the long-term performance of 529 investment options continues to look unimpressive relative to similar peers in the broader mutual fund universe.

Over the five-year period through Dec. 31, 2013, five of the eight most-prominent static Morningstar 529 categories trail their respective open-end fund categories on an annualized basis. For the most part, the gap was relatively narrow. For example, among large-blend investments, the average 529 option trailed the analogous open-end mutual fund by roughly 0.30 percentage points per year. The largest gaps are with the large-value and conservative-allocation categories, in which the average 529 investment trailed its average open-end peer by more than 1 percentage point per year.

Exhibit 9 529 Investment Option and Open-End Mutual Fund 5-Year Category Average Returns



Source: Morningstar, Inc. as of 12/31/2013

In a few cases, however, 529 categories have outperformed their mutual fund categories. As was the case for the five-year period ended in 2012, 529 investment options in the short-term bond category again edged past their average open-end rival. For the past five years through Dec. 31, 2013, the 529 investment options in the intermediate-term bond and aggressive-allocation categories also earned a slight performance edge over similar mutual funds.

Several structural features of 529 investment options can lead to performance differentials relative to their open-end peers. For one, most 529 investment options carry heftier price tags than similar mutual funds, creating a constant headwind for their returns. (For more information on expenses of 529 plans and other investments, see the Price section of this paper.)

In addition, within equity categories, the typical 529 investment option has a larger stake in international stocks than the typical mutual fund. For example, in Morningstar's 529 static large-blend category, the average option invests 16% in international stocks, while the typical traditional large-blend mutual fund has only 5% invested abroad. With U.S. stocks on a tear during 2013, traditional mutual funds received a relative boost. Also, 529 investment options tend to take on more passive exposure than their mutual fund counterparts. In markets where active management shines, investors can reasonably expect index-heavy 529 investments to lag. In markets where active management suffers, 529 investments may do better on average (assuming they can overcome the higher 529 fee hurdle). For example, many active large-blend managers have had trouble beating the S&P 500 Index since 2010, which allowed indexed options' returns to exceed the 529 large-blend category average. But the opposite was true in 2009, when active managers outperformed.

More so, 529 bond-heavy categories frequently take less credit risk than their open-end counterparts. Fear of losses, particularly in the wake of 2008, has led plan managers to select options with higher credit quality or more cash. Indeed, the intermediate-term bond category for 529 investment options has an average credit quality of A and 15% of assets in cash, while the same category for traditional mutual funds has an average credit quality of BBB and doesn't hold any cash. Holding more cash and shorter-term debt helped 529 bond categories earn a slight edge recently relative to their respective mutual fund categories. Understandably, the same cautious approach may likely hold 529 bond categories back when riskier bonds rally.

529s Continue to Lag Blended Benchmarks

Comparing performance among Morningstar categories for 529 investments and traditional open-end investments can provide helpful insight for college savers considering various vehicles for their college savings. To be sure, the majority of college savers in 529s choose an age-based track as the anchor of their investment, and there isn't a directly comparable mutual fund category to use to evaluate the typical 529 category's performance. Therefore, it can be informative to evaluate the performance of 529 investments relative to a corresponding benchmark that matches the average asset allocation to equities, bonds, and cash to see how the investments' results compare.

Exhibit 10 Returns of Age-Based Categories

Name	Annualized Total Return %								
	3-Year			5-Year			10-Year		
	Category Average	Blended Benchmark	Morningstar 529 Indexes	Category Average	Blended Benchmark	Morningstar 529 Indexes	Category Average	Blended Benchmark	Morningstar 529 Indexes
US 529 Age 0-6 High Equity	11.35	15.35	13.36	15.52	17.04	18.26	6.58	7.15	8.87
US 529 Age 0-6 Medium Equity	10.08	12.72	11.27	14.11	14.30	15.41	6.02	6.57	8.19
US 529 Age 0-6 Low Equity	8.27	9.93	8.77	11.28	11.38	11.92	5.75	5.95	7.20
US 529 Age 7-12 High Equity	9.90	12.32	12.31	13.70	13.87	17.39	6.21	6.45	8.56
US 529 Age 7-12 Medium Equity	8.14	9.64	9.94	11.88	11.02	14.08	5.44	5.75	7.83

Exhibit 10 Returns of Age-Based Categories (Continued)

Name	Annualized Total Return %								
	3-Year			5-Year			10-Year		
	Category Average	Blended Benchmark	Morningstar 529 Indexes	Category Average	Blended Benchmark	Morningstar 529 Indexes	Category Average	Blended Benchmark	Morningstar 529 Indexes
US 529 Age 7-12 Low Equity	5.61	6.83	7.36	8.37	8.11	10.54	4.67	5.21	6.76
US 529 Age 13-18 High Equity	7.48	9.66	9.91	11.46	11.08	14.62	5.27	5.82	8.03
US 529 Age 13-18 Medium Equity	5.71	7.00	7.33	8.58	8.21	11.12	4.72	5.03	7.01
US 529 Age 13-18 Low Equity	3.22	3.90	4.45	4.87	4.88	7.40	3.35	4.16	5.69
US 529 Age 19+ High Equity	4.71	5.49	7.03	8.58	6.61	11.25	4.34	4.68	7.11
US 529 Age 19+ Medium Equity	3.20	4.49	4.38	5.14	5.43	7.64	3.12	4.08	5.92
US 529 Age 19+ Low Equity	1.10	1.62	2.35	2.00	2.18	4.32	2.40	2.88	4.70
Barclays US Agg Bond TR USD	3.26	—	—	4.44	—	—	4.55	—	—
S&P 500 TR USD	16.18	—	—	17.94	—	—	7.41	—	—
USTREAS T-Bill Auction Ave 3Mon	0.07	—	—	0.10	—	—	1.64	—	—

Source: Morningstar, Inc. as of 12/31/2013

Using this lens, 529 age-based options fall short across the board. The blended benchmark weights the returns of the S&P 500 Index, the Barclays U.S. Aggregate Bond Index, and the 3-month U.S. Treasury bill according to each category's average allocation to stocks, bonds, and cash to determine benchmark performance. While a few 529 categories outperformed the blended benchmark over the past five years (notably, the US 529 age 19+ high equity category comes out ahead by nearly 2 percentage points per year), every category lags during the trailing three- and 10-year periods.

As was the case for the comparison of 529 static categories with traditional mutual funds, the performance gap within the age-based options can be attributed to structural differences between 529 investments and the benchmarks. For one, expenses continue to be a drag on returns for 529 investment options. In addition, 529 age-based options tend to be more diversified across asset classes and geographies, including investments such as international stocks and Treasury Inflation-Protected Securities, which can affect performance.

In early 2014, Morningstar launched a series of 529 indexes that provide a diversified benchmark for 529 investment options. Similar to the Morningstar 529 age-based categories that reflect high-, medium-, or low-equity tracks, the Morningstar 529 indexes have three different risk tracks--aggressive, moderate, and conservative--to correspond with investors' varying risk preferences. Each benchmark invests in between six and 18 underlying Morningstar indexes, providing a wide array of exposure to different broad and subasset classes.

Morningstar's 529 indexes are more diversified than most 529 plans' age-based options, and, at times, that mix of asset classes boosts relative returns. Indeed, 529 age-based investments have lagged. Over the 10-year period, the 529 options fall short by an average of 2.3

percentage points per year. For college savers socking away \$1,200 per year during the period, that difference would work out to an approximate gap of \$1,600.

Expenses are to blame for many of these shortfalls. Neither the blended benchmark nor the Morningstar indexes include expenses, although a basket of comparable open-end indexed mutual funds or similar exchange-traded funds is cheaply available. However, it is also worth noting that 529 investors don't pay taxes on their investments' gains when used for qualified higher education expenses, so their actual proceeds may be higher than what they would get on an aftertax basis with a passive portfolio of investments mimicking the benchmarks.

Long-term returns are one way to measure performance of the investment options within 529 plans, but it is also important to consider how those returns were earned. Did the investment options provide steady gains or did they jump around, riding high before making stomach-churning drops? Looking at returns in terms of their volatility can give investors an idea of whether they are being compensated for extra bumps in the road and if they would be better off looking for an investment that can deliver a smoother ride. The Morningstar Rating, better known as the star rating, compares risk-adjusted returns of investments in the same category and provides college savers with a gauge to easily see whether their 529 investments brought more return with less volatility. The rating is calculated over three-, five-, and 10-year periods, so an investment must have at least three years of returns before it will earn a star rating. Both mutual funds and 529 investments earn 3 stars if their risk-adjusted performance is near the middle of their peer groups; 4- and 5-star investments are those that outperformed their peer groups; and 1- and 2-star investments underperformed their peer groups. The star rating uses a bell-curve distribution, so the largest subset of investments receives 3 stars.

Exhibit 11 Plan Average Overall Morningstar Ratings

State	Plan Name	Average Overall Morningstar Rating (unit=stars)		
		Equal-Weighted	Asset-Weighted	Plan Assets with Rating %
AK	T. Rowe Price College Savings Plan	4.08	3.97	97.49
AK	University of Alaska College Savings Plan	4.08	NA	NA
UT	Utah Educational Savings Plan	3.84	4.26	80.47
NV	USAA College Savings Plan	3.83	3.23	98.69
GA	Path2College 529 Plan	3.67	3.96	22.54
NY	New York's 529 Program (Direct)	3.67	3.89	94.78
MD	Maryland College Investment Plan	3.67	3.73	98.89
KS	Schwab 529 College Savings Plan	3.64	3.42	94.66
OH	CollegeAdvantage 529 Savings Plan	3.60	4.14	96.56
NM	The Education Plan	3.50	3.51	97.18
VA	CollegeAmerica	3.43	3.63	91.61
AL	CollegeCounts 529 Fund	3.42	3.38	98.08
IN	CollegeChoice 529 Direct Savings Plan	3.42	3.24	86.94
SC	Future Scholar 529 (Direct)	3.40	3.30	92.95
NV	The Vanguard 529 College Savings Plan	3.36	3.23	95.79

Exhibit 11 Plan Average Overall Morningstar Ratings (Continued)

State	Plan Name	Average Overall Morningstar Rating (unit=stars)		
		Equal-Weighted	Asset-Weighted	Plan Assets with Rating %
IA	College Savings Iowa 529 Plan	3.31	3.49	92.09
OR	Oregon College Savings Plan	3.31	3.32	56.00
PA	Pennsylvania 529 Investment Plan	3.29	2.95	96.40
VA	Virginia529 inVEST	3.25	3.04	96.80
NJ	NJBEST 529 College Savings Plan	3.24	3.55	97.26
AK	John Hancock Freedom 529	3.22	3.10	96.65
IL	Bright Directions College Savings Program	3.19	2.98	95.41
ME	NextGen College Investing Plan Direct	3.17	3.33	94.53
WV	SMART529 WV Direct College Savings Plan	3.17	3.32	100.00
OK	Oklahoma College Savings Plan	3.08	2.85	89.34
IL	Bright Start College Savings (Direct)	3.06	3.47	96.26
AZ	Fidelity Arizona College Savings Plan	3.04	2.94	93.89
WV	The Hartford SMART529	3.03	2.39	99.01
OR	MFS 529 Savings Plan	3.03	2.91	98.17
TX	Texas College Savings Plan	3.00	3.09	97.36
MI	Michigan Education Savings Program	3.00	3.00	23.29
MS	Mississippi Affordable (Direct)	3.00	3.00	30.82
CO	Scholars Choice College Savings Program	2.97	2.86	97.67
KS	LearningQuest 529 Program (Direct)	2.97	2.93	97.54
CO	CollegInvest Direct Portfolio	2.95	3.16	95.43
MA	U.Fund College Investing Plan	2.91	2.55	94.95
MO	MOST Missouri's 529 Plan	2.90	3.14	86.94
KY	Kentucky Education Savings Plan Trust	2.90	3.01	92.08
HI	HI529—Hawaii's College Savings Program	2.89	3.26	95.48
MN	Minnesota College Savings Plan	2.89	2.97	89.50
CT	CHET Advisor College Savings Plan	2.88	2.68	95.51
NH	UNIQUE College Investing Plan	2.86	2.71	93.90
DE	Delaware College Investment Plan	2.86	2.69	96.88
SC	Future Scholar 529 (Advisor)	2.84	2.46	89.46
WV	SMART529 Select College Savings Plan	2.82	2.81	100.00
SD	CollegeAccess 529	2.80	2.24	95.26
CT	Connecticut Higher Education Trust	2.79	2.43	88.41
AL	CollegeCounts 529 Fund Advisor Plan	2.76	2.56	95.37
FL	Florida 529 Savings Plan	2.75	2.57	94.39
ME	NextGen College Investing Plan Select	2.71	2.37	95.97
NM	Scholar's Edge	2.70	2.87	96.40
VT	Vermont Higher Education Investment Plan	2.70	2.56	92.57
AZ	Ivy Funds InvestEd 529 Plan	2.62	NA	NA
MI	MI 529 Advisor	2.61	2.21	99.04
MT	MFESP Investment Plan	2.60	2.59	100.00
OH	BlackRock CollegeAdvantage 529 Plan	2.58	1.97	97.13
MO	MOST 529 Advisor Plan	2.58	2.26	79.80
DC	DC College Savings Program	2.55	2.66	90.86
NE	State Farm College Savings Plan	2.44	2.58	98.49
NH	Fidelity Advisor 529 Plan	2.40	1.96	97.42
ND	College SAVE	2.39	2.38	96.23
RI	CollegeBoundfund Direct	2.38	1.82	87.69
AR	iShares 529 Plan	2.32	2.57	93.98
NV	Putnam 529 for America	2.20	2.26	95.33
NJ	Franklin Templeton 529 College Savings Plan	2.19	2.64	97.95

State	Plan Name	Average Overall Morningstar Rating (unit=stars)		
		Equal-Weighted	Asset-Weighted	Plan Assets with Rating %
AR	GIFT College Investing Plan	2.17	2.18	96.75
OK	OklahomaDream529	2.12	1.69	87.92
ID	IDeal - Idaho College Savings Program	2.11	2.00	96.11
IL	Bright Start College Savings (Advisor)	2.08	2.62	96.09
IN	CollegeChoice Advisor 529 Savings Plan	2.03	1.78	95.02
RI	CollegeBoundfund	1.98	1.31	90.13
KS	LearningQuest 529 Program (Advisor)	1.80	1.94	98.31
TX	LoneStar 529 Plan	1.58	1.35	97.40
CA	ScholarShare College Savings Plan	NA	NA	NA
IA	IAdvisor 529 Plan	NA	NA	NA
LA	The Louisiana START Saving For College	NA	NA	NA
NC	National College Savings Program	NA	NA	NA
NE	NEST Advisor College Savings Plan	NA	NA	NA
NE	NEST Direct College Savings Plan	NA	NA	NA
NE	TD Ameritrade 529 College Savings Plan	NA	NA	NA
NV	SSgA Upromise 529 Plan	NA	NA	NA
NY	New York's 529 Program (Advisor-Guided)	NA	NA	NA
TN	TNStars College Saving 529 Program	NA	NA	NA
WI	Edvest 529 Plan	NA	NA	NA
WI	Tomorrow's Scholar 529 Plan	NA	NA	NA

Source: Morningstar, Inc. as of 12/31/2013

In comparing overall star ratings as of Dec. 31, 2013, across plans on an equal-weighted basis, several plans stand out for performance--both good and bad--on a risk-adjusted basis. Two direct-sold plans offered by Alaska, T. Rowe Price College Savings Plan and University of Alaska College Savings Plan, earn the highest average star rating of 4.08. These plans offer age-based tracks with a blend of passive and active managers from program manager T. Rowe Price, and the strong performance of the underlying investments boosts results across the plan's investment options.

The direct-sold Utah Educational Savings Plan also earns noteworthy risk-adjusted results with an average 3.84-star rating across its investment options. This plan uses a variety of low-cost Vanguard index funds within its age-based and balanced options. It also introduced several DFA funds to the lineup in 2013, although those portfolios have too short of a track record within the plan to earn star ratings.

In addition to looking at Morningstar Ratings on an equal-weighted basis by plan, college savers also can consider them on an asset-weighted basis, which better represents the investor experience. In this calculation, investment options with more assets are counted more heavily. However, asset-weighted calculations within 529 plans can be tricky because of the way those assets are reported to Morningstar. For example, for any plan in which the age-based options invest in static funds also offered within the plan, assets are reported only for the static funds. In these cases, the asset value assigned to the age-based options is \$0, and their star ratings are therefore excluded from the asset-weighted calculation.

The table above illustrates that some plans' asset-weighted star ratings are superior to the equal-weighted average. This is the case with Utah: Its asset-weighted Morningstar Rating clocks in at 4.26, the highest among its peers.

In contrast, the plans with the lowest average Morningstar Rating as of the end of 2013 are advisor-sold plans. These plans are typically more expensive than their direct-sold counterparts, and expenses eat into investment returns. In addition to higher fees, these plans often hold more in actively managed investments, which have had a difficult time keeping up with passively managed investments in recent years. (Plans listed near the end of the exhibit that do not have average Morningstar Ratings contain younger options that don't have enough months of performance to calculate a Morningstar Rating.)

While the star ratings are a grade of a fund's past performance, college savers should remember that they come with limits. Star ratings compare investments within their Morningstar category peer groups. Morningstar's 529 categories often include a wider range of investment styles than the comparable open-end mutual fund categories. For instance, there is no 529 category for emerging-markets stock investments as there is in the open-end mutual fund universe because there are not enough emerging-markets 529 investments to support a stand-alone category. Instead, emerging-markets 529 investment options are included in the all-encompassing non-U.S. equity category and contribute a wider range of returns than one would see across the numerous non-U.S. equity categories for open-end mutual funds.

In addition, it is worth noting that plans may change rankings significantly over time. Several plans have a small percentage of assets in funds that earn a star rating, such as the Michigan Education Savings Program, which has only 23% of assets with a star rating. These plans' averages may move in the rankings as more funds earn Morningstar ratings. Plans less likely to move, however, are those with poor performance where most assets receive a star rating, like Kansas' LearningQuest 529 Program (Advisor). Few long-tenured, poorly performing plans exist today because plans with poor historical performance usually are either completely rebuilt or heavily reconstructed. In Wisconsin, for example, Tomorrow's Scholar 529 Plan and EdVest 529 Plan implemented significant changes in 2012 after they turned in mediocre performances in years prior.

Price

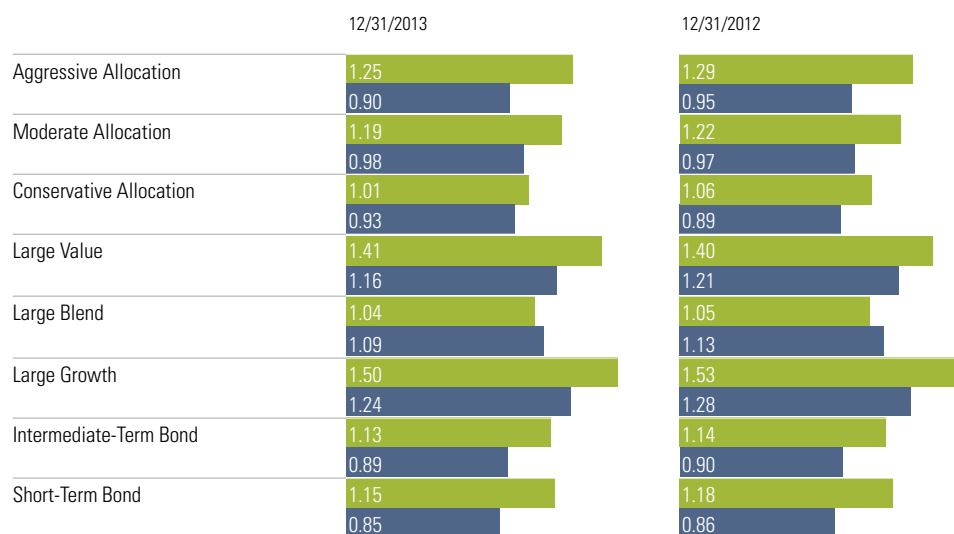
A plan's cost is an important component to consider when evaluating a 529 investment option, as it is one of the few factors that an investor can directly control and evaluate ahead of time.

Because of a myriad of factors, including smaller asset bases and costs associated with state-level administration and marketing, 529 investment options typically carry more-expensive price tags than comparable traditional open-end mutual funds. Fortunately for college savers, costs across the industry have come down in recent years. Since Morningstar began tracking the movements in 529 investments' fees in 2010 through the end of 2013, the cost gap between the average 529 category expense ratio and that of the analogous open-end mutual fund category has shrunk to 21 basis points from 40 basis points.

Costs have decreased on average, although all but one of Morningstar's 529 categories still cost more than their respective open-end category. The largest gap is among aggressive allocation investments, in which the typical 529 aggressive allocation option costs 35 basis points more than the similar open-end mutual fund. The only category to reverse this trend is large-blend, in which the average 529 option costs 5 basis points less. The large-blend category is home to index funds that track prominent U.S. stock indexes, such as the S&P 500 Index, and passive investments cost less than most category peers. As passive investments have taken up a prominent position in many 529 plans, it makes sense that this category carries a generally lower price tag.

Exhibit 12 529 Investment Option and Open-End Mutual Fund Total Expense Ratios

■ 529 Investment ■ Open-End Mutual Fund



Source: Morningstar, Inc. as of 12/31/2013

Overall, the trend in lower costs is due to a number of factors, including a growing use of low-cost passive mutual funds and ETFs for age-based and stand-alone investment options. In addition, several plan sponsors and program managers have aggressively cut administration and maintenance costs. For example, Fidelity is the program manager of four direct-sold plans and, along with its state sponsors, cut fees at each of the plans' index-based options below most peers'.

Exhibit 13 Plan Average Total Expense Ratios and Fee Levels

State	Plan Name	Sales Channel	Average Total Expense Ratio %	Average Morningstar Fee Level – Distribution Percentile Rank
SC	Future Scholar 529 (Direct)	Direct	0.13	4
NY	New York's 529 Program (Direct)	Direct	0.17	4
UT	Utah Educational Savings Plan	Direct	0.21	13
MI	Michigan Education Savings Program	Direct	0.25	21
WI	Edvest 529 Plan	Direct	0.25	20
NV	The Vanguard 529 College Savings Plan	Direct	0.26	20
IA	College Savings Iowa 529 Plan	Direct	0.28	25
OH	CollegeAdvantage 529 Savings Plan	Direct	0.33	32
GA	Path2College 529 Plan	Direct	0.34	40
WV	SMART529 WV Direct College Savings Plan	Direct	0.35	35
MO	MOST Missouri's 529 Plan	Direct	0.35	36
CA	ScholarShare College Savings Plan	Direct	0.36	34
AL	CollegeCounts 529 Fund	Direct	0.37	38
NC	National College Savings Program	Direct	0.38	45
PA	Pennsylvania 529 Investment Plan	Direct	0.40	49
CT	Connecticut Higher Education Trust	Direct	0.40	47
RI	CollegeBoundfund Direct	Direct	0.40	31
IL	Bright Start College Savings (Direct)	Direct	0.41	41
MN	Minnesota College Savings Plan	Direct	0.41	48
TN	TNStars College Saving 529 Program	Direct	0.41	46
VA	Virginia529 inVEST	Direct	0.43	39
OR	Oregon College Savings Plan	Direct	0.43	50
CO	CollegeInvest Direct Portfolio	Direct	0.46	55
NE	NEST Direct College Savings Plan	Direct	0.48	53
NM	The Education Plan	Direct	0.50	52
IN	CollegeChoice 529 Direct Savings Plan	Direct	0.50	58
ME	NextGen College Investing Plan Direct	Direct	0.51	57
VT	Vermont Higher Education Investment Plan	Direct	0.51	57
NV	SSgA Upromise 529 Plan	Direct	0.54	60
OK	Oklahoma College Savings Plan	Direct	0.58	62
KY	Kentucky Education Savings Plan Trust	Direct	0.59	61
AR	iShares 529 Plan	Advisor	0.59	17
KS	LearningQuest 529 Program (Direct)	Direct	0.61	62
TX	Texas College Savings Plan	Direct	0.61	68
MS	Mississippi Affordable (Direct)	Direct	0.62	67
DE	Delaware College Investment Plan	Direct	0.68	59
AZ	Fidelity Arizona College Savings Plan	Direct	0.68	59
NH	UNIQUE College Investing Plan	Direct	0.68	59
MA	U.Fund College Investing Plan	Direct	0.68	62
NE	TD Ameritrade 529 College Savings Plan	Direct	0.68	71

Exhibit 13 Plan Average Total Expense Ratios and Fee Levels (Continued)

State	Plan Name	Sales Channel	Average Total Expense Ratio %	Average Morningstar Fee Level – Distribution Percentile Rank
FL	Florida 529 Savings Plan	Direct	0.71	74
WV	SMART529 Select College Savings Plan	Direct	0.74	76
AK	T. Rowe Price College Savings Plan	Direct	0.75	74
AR	GIFT College Investing Plan	Direct	0.75	79
HI	HI529 - Hawaii's College Savings Program	Direct	0.75	80
MD	Maryland College Investment Plan	Direct	0.76	76
AK	University of Alaska College Savings Plan	Direct	0.76	76
NJ	NJBEST 529 College Savings Plan	Direct	0.80	82
ID	IDeal – Idaho College Savings Program	Direct	0.82	85
IL	Bright Start College Savings (Advisor)	Advisor	0.84	22
ND	College SAVE	Direct	0.85	87
MT	MFESP Investment Plan	Direct	0.86	84
NV	USAA College Savings Plan	Direct	0.88	92
KS	Schwab 529 College Savings Plan	Direct	0.92	83
NE	State Farm College Savings Plan	Advisor	1.04	26
RI	CollegeBoundfund	Advisor	1.12	33
NE	NEST Advisor College Savings Plan	Advisor	1.14	21
IL	Bright Directions Coll Savings Program	Advisor	1.15	47
VA	CollegeAmerica	Advisor	1.19	24
DC	DC College Savings Program	Advisor and Direct	1.20	88
CO	Scholars Choice College Savings Program	Advisor	1.23	38
AZ	Ivy Funds InvestEd 529 Plan	Advisor	1.25	60
SC	Future Scholar 529 (Advisor)	Advisor	1.25	28
OH	BlackRock CollegeAdvantage 529 Plan	Advisor	1.27	60
IN	CollegeChoice Advisor 529 Savings Plan	Advisor	1.32	36
WI	Tomorrow's Scholar 529 Plan	Advisor	1.33	46
AL	CollegeCounts 529 Fund Advisor Plan	Advisor	1.34	50
NY	New York's 529 Program (Advisor-Guided)	Advisor	1.35	63
CT	CHET Advisor College Savings Plan	Advisor	1.37	64
ME	NextGen College Investing Plan Select	Advisor	1.45	55
MO	MOST 529 Advisor Plan	Advisor	1.46	45
WV	The Hartford SMART529	Advisor	1.47	55
MI	MI 529 Advisor	Advisor	1.48	61
OK	OklahomaDream529	Advisor	1.51	67
NM	Scholar's Edge	Advisor	1.52	52
SD	CollegeAccess 529	Advisor and Direct	1.55	67
NV	Putnam 529 for America	Advisor	1.57	57
NH	Fidelity Advisor 529 Plan	Advisor	1.60	51
TX	LoneStar 529 Plan	Advisor	1.61	71
KS	LearningQuest 529 Program (Advisor)	Advisor	1.62	84
NJ	Franklin Templeton 529 College Savings Plan	Advisor	1.74	80
OR	MFS 529 Savings Plan	Advisor	1.78	73
IA	IAAdvisor 529 Plan	Advisor	1.80	88
AK	John Hancock Freedom 529	Advisor	1.88	83

Source: Morningstar, Inc. as of 12/31/2013

An increasing portion of the 529 market is entirely passively managed, while active management retains a foothold in some areas (especially advisor-sold plans). Other plans have options that include a mix of active and passive management. Program managers often design these blended options in the hope that the active managers provide peer-beating returns while the passive portions keep volatility in line with the market and limit manager-specific risk. The cost of running this range of strategies—active, passive, and blended—varies and makes it difficult to compare prices.

To better compare 529 expenses, Morningstar divided 529 age-based options into groups based on their distribution channel and underlying investment types. After dividing the age-based options by whether they are direct- or advisor-sold, Morningstar categorizes the options into one of three groups: actively managed, passively managed, or a blend of the two. (The “blend” groups are defined as having between 20% and 80% in active management.) Morningstar then determines the average total expense ratio for each age-based track.

Exhibit 14 Age-Based Track Total Expense Ratio Ranges by Distribution Type

	Minimum %	Maximum %	Average %
Direct-Sold			
Actively Managed Age-Based Tracks	0.20	1.40	0.81
Passively Managed Age-Based Tracks	0.08	0.85	0.37
Blended Age-Based Tracks	0.25	1.35	0.61
Advisor-Sold			
Actively Managed Age-Based Tracks			
No Load	0.82	—	—
A Shares	0.57	1.49	1.08
C Shares	0.80	2.24	1.74
Passively Managed Age-Based Tracks			
No Load	0.59	—	—
A Shares	0.64	0.85	0.75
C Shares	1.39	1.60	1.50
Blended Age-Based Tracks			
A Shares	0.42	1.51	1.06
C Shares	0.42	2.26	1.54

Source: Morningstar, Inc. as of 12/31/2013

Passively managed age-based tracks tend to cost less than those that blend active and passive investments, which in turn are typically less expensive than those composed of entirely active managers. Direct-sold plans tend to be populated with index funds, as these low-cost and broad-based investments provide straightforward exposure to various asset classes and are generally easy to use. In turn, direct-sold plans on average cost less than advisor-sold plans, which tend to offer a larger number of actively managed funds and include the compensation for advisors giving financial guidance and navigating the more complex lineup. The cost differential between direct-sold and advisor-sold investments is notable even for similar investments. The typical passively managed age-based option within an advisor-

sold plan charges 0.75%, double the 0.37% of a passively managed age-based option within the typical direct-sold plan. A more expensive passively managed fund has no opportunity to outperform a cheaper alternative.

Comparing the absolute costs of age-based options across strategy types and distribution channel can be informative for investors weighting whether they prefer active or passive investments and if they would like to work with an advisor; it can also be helpful to compare costs within each subset. There is a wide range of fees charged within each group. For example, among direct-sold, passively managed age-based options, fees range from 8 to 85 basis points, a meaningful difference that can have a significant effect on performance. That wide gap holds true even among plans using similar underlying investments, such as North Dakota's College SAVE and New York's 529 Program (Direct), both of which use well-regarded Vanguard index funds to populate their age-based tracks. Despite this similarity, the North Dakota plan's three age-based tracks charge the highest levy (85 basis points) among direct-sold, passively managed options, while the options within New York's plan cost a mere 17 basis points. To be sure, New York has a much larger participant base and asset pool, but it's disappointing that states and program managers continue to allow for such large price discrepancies.

Exhibit 15 Average Total Expense Ratios by Age-Based Track, Direct-Sold

State	Plan Name	Track Name	Average of Total Expense Ratio %	Average Morningstar Fee Level – Distribution Percentile Rank
Direct-Sold Actively Managed Age-Based Tracks				
RI	CollegeBoundfund Direct	Age-Based Aggressive	0.20	6
RI	CollegeBoundfund Direct	Age-Based Moderate	0.20	7
RI	CollegeBoundfund Direct	Age-Based Conservative	0.20	6
CA	ScholarShare College Savings Plan	Active Age-Based	0.53	60
SD	CollegeAccess 529	Age-Based	0.63	66
NJ	NJBEST 529 College Savings Plan	Conservative	0.68	68
ME	NextGen College Investing Plan Direct	BR Age-Based	0.73	77
WV	SMART529 Select College Savings Plan	Age-Based	0.74	76
FL	Florida 529 Savings Plan	Age-Based	0.76	79
NJ	NJBEST 529 College Savings Plan	Moderate	0.83	87
DE	Delaware College Investment Plan	Age-Based Active	0.88	84
AZ	Fidelity Arizona College Savings Plan	Age-Based Active	0.88	84
MA	U.Fund College Investing Plan	Age-Based Active	0.88	84
NH	UNIQUE College Investing Plan	Age-Based Active	0.88	84
KS	Schwab 529 College Savings Plan	Moderately Cons	0.89	88
NV	USAA College Savings Plan	Age-Based	0.90	90
NJ	NJBEST 529 College Savings Plan	Growth	0.93	93
KS	Schwab 529 College Savings Plan	Moderate	0.97	89
KS	Schwab 529 College Savings Plan	Moderately Agg	1.02	91
KS	Schwab 529 College Savings Plan	Aggressive	1.14	94
DE	Delaware College Investment Plan	Age-Based Multi-Firm	1.24	96
AZ	Fidelity Arizona College Savings Plan	Age-Based Multi-Firm	1.24	96
MA	U.Fund College Investing Plan	Age-Based Multi-Firm	1.24	96
NH	UNIQUE College Investing Plan	Age-Based Multi-Firm	1.24	96

Exhibit 15 Average Total Expense Ratios by Age-Based Track, Direct-Sold (Continued)

State	Plan Name	Track Name	Average of Total Expense Ratio %	Average Morningstar Fee Level – Distribution Percentile Rank
Direct-Sold Blended Age-Based Tracks				
TN	TNStars College Saving 529 Program	Age Based Option	0.35	38
GA	Path2College 529 Plan	Managed Option	0.37	43
CT	Connecticut Higher Education Trust	Aggressive	0.39	46
CT	Connecticut Higher Education Trust	Moderate	0.40	49
CT	Connecticut Higher Education Trust	Conservative	0.41	51
OH	CollegeAdvantage 529 Savings Plan	Advantage Age-Based	0.43	52
NE	NEST Direct College Savings Plan	Conservative	0.44	52
NE	NEST Direct College Savings Plan	Growth	0.47	55
NE	NEST Direct College Savings Plan	Aggressive	0.47	56
VA	Virginia529 inVEST	Age-Based	0.53	55
KS	LearningQuest 529 Program (Direct)	Conservative	0.60	62
IL	Bright Start College Savings (Direct)	Age-Based Active	0.62	68
KS	LearningQuest 529 Program (Direct)	Moderate	0.64	69
NM	The Education Plan	Age-Based	0.67	71
NE	TD Ameritrade 529 College Savings Plan	Aggressive	0.67	71
NE	TD Ameritrade 529 College Savings Plan	Conservative	0.67	71
NE	TD Ameritrade 529 College Savings Plan	Growth	0.68	72
KS	LearningQuest 529 Program (Direct)	Aggressive	0.72	75
TX	Texas College Savings Plan	Age-Based Active	0.72	75
MD	Maryland College Investment Plan	Enrollment Based	0.82	79
AK	T. Rowe Price College Savings Plan	Enrollment Based	0.84	80
AK	University of Alaska College Savings Plan	Enrollment Based	0.84	80
DC	DC College Savings Program	Age-Based	1.13	94
Direct-Sold Passively Managed Age-Based Tracks				
SC	Future Scholar 529 (Direct)	Conservative Track	0.10	1
SC	Future Scholar 529 (Direct)	Moderate Track	0.12	1
SC	Future Scholar 529 (Direct)	Aggressive Track	0.13	2
NY	New York's 529 Program (Direct)	Aggressive	0.17	3
NY	New York's 529 Program (Direct)	Conservative	0.17	3
NY	New York's 529 Program (Direct)	Moderate	0.17	3
IL	Bright Start College Savings (Direct)	Age-Based Index	0.20	8
UT	Utah Educational Savings Plan	Customized Age-Based	0.20	6
UT	Utah Educational Savings Plan	Age-Based Aggressive	0.21	10
		Domestic		
NV	The Vanguard 529 College Savings Plan	Aggressive	0.21	11
NV	The Vanguard 529 College Savings Plan	Conservative	0.21	11
NV	The Vanguard 529 College Savings Plan	Moderate	0.21	11
UT	Utah Educational Savings Plan	Age-Based Conservative	0.21	13
UT	Utah Educational Savings Plan	Age-Based Moderate	0.22	15
UT	Utah Educational Savings Plan	Age-Based Aggressive Global	0.22	14
WI	Edvest 529 Plan	Aggressive Age-Based Option	0.23	16
OH	CollegeAdvantage 529 Savings Plan	Age-Based Aggressive	0.24	18
CA	ScholarShare College Savings Plan	Passive Age-Based	0.24	18
OH	CollegeAdvantage 529 Savings Plan	Age-Based Moderate	0.24	20

Exhibit 15 Average Total Expense Ratios by Age-Based Track, Direct-Sold (Continued)

State	Plan Name	Track Name	Average of Total Expense Ratio %	Average Morningstar Fee Level – Distribution Percentile Rank
WI	Edvest 529 Plan	Age-Based Option	0.25	20
MI	Michigan Education Savings Program	Conservative Option	0.25	22
OH	CollegeAdvantage 529 Savings Plan	Age-Based Conservative	0.26	23
MI	Michigan Education Savings Program	Moderate Option	0.26	24
DE	Delaware College Investment Plan	Age-Based Index	0.27	24
AZ	Fidelity Arizona College Savings Plan	Age-Based Index	0.27	24
NH	UNIQUE College Investing Plan	Age-Based Index	0.27	24
MA	U.Fund College Investing Plan	Age-Based Index	0.27	28
MI	Michigan Education Savings Program	Aggressive Option	0.27	25
IA	College Savings Iowa 529 Plan	Conservative Growth	0.28	27
IA	College Savings Iowa 529 Plan	Growth	0.28	27
IA	College Savings Iowa 529 Plan	Moderate Growth	0.28	27
IA	College Savings Iowa 529 Plan	Aggressive Growth	0.28	27
MO	MOST Missouri's 529 Plan	Conservative	0.31	33
AL	CollegeCounts 529 Fund	Aggressive	0.32	34
MO	MOST Missouri's 529 Plan	Aggressive	0.32	34
MO	MOST Missouri's 529 Plan	Moderate	0.32	34
AL	CollegeCounts 529 Fund	Moderate	0.32	34
AL	CollegeCounts 529 Fund	Conservative	0.33	36
NM	The Education Plan	Age-Based Index	0.35	39
GA	Path2College 529 Plan	Aggressive Managed Option	0.35	39
ME	NextGen College Investing Plan Direct	iShares Age-Based	0.36	41
WV	SMART529 WV Direct College Savings Plan	Age-Based	0.37	41
NC	National College Savings Program	Aggressive	0.37	43
NC	National College Savings Program	Moderate	0.38	43
NE	NEST Direct College Savings Plan	Index	0.38	45
PA	Pennsylvania 529 Investment Plan	Aggressive	0.38	45
OR	Oregon College Savings Plan	Age-Based	0.39	46
NC	National College Savings Program	Conservative	0.39	45
PA	Pennsylvania 529 Investment Plan	Moderate	0.39	47
PA	Pennsylvania 529 Investment Plan	Conservative	0.40	48
KS	LearningQuest 529 Program (Direct)	Index	0.44	52
MN	Minnesota College Savings Plan	Age-Based	0.46	54
CO	CollegelInvest Direct Portfolio	Age-Based Conservative	0.46	55
CO	CollegelInvest Direct Portfolio	Age-Based Moderate	0.46	55
CO	CollegelInvest Direct Portfolio	Age-Based Aggressive	0.46	55
VT	Vermont Higher Education Investment Plan	Age-Based	0.50	58
NV	SSgA Upromise 529 Plan	College	0.51	56
TX	Texas College Savings Plan	Age-Based Index	0.53	62
IN	CollegeChoice 529 Direct Savings Plan	Age-Based	0.54	61
OK	Oklahoma College Savings Plan	Aggressive	0.56	62
OK	Oklahoma College Savings Plan	Moderate	0.57	63
NE	TD Ameritrade 529 College Savings Plan	Index	0.58	65
OK	Oklahoma College Savings Plan	Conservative	0.59	65
KY	Kentucky Education Savings Plan Trust	Age-Based	0.60	65
MS	Mississippi Affordable (Direct)	Age-Based	0.67	73
AR	GIFT College Investing Plan	Age-Based Conservative	0.75	79
AR	GIFT College Investing Plan	Age-Based Moderate	0.75	79
HI	HI529 - Hawaii's College Savings Program	Age-Based	0.75	79
AR	GIFT College Investing Plan	Age-Based Aggressive	0.75	81

Exhibit 15 Average Total Expense Ratios by Age-Based Track, Direct-Sold (Continued)

State	Plan Name	Track Name	Average of Total Expense Ratio %	Average Morningstar Fee Level – Distribution Percentile Rank
ID	IDeal - Idaho College Savings Program	Moderate	0.81	84
ID	IDeal - Idaho College Savings Program	Aggressive	0.81	85
ID	IDeal - Idaho College Savings Program	Conservative	0.82	85
ND	College SAVE	Conservative	0.85	87
ND	College SAVE	Moderate	0.85	87
ND	College SAVE	Aggressive	0.85	88

Source: Morningstar, Inc. as of 12/31/2013

Exhibit 16 Average Total Expense Ratios by Age-Based Track, Advisor-Sold

State	Plan Name	Track Name	Average of Total Expense			Average Morningstar Fee Level–Distribution Percentile Rank
			No-Load	A-Shares	C-Shares	
Advisor-Sold Actively Managed Age-Based Tracks						
CO	Scholars Choice College Savings Program	Enrollment Based	—	0.84	1.34	16
CO	Scholars Choice College Savings Program	Age-Based	—	0.91	1.41	18
IL	Bright Start College Savings (Advisor)	Age-Based	—	0.92	1.17	10
ME	NextGen College Investing Plan Select	MFS Age-Based	—	0.99	1.74	42
ME	NextGen College Investing Plan Select	BR Age-Based	—	0.99	1.74	43
RI	CollegeBoundfund	Age-Based Conservative	—	1.00	1.75	33
RI	CollegeBoundfund	Age-Based Moderate	—	1.01	1.52	32
VA	CollegeAmerica	College Fund	—	1.03	1.78	38
NV	Putnam 529 for America	Conservative	—	1.04	1.75	40
ME	NextGen College Investing Plan Select	FT Age-Based	—	1.04	1.79	54
ME	NextGen College Investing Plan Select	Allianz Age-Based	—	1.04	1.79	55
RI	CollegeBoundfund	Age-Based Aggressive	—	1.04	1.54	43
KS	LearningQuest 529 Program (Advisor)	Conservative	—	1.05	1.80	73
WI	Tomorrow's Scholar 529 Plan	Age-Based Options	0.82	1.07	1.82	55
AZ	Ivy Funds InvestEd 529 Plan	Age-Based	—	1.07	—	54
NM	Scholar'sEdge	Age-Based	—	1.08	1.83	58
NE	State Farm College Savings Plan	Age-Based	—	1.08	—	56
OH	BlackRock CollegeAdvantage 529 Plan	Conservative	—	1.09	1.84	62
NV	Putnam 529 for America	Moderate	—	1.09	1.84	57
KS	LearningQuest 529 Program (Advisor)	Moderate	—	1.11	1.86	81
NV	Putnam 529 for America	Aggressive	—	1.11	1.86	66
NH	Fidelity Advisor 529 Plan	Age-Based	—	1.12	1.79	61
NJ	Franklin Templeton 529 College Savings Plan	Conservative	—	1.13	1.88	72
WV	The Hartford SMART529	Age-Based	—	1.15	1.89	73
OH	BlackRock CollegeAdvantage 529 Plan	Moderate	—	1.15	1.45	72
OR	MFS 529 Savings Plan	Age-Based	—	1.18	1.93	84
CT	CHET Advisor College Savings Plan	Age-Based	—	1.19	1.94	85
OH	BlackRock CollegeAdvantage 529 Plan	Aggressive	—	1.20	1.95	84
KS	LearningQuest 529 Program (Advisor)	Aggressive	—	1.24	1.99	89
SD	CollegeAccess 529	Age-Based	—	1.26	2.01	89
NJ	Franklin Templeton 529 College Savings Plan	Moderate	—	1.28	2.03	93
NJ	Franklin Templeton 529 College Savings Plan	Growth	—	1.38	2.13	96
AK	John Hancock Freedom 529	Age-Based	—	1.40	1.96	84

Exhibit 16 Average Total Expense Ratios by Age-Based Track, Advisor-Sold (Continued)

State	Plan Name	Track Name	Average of Total Expense			Average Morningstar Fee Level—Distribution Percentile Rank
			No-Load	A-Shares	C-Shares	
Advisor-Sold Blended Age-Based Tracks						
NE	NEST Advisor College Savings Plan	Conservative	—	0.72	1.32	14
NE	NEST Advisor College Savings Plan	Aggressive	—	0.80	1.55	21
NE	NEST Advisor College Savings Plan	Growth	—	0.80	1.55	21
SC	Future Scholar 529 (Advisor)	Conservative Track	—	0.90	1.39	19
SC	Future Scholar 529 (Advisor)	Moderate Track	—	0.94	1.44	26
AL	CollegeCounts 529 Fund Advisor Plan	Conservative	—	0.95	1.15	25
SC	Future Scholar 529 (Advisor)	Aggressive Track	—	1.03	1.52	38
IL	Bright Directions College Savings Program	Balanced	—	1.03	1.28	24
NY	New York's 529 Program (Advisor-Guided)	Age-Based	—	1.05	1.80	69
IL	Bright Directions College Savings Program	Growth	—	1.07	1.32	32
IL	Bright Directions College Savings Program	Aggressive	—	1.11	1.36	43
AL	CollegeCounts 529 Fund Advisor Plan	Moderate	—	1.11	1.36	40
DC	DC College Savings Program	Age-Based	—	1.13	—	—
AL	CollegeCounts 529 Fund Advisor Plan	Aggressive	—	1.18	1.43	52
TX	Lonestar 529 Plan	Advisor Age Based	—	1.22	1.97	87
OK	OklahomaDream529	Age-Based	—	1.26	2.01	92
MI	MI 529 Advisor	Age-Based	—	1.36	1.76	71
IA	IAdvisor 529 Plan	Age-Based	—	1.39	2.14	97
Advisor-Sold Passively Managed Age-Based Tracks						
NE	NEST Advisor College Savings Plan	Index	—	0.67	1.42	15
ME	NextGen College Investing Plan Select	iShares Age-Based	—	0.70	1.45	16
IN	CollegeChoice Advisor 529 Savings Plan	Enrollment Based	—	0.84	1.59	22
AR	iShares 529 Plan	Enrollment Based	0.59	—	—	15

Source: Morningstar, Inc. as of 12/31/2013

Another way investors can evaluate the costs of a 529 plan is by looking at the dollar-based fees charged for maintenance expenses. These fees generally cover the program manager's administrative costs associated with mailing paper statements or offsetting the relatively high cost of accounts with low balances. Roughly half of all 529 plans charge a maintenance fee, though some may be waived under certain circumstances. The average levy charged by plans with a maintenance fee is \$20, although it can range as high as \$50 per year, as in the case of Maine's NextGen College Investing Plan Select. These costs eat away at returns: A \$10,000 account with a \$20 annual fee equals 20 basis points in costs added to its expense ratio. Account owners with low balances are particularly punished by these recurring charges.

Exhibit 17 Plan Annual Maintenance Fees

State	Plan Name	Sales Channel	Maximum Annual Maintenance Fee USD
ME	NextGen College Investing Plan Select	Advisor	50.00
DC	DC College Savings Program	Direct and Advisor	30.00
NV	USAA College Savings Plan	Direct	30.00
OH	BlackRock CollegeAdvantage 529 Plan	Advisor	25.00
RI	CollegeBoundfund	Direct and Advisor	25.00

Exhibit 17 Plan Annual Maintenance Fees (Continued)

State	Plan Name	Sales Channel	Maximum Annual Maintenance Fee USD
SC	Future Scholar 529 (Advisor)	Advisor	25.00
AK	John Hancock Freedom 529	Advisor	25.00
MT	MFESP Investment Plan	Direct	25.00
OR	MFS 529 Savings Plan	Advisor	25.00
MO	MOST 529 Advisor Plan	Advisor	25.00
NY	New York's 529 Program (Advisor-Guided)	Advisor	25.00
NM	Scholar'sEdge	Advisor	25.00
WV	SMART529 Select College Savings Plan	Direct	25.00
NM	The Education Plan	Direct	25.00
WV	The Hartford SMART529	Advisor	25.00
WI	Tomorrow's Scholar 529 Plan	Advisor	25.00
ND	College SAVE	Direct	20.00
SD	CollegeAccess 529	Direct and Advisor	20.00
IN	CollegeChoice 529 Direct Savings Plan	Direct	20.00
IN	CollegeChoice Advisor 529 Savings Plan	Advisor	20.00
CO	CollegeInvest Direct Portfolio	Direct	20.00
NH	Fidelity Advisor 529 Plan	Advisor	20.00
AR	GIFT College Investing Plan	Direct	20.00
HI	HI529 - Hawaii's College Savings Program	Direct	20.00
ID	IDeal - Idaho College Savings Program	Direct	20.00
AZ	Ivy Funds InvestEd 529 Plan	Advisor	20.00
OK	OklahomaDream529	Advisor	20.00
CO	Scholars Choice College Savings Program	Advisor	20.00
NV	SSgA Upromise 529 Plan	Direct	20.00
NV	The Vanguard 529 College Savings Plan	Direct	20.00
NC	National College Savings Program	Direct	18.00
PA	Pennsylvania 529 Investment Plan	Direct	18.00
NV	Putnam 529 for America	Advisor	15.00
UT	Utah Educational Savings Plan	Direct	15.00
IL	Bright Directions College Savings Program	Advisor	12.00
AL	CollegeCounts 529 Fund	Direct	12.00
AL	CollegeCounts 529 Fund Advisor Plan	Advisor	12.00
IL	Bright Start College Savings (Direct)	Direct	10.00
VA	CollegeAmerica	Advisor	10.00
AR	iShares 529 Plan	Advisor	10.00
MD	Maryland College Investment Plan	Direct	10.00
MO	MOST Missouri's 529 Plan	Direct	10.00
AK	T. Rowe Price College Savings Plan	Direct	10.00
AK	University of Alaska College Savings Plan	Direct	10.00
IL	Bright Start College Savings (Advisor)	Advisor	0.00
CT	CHET Advisor College Savings Plan	Advisor	0.00
IA	College Savings Iowa 529 Plan	Direct	0.00
OH	CollegeAdvantage 529 Savings Plan	Direct	0.00
RI	CollegeBoundfund Direct	Direct	0.00
CT	Connecticut Higher Education Trust	Direct	0.00
DE	Delaware College Investment Plan	Direct	0.00
WI	Edvest 529 Plan	Direct	0.00
AZ	Fidelity Arizona College Savings Plan	Direct	0.00
FL	Florida 529 Savings Plan	Direct	0.00
NJ	Franklin Templeton 529 College Savings Plan	Advisor	0.00

Exhibit 17 Plan Annual Maintenance Fees (Continued)

State	Plan Name	Sales Channel	Maximum Annual Maintenance Fee USD
SC	Future Scholar 529 (Direct)	Direct	0.00
IA	IAdvisor 529 Plan	Advisor	0.00
KY	Kentucky Education Savings Plan Trust	Direct	0.00
KS	LearningQuest 529 Program (Advisor)	Advisor	0.00
KS	LearningQuest 529 Program (Direct)	Direct	0.00
TX	Lonestar 529 Plan	Advisor	0.00
MI	MI 529 Advisor	Advisor	0.00
MI	Michigan Education Savings Program	Direct	0.00
MN	Minnesota College Savings Plan	Direct	0.00
MS	Mississippi Affordable (Direct)	Direct	0.00
NE	NEST Advisor College Savings Plan	Advisor	0.00
NE	NEST Direct College Savings Plan	Direct	0.00
NY	New York's 529 Program (Direct)	Direct	0.00
ME	NextGen College Investing Plan Direct	Direct	0.00
NJ	NJBEST 529 College Savings Plan	Direct	0.00
OK	Oklahoma College Savings Plan	Direct	0.00
OR	Oregon College Savings Plan	Direct	0.00
GA	Path2College 529 Plan	Direct	0.00
CA	ScholarShare College Savings Plan	Direct	0.00
KS	Schwab 529 College Savings Plan	Direct	0.00
WV	SMART529 WV Direct College Savings Plan	Direct	0.00
NE	State Farm College Savings Plan	Advisor	0.00
NE	TD Ameritrade 529 College Savings Plan	Direct	0.00
TX	Texas College Savings Plan	Direct	0.00
LA	The Louisiana START Saving For College	Direct	0.00
TN	TNStars College Saving 529 Program	Direct	0.00
MA	U.Fund College Investing Plan	Direct	0.00
NH	UNIQUE College Investing Plan	Direct	0.00
VT	Vermont Higher Education Investment Plan	Direct	0.00
VA	Virginia529 inVEST	Direct	0.00
Average			9.75
Minimum			0.00
Maximum			50.00

Source: Morningstar, Inc. and plan websites as of 12/31/2013

Investors have plenty of choices to make when it comes to choosing a 529 plan, including whether to work with an advisor or go it alone. They also must decide whether they will be best served by a plan that offers actively or passively managed investments, or a blend of both. Regardless of those inputs, it's worthwhile for college savers to shop around and find the most competitively priced investment that fits their needs. Still, the benefits of certain in-state grants or tax breaks can make a home-state plan more attractive than a less expensive out-of-state plan. College savers are wise to evaluate the overall costs and benefits of their options accordingly.

People

College savings represent an important financial goal for families, and it stands to reason that college savers would prefer experienced fund managers at the helm of their 529 investments. Long-tenured managers often have earned their keep with strong long-term returns. Indeed, the 2014 Morningstar U.S. Mutual Fund Industry Stewardship Survey found that firms with longer-tenured managers have produced better returns for investors, particularly over the long term on a risk-adjusted basis.

Morningstar has calculated the average manager tenure across the underlying mutual funds represented in each 529 plan, and more than a dozen plans have average manager tenures longer than 10 years. Four of the 14 plans with average manager tenure exceeding 10 years primarily feature funds run by Vanguard, including the two plans with the longest average manager tenure, MFESP Investment Plan of Montana and North Carolina's National College Savings Program. Vanguard funds are also represented in New York's 529 Program (Direct) and The Vanguard 529 College Savings Plan, both of which tap Upromise as program manager.

Exhibit 18 Plan Average Manager Tenure

State	Plan Name	Program Manager	Average Manager Tenure for Underlying Funds (Years)	
			2013	2012
MT	MFESP Investment Plan	College Savings Bank	16.75	15.67
NC	National College Savings Program	College Foundation, Inc.	15.67	6.83
NJ	NJBEST 529 College Savings Plan	Franklin Templeton Distributors Inc	13.05	12.28
VA	Virginia529 inVEST	Virginia College Savings Plan	12.95	11.86
NJ	Franklin Templeton 529 College Savings Plan	Franklin Templeton Distributors Inc	12.37	12.63
AL	CollegeCounts 529 Fund	Union Bank & Trust Company (Lincoln, NE)	12.06	12.67
NY	New York's 529 Program (Direct)	Upromise Investments, Inc.	11.90	11.30
OH	CollegeAdvantage 529 Savings Plan	Ohio Tuition Trust Authority	11.21	9.88
NE	NEST Direct College Savings Plan	First National Bank Of Omaha	11.20	10.57
NE	TD Ameritrade 529 College Savings Plan	First National Bank Of Omaha	11.13	11.28
NE	NEST Advisor College Savings Plan	First National Bank Of Omaha	10.75	10.86
IL	Bright Directions College Savings Program	Union Bank & Trust Company (Lincoln, NE)	10.58	9.76
KS	Schwab 529 College Savings Plan	American Century Inv Mgt, Inc.	10.52	10.26
NV	The Vanguard 529 College Savings Plan	Upromise Investments, Inc.	10.13	9.36
MD	Maryland College Investment Plan	T. Rowe Price Associates, Inc.	9.83	9.26
AZ	Ivy Funds InvestEd 529 Plan	Waddell & Reed Inc	9.67	8.79
VA	CollegeAmerica	American Funds	9.66	9.50
HI	HI529 - Hawaii's College Savings Program	Upromise Investments, Inc.	9.19	7.00
AL	CollegeCounts 529 Fund Advisor Plan	Union Bank & Trust Company (Lincoln, NE)	9.18	8.55
AK	University of Alaska College Savings Plan	T. Rowe Price Associates, Inc.	9.03	7.96
AK	T. Rowe Price College Savings Plan	T. Rowe Price Associates, Inc.	9.03	7.96
WV	SMART529 WV Direct College Savings Plan	Hartford Life Insurance Company	9.00	7.97
IL	Bright Start College Savings (Direct)	OFI Private Investments Inc	8.98	7.90
MS	Mississippi Affordable (Direct)	TIAA Tuition Financing, Inc.	8.90	7.81
AK	John Hancock Freedom 529	T. Rowe Price Associates, Inc.	8.81	8.11

Exhibit 18 Plan Average Manager Tenure (Continued)

State	Plan Name	Program Manager	Average Manager Tenure for Underlying Funds (Years)	
			2013	2012
OR	MFS 529 Savings Plan	MFS	8.67	7.17
UT	Utah Educational Savings Plan	Utah Educational Savings Plan	8.62	9.09
CO	Scholars Choice College Savings Program	Legg Mason Global Asset Allocation, LLC	8.57	8.30
OR	Oregon College Savings Plan	TIAA Tuition Financing, Inc.	8.55	7.66
AR	GIFT College Investing Plan	Upromise Investments, Inc.	8.48	7.45
ID	IDeal - Idaho College Savings Program	Upromise Investments, Inc.	8.48	7.45
KS	LearningQuest 529 Program (Direct)	American Century Inv Mgt, Inc.	8.45	7.77
KS	LearningQuest 529 Program (Advisor)	American Century Inv Mgt, Inc.	8.29	6.71
CA	ScholarShare College Savings Plan	TIAA Tuition Financing, Inc.	8.16	6.98
IN	CollegeChoice 529 Direct Savings Plan	Upromise Investments, Inc.	7.89	7.33
IA	College Savings Iowa 529 Plan	Vanguard Group, Inc.	7.88	6.83
CO	CollegInvest Direct Portfolio	Upromise Investments, Inc.	7.88	6.83
NY	New York's 529 Program (Advisor-Guided)	Upromise Investments, Inc.	7.86	7.24
NM	The Education Plan	OFI Private Investments Inc	7.78	6.79
DE	Delaware College Investment Plan	Fidelity Investments	7.78	7.45
MA	U.Fund College Investing Plan	Fidelity Investments	7.78	7.45
NH	UNIQUE College Investing Plan	Fidelity Investments	7.78	7.45
AZ	Fidelity Arizona College Savings Plan	Fidelity Investments	7.78	7.45
RI	CollegeBoundfund	AllianceBernstein LP	7.64	6.74
RI	CollegeBoundfund Direct	AllianceBernstein LP	7.64	NA
SD	CollegeAccess 529	Allianz Global Investors Dist., LLC	7.59	7.71
KY	Kentucky Education Savings Plan Trust	TIAA Tuition Financing, Inc.	7.43	6.73
MO	MOST 529 Advisor Plan	Upromise Investments, Inc.	7.43	6.78
CT	Connecticut Higher Education Trust	TIAA Tuition Financing, Inc.	7.39	6.19
ME	NextGen College Investing Plan Select	Merrill Lynch Pierce Fenner & Smith	7.38	6.40
VT	Vermont Higher Education Investment Plan	TIAA Tuition Financing, Inc.	7.37	6.27
OK	Oklahoma College Savings Plan	TIAA Tuition Financing, Inc.	7.35	6.73
NM	Scholar's Edge	OFI Private Investments Inc	7.32	6.02
GA	Path2College 529 Plan	TIAA Tuition Financing, Inc.	7.16	6.05
MI	MI 529 Advisor	TIAA Tuition Financing, Inc.	6.96	6.27
OK	OklahomaDream529	TIAA Tuition Financing, Inc.	6.93	6.30
IL	Bright Start College Savings (Advisor)	OFI Private Investments Inc	6.89	5.33
TX	Texas College Savings Plan	OFI Private Investments Inc	6.41	5.35
MN	Minnesota College Savings Plan	TIAA Tuition Financing, Inc.	6.41	5.89
NV	Putnam 529 for America	Putnam Investment Management, LLC	6.41	5.75
WI	EdVest 529 Plan	TIAA Tuition Financing, Inc.	6.40	NA
PA	Pennsylvania 529 Investment Plan	Pennsylvania Treasury Department	6.39	5.35
ME	NextGen College Investing Plan Direct	Merrill Lynch Pierce Fenner & Smith	6.38	3.42
MI	Michigan Education Savings Program	TIAA Tuition Financing, Inc.	6.22	5.13
ND	College SAVE	Upromise Investments, Inc.	6.16	6.17
MO	MOST Missouri's 529 Plan	Upromise Investments, Inc.	6.05	6.29
WV	SMART529 Select College Savings Plan	Hartford Life Insurance Company	6.05	6.73
IN	CollegeChoice Advisor 529 Savings Plan	Upromise Investments, Inc.	5.95	5.68
SC	Future Scholar 529 (Advisor)	Columbia Management Inv Distri, Inc.	5.86	5.05
NV	SSgA Upromise 529 Plan	Upromise Investments, Inc.	5.75	NA
NH	Fidelity Advisor 529 Plan	Fidelity Investments	5.66	5.50
OH	BlackRock CollegeAdvantage 529 Plan	BlackRock Advisors LLC	5.60	5.28
CT	CHET Advisor College Savings Plan	Hartford Life Insurance Company	5.48	4.80
NV	USAA College Savings Plan	Upromise Investments, Inc.	5.45	4.93
WV	The Hartford SMART529	Hartford Life Insurance Company	5.40	4.33

Exhibit 18 Plan Average Manager Tenure (Continued)

State	Plan Name	Program Manager	Average Manager Tenure for Underlying Funds (Years)	
			2013	2012
TX	LoneStar 529 Plan	OFI Private Investments Inc	5.37	4.58
SC	Future Scholar 529 (Direct)	Columbia Management Inv Distri, Inc.	5.26	4.65
WI	Tomorrow's Scholar 529 Plan	TIAA Tuition Financing, Inc.	5.22	NA
NE	State Farm College Savings Plan	First National Bank Of Omaha	4.83	4.25
DC	DC College Savings Program	Calvert Investment Management, Inc.	4.52	3.90
IA	IAdvisor 529 Plan	ING Investment Management Co. LLC (US)	4.13	NA
AR	iShares 529 Plan	Upromise Investments, Inc.	3.34	3.77

Source: Morningstar, Inc. as of 12/31/2013

Another firm well-known for its fund managers' long tenures is represented prominently on the 529 plans' average-manager tenure list: Franklin Templeton. As of Dec. 31, 2013, the firm's equal-weighted average manager tenure was 14.3 years, and its asset-weighted average—where larger funds are counted more-prominently in the calculation—is 23.7 years. Those averages are among the highest for the U.S.' largest fund companies.

Hiring long-tenured managers also appears to be a priority at several 529 plans that mix managers from a number of firms (a plan design known in the 529 industry as "open architecture"). Virginia529 inVest, for example, features long-tenured managers in its age-based options from Vanguard, Franklin Templeton, and the American Funds. Meanwhile, Alabama's CollegeCounts 529 Fund and CollegeAdvantage 529 Savings Plan of Ohio both feature a version of PIMCO Total Return, an open-end mutual fund run by Bill Gross since 1987.

Among the plans with lower manager tenure, it's important to look beneath the surface to see what's behind managers' shorter stints. In some cases, the tenure isn't very relevant to the investment decision, particularly at plans with indexed options, such as South Carolina's Future Scholar 529 (Direct) and Arkansas' iShares 529 Plan. But it's more relevant when options are actively managed and the plan's underlying funds have newer skippers. This is the case at DC College Savings Program, which features funds from Calvert Investment Management.

Parent

The organizations overseeing 529 college-savings plans, known in Morningstar lingo as the investments' "Parent," play a critical role in their success. For example, representatives from the offering state often hire a separate program manager to run the 529 plans. Typically, the program manager is the asset-management company whose mutual funds ultimately serve as the program's investment options. But as the table below illustrates, the largest program manager for direct-sold 529 plans is Upromise, which doesn't manage assets on its own but rather partners with a money manager that in turn provides the investment options.

Exhibit 19 Assets by Program Manager, Direct-Sold

Program Manager	Total Direct-Sold Assets USD	Direct-Sold Market Share %	
		2013	2012
Upromise Investments, Inc.	33,239,641,956	32.69	31.61
TIAA Tuition Financing, Inc.	18,051,750,517	17.75	17.75
Fidelity Investments	12,442,326,132	12.24	14.48
Utah Educational Savings Plan	6,733,533,313	6.62	6.11
T. Rowe Price Associates, Inc.	5,774,819,348	5.68	5.44
American Century Inv Mgt, Inc.	3,993,373,504	3.93	3.89
OFI Private Investments Inc	3,762,129,497	3.70	3.53
Vanguard Group, Inc.	3,453,172,337	3.40	3.62
Ohio Tuition Trust Authority	3,266,027,923	3.21	3.37
Virginia College Savings Plan	2,555,614,502	2.51	2.49
First National Bank Of Omaha	2,221,274,550	2.18	2.19
Pennsylvania Treasury Department	1,505,089,123	1.48	1.42
College Foundation, Inc.	1,351,211,172	1.33	1.23
Franklin Templeton Distributors Inc	878,327,539	0.86	0.82
Columbia Management Inv Distri, Inc.	632,188,151	0.62	0.58
Hartford Life Insurance Company	555,341,949	0.55	0.51
Florida Prepaid College Board	347,489,695	0.34	0.33
Calvert Investment Management, Inc.	226,587,032	0.22	NA
AllianceBernstein LP	195,816,522	0.19	0.20
Union Bank & Trust Company (Lincoln, NE)	193,534,980	0.19	0.16
Merrill Lynch Pierce Fenner & Smith	145,596,687	0.14	0.11
College Savings Bank	117,285,885	0.12	0.12
Allianz Global Investors Dist., LLC	26,512,209	0.03	0.03
State of Tennessee	9,289,215	0.01	0.00

Source: Morningstar, Inc. as of 12/31/2013

At nearly one third of direct-sold plan assets, Upromise is one of the 529 industry's dominant players. Most often among direct-sold plans, the firm partners with Vanguard to run the plans' investment options, offering similar indexed offerings that vary in price depending on the assets under management at each plan. In 2013, Upromise's parent company changed from Sallie Mae, the student lender, to Ascensus, a retirement-plan record keeper.

Among advisor-sold plans, the American Funds, program manager of Virginia's CollegeAmerica, holds the most market share and, at \$44 billion, manages more 529 assets than all of the direct-sold Upromise plans combined.

Exhibit 20 Assets by Program Manager, Advisor-Sold

Program Manager	Total Advisor-Sold Assets USD	Advisor-Sold Assets Market Share %	
		2013	2012
American Funds	44,225,300,021	45.06	43.53
AllianceBernstein LP	7,517,867,057	7.66	8.58
Merrill Lynch Pierce Fenner & Smith	7,450,377,188	7.59	7.64
Upromise Investments, Inc.	4,875,702,012	4.97	4.89
BlackRock Advisors LLC	4,506,243,889	4.59	4.73
Fidelity Investments	4,109,187,326	4.19	4.37
T. Rowe Price Associates, Inc.	3,917,232,089	3.99	4.00
OFI Private Investments Inc	3,770,539,940	3.84	4.06
Legg Mason Global Asset Allocation, LLC	3,354,728,392	3.42	3.56
Franklin Templeton Distributors Inc	2,853,228,049	2.91	2.79
Union Bank & Trust Company (Lincoln, NE)	2,432,096,629	2.48	2.34
TIAA Tuition Financing, Inc.	1,863,774,935	1.90	1.97
Hartford Life Insurance Company	1,763,324,445	1.80	1.77
Columbia Management Inv Distri, Inc.	1,323,425,677	1.35	1.33
First National Bank Of Omaha	1,160,955,771	1.18	1.19
Allianz Global Investors Dist., LLC	1,138,722,528	1.16	1.26
MFS	1,024,429,266	1.04	1.03
Putnam Investment Management, LLC	336,403,463	0.34	0.34
American Century Inv Mgt, Inc.	239,382,133	0.24	0.25
ING Investment Management Co. LLC (US)	184,998,820	0.19	NA
Calvert Investment Management, Inc.	89,315,877	0.09	NA

Source: Morningstar, Inc. as of 12/31/2013

There is a significant drop-off in assets after American Funds, with two established advisor-sold 529 providers, AllianceBernstein and Merrill Lynch, coming in second and third, respectfully, for market share. They each manage more than \$7 billion of assets and more than 7% market share. A relative newcomer, ING—which rebranded its funds in May 2014 to Voya—has garnered \$185 million of assets since it became program manager of Iowa's IAdvisor 529 Plan in 2013.

Morningstar Firm-Level Data

Assets under management is one way to assess a 529 plan's parent, but perhaps more telling are data that measure money managers' care of capital. Morningstar tracks several firm-level attributes that measure the mutual funds' manager tenure, turnover, and personal investments in the funds. Morningstar also puts the funds' fees into competitive context to assess whether the firm's funds are a good value proposition overall. The 2014 Morningstar U.S. Mutual Fund Industry Stewardship Survey found that firms with managers that have long tenures, low turnover, and high personal investments in fund shares have produced better returns for investors, particularly over the long term on a risk-adjusted basis. The same is true among firms offering funds with lower expense ratios overall.

Morningstar can apply this firm-level data to the 529 industry by determining which fund firm is responsible for managing the largest portion of each program manager's assets, and then referencing that firm's stewardship data.

Exhibit 21 Firm-Level Data for Top Asset Manager by Program Manager

		Firm-Level Data for Top Asset Manager						
Program Manager	Top Asset Manager	Share of Program Manager Assets %	Morningstar Analyst Rating—Parent Pillar	Firm Average Longest Manager Tenure Years Asset-Weighted	Morningstar Five-Year Manager Retention Rate %	Firm Fund Assets with High Manager Ownership of Fund Shares %	Average Morningstar Fee Level—Distribution Percentile Rank	Morningstar Risk-Adjusted Success Ratio 5-Year
AllianceBernstein LP	AllianceBernstein	63.18	Negative	11.1	84.86	12	42	32
Allianz Global Investors Dist., LLC	PIMCO	51.79	Positive	15.5	91.90	48	48	60
American Century Inv Mgt, Inc.	American Century Investments	57.24	Neutral	10.5	92.12	0	53	25
American Funds	American Funds	100.00	Positive	21.6	95.62	97	18	64
BlackRock Advisors LLC	BlackRock	83.82	Neutral	12.3	86.15	65	47	28
Calvert Investment Management, Inc.	Calvert Investments	79.60	Negative	5.3	86.63	0	69	26
College Foundation, Inc.	Vanguard	100.00	Positive	11.7	91.45	16	4	65
College Savings Bank	Vanguard	100.00	Positive	11.7	91.45	16	4	65
Columbia Management Inv Distri, Inc.	Columbia	80.40	Neutral	9.1	84.02	35	50	18
Fidelity Investments	Fidelity Investments	99.14	Positive	8.5	91.13	51	33	49
First National Bank Of Omaha	Vanguard	40.67	Positive	11.7	91.45	16	4	65
Franklin Templeton Distributors Inc	Franklin Templeton Investments	95.25	Positive	23.7	95.62	62	33	42
Hartford Life Insurance Company	Hartford Mutual Funds	64.95	Neutral	9.9	91.31	35	47	47
ING Investment Management Co. LLC (US)	ING Funds	72.45	Neutral	12.9	84.21	0	51	21
Legg Mason Global Asset Allocation, LLC	Legg Mason	88.01	Neutral	12.6	94.22	44	50	44
Merrill Lynch Pierce Fenner & Smith	BlackRock	52.63	Neutral	12.3	86.15	65	47	28
MFS	MFS	100.00	Positive	10.9	94.04	41	47	58
OFI Private Investments Inc	OppenheimerFunds	35.50	Neutral	9.4	87.64	64	40	46
Ohio Tuition Trust Authority	Vanguard	92.55	Positive	11.7	91.45	16	4	65
Pennsylvania Treasury Department	Vanguard	100.00	Positive	11.7	91.45	16	4	65
Putnam Investment Management, LLC	Putnam	73.35	Neutral	7.3	89.36	26	48	45
T. Rowe Price Associates, Inc.	T. Rowe Price	86.50	Positive	11.1	95.01	21	37	83
TIAA Tuition Financing, Inc.	TIAA-CREF Mutual Funds	76.34	Neutral	8.2	92.68	5	16	63
Union Bank & Trust Company (Lincoln, NE)	Northern Funds	22.90	Neutral	6.9	89.07	0	26	14
Upromise Investments, Inc.	Vanguard	77.91	Positive	11.7	91.45	16	4	65
Utah Educational Savings Plan	Vanguard	99.13	Positive	11.7	91.45	16	4	65
Vanguard Group, Inc.	Vanguard	100.00	Positive	11.7	91.45	16	4	65
Virginia College Savings Plan	Vanguard	66.15	Positive	11.7	91.45	16	4	65
Waddell & Reed Inc	Waddell & Reed	100.00	Negative	10.7	96.37	4	71	33

Source: Morningstar, Inc. as of 12/31/2013

For more than 170 firms that offer U.S. mutual funds, Morningstar issues Parent ratings of Positive, Negative, and Neutral based on the strength of the firm's stewardship practices. Morningstar analysts evaluate the firms in five areas: corporate culture, fund board quality, fund manager incentives, fees, and regulatory history. Firms that exceed the industry's stewardship standards earn Positive ratings; those that meet the industry standard are rated Neutral; and those that fall short of the industry standard are rated Negative.

The Parent rating is one of five factors that contributes to the Morningstar Analyst Rating, which is a forward-looking, qualitative rating that assesses funds based on how much conviction Morningstar's analysts have in that fund's ability to outperform on a risk-adjusted basis over the long term. As for 529 plans, the Morningstar Analyst Rating for individual mutual funds is expressed as Gold, Silver, Bronze, Neutral, or Negative.

The Parent rating in the table above refers to the rating assigned to each program manager's largest asset manager. Morningstar assigns separate Parent ratings to 529 plans as part of the Morningstar Analyst Rating for 529 College Savings Plans. A top asset manager's Parent rating may differ from the 529 plan's Parent rating because the 529 rating assesses every asset manager represented in the plan, as well as the quality of the plan's state oversight.

Among the 529 industry's 29 program managers, 15 have chosen a primary asset manager that's rated Positive, 11 primarily picked firms rated Neutral, and three have hired Negative-rated firms. It's not surprising to see a relatively strong field of asset managers represented at the top of the program managers' rosters because the industry has competitive hiring practices. Firms' investments are rarely represented in 529 plans unless they have demonstrated competitive, if not superior, stewardship practices. (It's worth noting that one Parent rated Positive in the table above—PIMCO—was downgraded in March 2014 to Neutral based on concerns about the firm's succession planning.)

Data Details

The data that help analysts arrive at the Parent rating are listed in the table above. Asset-weighted average manager tenure, for example, measures how long, on average, managers have been named on the firm's funds, placing more weight on the firm's largest funds in the calculation. The five-year manager retention rate measures the percentage of managers who remain named to funds over the course of a calendar year; Morningstar then averages those annual percentages over a five-year period.

To determine the percentage of firm fund assets with high manager ownership of fund shares, Morningstar looks to the data it collects from annual filings with the Securities and Exchange Commission that indicate whether fund managers invest in the funds they run, and to what degree. Managers disclose this data to the SEC in ranges, the smallest being \$0 and the

highest being more than \$1 million. Morningstar has found that manager investment in fund shares often is cultural, where some firms' managers make it common practice to invest in their funds while managers elsewhere may collectively show less conviction in those strategies. With that in mind, Morningstar looks at what percentage of a firm's assets are run by at least one manager who has met the highest industry standard for investment, more than \$1 million in fund shares.

Morningstar also analyzes firms' fund expense data to determine whether the funds are good value propositions. Morningstar starts by determining each fund's Morningstar Fee Level—Distribution, where it ranks funds with similar strategies and share-class types. As with all Morningstar percentile ranks, the lower the figure, the better, so funds with low Fee Level percentile ranks are inexpensive relative to similar funds with the same share-class type. To determine the firm's Fee Level percentile rank, Morningstar takes a simple average of each share class's percentile rank.

Finally, Morningstar looks at firms based on the percentage of the funds that have been successful. Morningstar defines success as fund share classes that have survived and outperformed. With the Morningstar Risk-Adjusted Success Ratio, the denominator in the calculation is the number of fund share classes that existed at the beginning of the period (in this case, five years ago). And the numerator is the number of fund share classes with a Morningstar Risk-Adjusted Return category rank that is less than 50 (indicating they've outperformed the median peer) over the five-year period through the previous month's end. Funds that don't survive cannot be counted, so the Success Ratio also measures whether a firm maintains its fund lineup over the longer term. Higher Success Ratios reflect firms that have a high percentage of funds that both outperform on a risk-adjusted basis and survive the period.

Vanguard: A Popular Parent

Among the program managers featuring Positive parents as their top asset manager, nine of the 15 are the same firm, Vanguard. The supporting data illustrate why Morningstar views Vanguard's stewardship practices positively. Vanguard is industry-leading with a firm-wide average Morningstar Fee Level—Distribution of just 4. It is aided in large part by its mutual ownership structure that prompts it to price its funds at cost. To be sure, that doesn't mean all of the 529 investment options run by Vanguard are the cheapest available. Vanguard's 529 investment options' expense ratios are tiered based on the plan's assets under management, so states with large asset bases, like New York, have average expense ratios that are more than 4 times lower than those at smaller states, such as Idaho.

On a Morningstar Risk-Adjusted Success Ratio basis, Vanguard is also strong, with nearly two thirds of its funds both surviving and outperforming over the five-year period. That reflects the strong performance of indexed funds over the period, but many of Vanguard's actively managed funds have exceeded peers as well.

Vanguard looks more like the industry norm when it comes to manager tenure and retention. The firm's asset-weighted average manager tenure is 11.7 years, which is close to the industry average for firms Morningstar follows closely. And Vanguard's five-year manager retention rate is greater than 90%, Morningstar's informal hurdle for indicating which firms have a stable set of managers. Vanguard looks worse when it comes to fund managers' investment in their own charges. At Vanguard, only 16% of the firm's assets have manager coinvestment that's greater than \$1 million.

Another Positive-rated top asset manager in the 529 industry is American Funds, which scores well across Morningstar's firm-level metrics. Among advisor-sold funds, American Funds is a leader on manager retention, coinvestment in fund shares, and cost. And despite a swath of outflows among the firm's mutual funds, its Morningstar Risk-Adjusted Success Ratio is similar to Vanguard's at 64%.

Among the Negative-rated Parents that are prominent in the 529 industry is AllianceBernstein, which has a longer-tenured pool of managers on an asset-weighted basis but has a lower five-year manager retention rate. The firm's funds are priced competitively but not especially low. More disappointing is the firm's five-year Morningstar Risk-Adjusted Success Ratio, which is a low 32%.

The State as a Parent

The asset managers creating investments for college savers within 529 plans are one important Parent organization, and so are the states that administer the plans. Morningstar qualitatively assesses the states' work on college savers' behalf as part of the Morningstar Analyst Rating for 529 College Savings Plans. The state also can be measured quantitatively based on the benefits they offer to 529 college savers. These benefits often come in the form of state income-tax deductions, and sometimes income tax credits. The value of these benefits often rely on multiple factors, including the college saver's tax rate and how much they save in their 529 accounts. With that in mind, Morningstar compared state tax benefits in late 2013 by creating a scenario of a single saver.

In the October 2013 study, Morningstar looked at benefits available to couples earning \$50,000 per year, filing taxes jointly, who saved \$1,200 per year in a 529 college savings plan. States that have the most generous benefits are two with income tax credits: Indiana and Vermont. From there, states with high income tax rates, including Oregon, the District of Columbia, and Iowa, all had annual benefits exceeding \$95 per year under Morningstar's scenario.

Exhibit 22 State Income Tax Benefits

State	Plan Name	Tax Parity	State Income Tax Rate %, Couples Earning \$50,000	State Tax Deduction Limit USD, Filing Jointly	Dollar Value of Tax Savings on \$1,200 Annual 529 Contribution USD
IN	CollegeChoice 529 Direct Savings Plan	—	3.40	Credit—20%	240.00
IN	CollegeChoice Advisor 529 Savings Plan	—	3.40	Credit—20%	240.00
VT	Vermont Higher Education Investment Plan	—	3.55	Credit—10%	120.00
OR	MFS 529 Savings Plan	—	9.00	4,455	108.00
OR	Oregon College Savings Plan	—	9.00	4,455	108.00
DC	DC College Savings Program	—	8.50	8,000	102.00
IA	College Savings Iowa 529 Plan	—	7.92	6,090	95.04
IA	IAdvisor 529 Plan	—	7.92	6,090	95.04
ID	IDeal - Idaho College Savings Program	—	7.40	8,000	88.80
NC	National College Savings Program	—	7.00	5,000	84.00
AR	GIFT College Investing Plan	—	7.00	10,000	84.00
AR	iShares 529 Plan	—	7.00	10,000	84.00
SC	Future Scholar 529 (Advisor)	—	7.00	318,000	84.00
SC	Future Scholar 529 (Direct)	—	7.00	318,000	84.00
MT	MFESP Investment Plan	Yes	6.90	6,000	82.80
WI	Edvest 529 Plan	—	6.50	3,000	78.00
WI	Tomorrow's Scholar 529 Plan	—	6.50	3,000	78.00
NY	New York's 529 Program (Advisor-Guided)	—	6.45	10,000	77.40
NY	New York's 529 Program (Direct)	—	6.45	10,000	77.40
GA	Path2College 529 Plan	—	6.00	2,000	72.00
MO	MOST 529 Advisor Plan	Yes	6.00	16,000	72.00
MO	MOST Missouri's 529 Plan	Yes	6.00	16,000	72.00
WV	SMART529 Select College Savings Plan	—	6.00	265,620	72.00
WV	SMART529 WV Direct College Savings Plan	—	6.00	265,620	72.00
WV	The Hartford SMART529	—	6.00	265,620	72.00
VA	CollegeAmerica	—	5.75	4,000	69.00
VA	Virginia529 inVEST	—	5.75	4,000	69.00
OK	Oklahoma College Savings Plan	—	5.25	20,000	63.00
OK	OklahomaDream529	—	5.25	20,000	63.00
NE	NEST Advisor College Savings Plan	—	5.12	5,000	61.44
NE	NEST Direct College Savings Plan	—	5.12	5,000	61.44
NE	State Farm College Savings Plan	—	5.12	5,000	61.44
NE	TD Ameritrade 529 College Savings Plan	—	5.12	5,000	61.44
AL	CollegeCounts 529 Fund	—	5.00	10,000	60.00
AL	CollegeCounts 529 Fund Advisor Plan	—	5.00	10,000	60.00
CT	CHET Advisor College Savings Plan	—	5.00	10,000	60.00
CT	Connecticut Higher Education Trust	—	5.00	10,000	60.00
IL	Bright Directions College Savings Program	—	5.00	20,000	60.00
IL	Bright Start College Savings (Advisor)	—	5.00	20,000	60.00
IL	Bright Start College Savings (Direct)	—	5.00	20,000	60.00
MS	Mississippi Affordable (Direct)	—	5.00	20,000	60.00
UT	Utah Educational Savings Plan	—	5.00	Credit—5%	60.00
KS	LearningQuest 529 Program (Advisor)	Yes	4.90	6,000	58.80
KS	LearningQuest 529 Program (Direct)	Yes	4.90	6,000	58.80
KS	Schwab 529 College Savings Plan	Yes	4.90	6,000	58.80
NM	Scholar's Edge	—	4.90	294,000	58.80
NM	The Education Plan	—	4.90	294,000	58.80
MD	Maryland College Investment Plan	—	4.75	2,500	57.00
CO	CollegeInvest Direct Portfolio	—	4.63	350,000	55.56
CO	Scholars Choice College Savings Program	—	4.63	350,000	55.56

Exhibit 22 State Income Tax Benefits (Continued)

State	Plan Name	Tax Parity	State Income Tax Rate %, Couples Earning \$50,000	State Tax Deduction Limit USD, Filing Jointly	Dollar Value of Tax Savings on \$1,200 Annual 529 Contribution USD
MI	MI 529 Advisor	—	4.25	10,000	51.00
MI	Michigan Education Savings Program	—	4.25	10,000	51.00
OH	BlackRock CollegeAdvantage 529 Plan	—	4.11	2,000	49.31
OH	CollegeAdvantage 529 Savings Plan	—	4.11	2,000	49.31
LA	The Louisiana START Saving For College	—	4.00	4,800	48.00
RI	CollegeBoundfund	—	3.75	1,000	37.50
RI	CollegeBoundfund Direct	—	3.75	1,000	37.50
PA	Pennsylvania 529 Investment Plan	Yes	3.07	28,000	36.84
AZ	Ivy Funds InvestEd 529 Plan	Yes	2.88	4,000	34.56
AZ	Fidelity Arizona College Savings Plan	Yes	2.88	4,000	34.56
ME	NextGen College Investing Plan Direct	Yes	8.50	250	21.25
ME	NextGen College Investing Plan Select	Yes	8.50	250	21.25
ND	College SAVE	—	1.51	10,000	18.12
HI	HI529 - Hawaii's College Savings Program	—	7.60	0	0.00
MN	Minnesota College Savings Plan	—	7.05	0	0.00
KY	Kentucky Education Savings Plan Trust	—	5.80	0	0.00
DE	Delaware College Investment Plan	—	5.55	0	0.00
MA	U.Fund College Investing Plan	—	5.25	0	0.00
CA	ScholarShare College Savings Plan	—	4.00	0	0.00
NJ	Franklin Templeton 529 College Savings Plan	—	1.75	0	0.00
NJ	NJBEST 529 College Savings Plan	—	1.75	0	0.00
AK	John Hancock Freedom 529	—	N/A	N/A	0.00
AK	T. Rowe Price College Savings Plan	—	N/A	N/A	0.00
AK	University of Alaska College Savings Plan	—	N/A	N/A	0.00
FL	Florida 529 Savings Plan	—	N/A	N/A	0.00
NH	Fidelity Advisor 529 Plan	—	N/A	N/A	0.00
NH	UNIQUE College Investing Plan	—	N/A	N/A	0.00
NV	Putnam 529 for America	—	N/A	N/A	0.00
NV	SSgA Upromise 529 Plan	—	N/A	N/A	0.00
NV	The Vanguard 529 College Savings Plan	—	N/A	N/A	0.00
NV	USAA College Savings Plan	—	N/A	N/A	0.00
SD	CollegeAccess 529	—	N/A	N/A	0.00
TN	TNStars College Saving 529 Program	—	N/A	N/A	0.00
TX	LoneStar 529 Plan	—	N/A	N/A	0.00
TX	Texas College Savings Plan	—	N/A	N/A	0.00

Source: Morningstar, Inc. and state websites as of 10/31/2013

Securing generous benefits for 529 college savers is one way that states can demonstrate that they're acting as strong Parents. A few states, including Nebraska and Arizona, have made their 529 state benefits more generous in recent years. But with many state governments under substantial fiscal pressure, state 529 administrators may find it politically infeasible to improve tax benefits in the short term.

In addition to state tax benefits, some states offer other benefits, including matching grants and scholarship funds for 529 college savers. Tracking such benefits is difficult and often stems from a public-private partnership. What's more, not all college savers, or their beneficiaries, may be eligible for these types of non-tax benefits.

Perhaps more tangible for most states is to improve the college saver's experience by improving the existing 529 plan. States can advocate for college savers by swapping out underperforming investments, negotiating lower fees, or hiring a stronger program manager when the 529 plan's contract expires. It has become common for more than a dozen plans to announce such incremental improvements each year, making the 529 industry more competitive. As such, the states that don't push for improvements often find that by sitting still, they're falling behind.

Morningstar Analyst Ratings for 529 College-Savings Plans

In October of each calendar year, Morningstar issues qualitative, forward-looking ratings to 529 college-savings plans known as the Morningstar Analyst Ratings for 529 College-Savings Plans. Analyst Ratings are assigned on a five-tier scale running from Gold to Negative. The top three ratings, Gold, Silver, and Bronze, all indicate that our analysts think highly of a 529 plan; the difference corresponds to the level of analyst conviction in a plan's investment options' ability to collectively outperform their respective benchmarks and peers over time, within the context of the level of risk taken and local tax benefits. The Analyst Rating seeks to evaluate each plan's investment options within the context of their objectives, appropriate benchmarks, and peer groups. Morningstar evaluates 529 plans in five different areas—Process, Performance, Price, Parent, and People—to assign an Analyst Rating for more than 60 529 plans.

Gold

These plans are our highest-conviction recommendations and stand out as best of breed for their ability to help college savers meet their goals. By giving a plan a Gold rating, we are expressing an expectation that its investment options collectively will outperform their relevant performance benchmarks and/or peer groups within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years). These plans are good choices for investors who live in the states where the plans are based, and they're also good options for investors doing a nationwide search.

Silver

Plans that fall in this category have high-conviction recommendations. They have notable advantages across several, but perhaps not all, of the five pillars. With those fundamental strengths, we expect these plans' investment options will outperform their relevant performance benchmarks and/or peer groups within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years). While these are worthy plans with many positive features, they are not the highest-conviction recommendations. These plans are very strong choices for in-state residents, and in some cases they may be worthy of consideration by nonresidents.

Bronze

These plans have advantages that clearly outweigh any disadvantages across the pillars, giving us the conviction to award them a recommended rating. As is the case with any plan receiving a medal, we expect the plans' investment options to beat their relevant performance

benchmarks and/or peer groups within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years). Like Silver-rated plans, these plans are a fine choice for in-state residents.

Neutral

These are plans in which we don't have a strong positive or negative conviction. In our judgment, these plans' investment options aren't likely to deliver standout returns, but they aren't likely to seriously underperform their relevant performance benchmark and/or peer group either. A promising but unproven plan may also receive this rating until we see further evidence that its investment options have the potential to outperform. Neutral-rated plans are perfectly serviceable choices for in-state residents and may even be the best choice after accounting for in-state tax benefits.

Negative

These plans possess at least one flaw that we believe is likely to significantly hamper future performance, such as high fees or an unstable management team. Because of these faults, we believe these plans' investment options are inferior to most competitors' and will likely underperform their relevant performance benchmarks and/or peer groups within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years). If a state's 529 plan earns a Negative rating, investors are probably better off leaving their home state's plan and going with a Gold- or Silver-rated option.

Exhibit 23 Morningstar Analyst Rating Issued in 2013 for 529 College-Savings Plans

State	Plans	Sales Channel
Gold-Rated		
MD	Maryland College Investment Plan	Direct
AK	T. Rowe Price College Savings Plan	Direct
NV	The Vanguard 529 College Savings Plan	Direct
UT	Utah Educational Savings Plan	Direct
Silver-Rated		
OH	CollegeAdvantage 529 Savings Plan	Direct
VA	CollegeAmerica	Advisor
AR	iShares 529 Plan	Advisor
MI	Michigan Education Savings Program	Direct
CA	ScholarShare College Savings Plan	Direct
Bronze-Rated		
IL	Bright Directions Coll Savings Program	Advisor
IL	Bright Start College Savings (Direct)	Direct
IA	College Savings Iowa 529 Plan	Direct
IN	CollegeChoice 529 Direct Savings Plan	Direct
IN	CollegeChoice Advisor 529 Savings Plan	Advisor
AL	CollegeCounts 529 Fund	Direct
CO	CollegeInvest Direct Portfolio	Direct
CT	Connecticut Higher Education Trust	Direct
DE	Delaware College Investment Plan	Direct
AZ	Fidelity Arizona College Savings Plan	Direct
SC	Future Scholar 529 (Advisor)	Advisor
SC	Future Scholar 529 (Direct)	Direct

Exhibit 23 Morningstar Analyst Rating Issued in 2013 for 529 College-Savings Plans (Continued)

State	Plans	Sales Channel
OR	MFS 529 Savings Plan	Advisor
NC	National College Savings Program	Direct
NE	NEST Advisor College Savings Plan	Advisor
NE	NEST Direct College Savings Plan	Direct
NY	New York's 529 Program (Direct)	Direct
GA	Path2College 529 Plan	Direct
CO	Scholars Choice College Savings Program	Advisor
MA	U.Fund College Investing Plan	Direct
NH	UNIQUE College Investing Plan	Direct
NV	USAA College Savings Plan	Direct
VA	Virginia529 inVEST	Direct
Neutral-Rated		
OH	BlackRock CollegeAdvantage 529 Plan	Advisor
IL	Bright Start Coll Savings (Advisor)	Advisor
ND	College SAVE	Direct
SD	CollegeAccess 529	Advisor and Direct
AL	CollegeCounts 529 Fund Advisor Plan	Advisor
WI	Edvest 529 Plan	Direct
NH	Fidelity Advisor 529 Plan	Advisor
NJ	Franklin Templeton 529 Coll Savings Plan	Advisor
AR	GIFT College Investing Plan	Direct
ID	IDeal - Idaho College Savings Program	Direct
AZ	Ivy Funds InvestEd 529 Plan	Advisor
AK	John Hancock Freedom 529	Advisor
KS	LearningQuest 529 Program (Direct)	Direct
MO	MOST Missouri's 529 Plan	Direct
NY	New York's 529 Program (Advisor-Guided)	Advisor
ME	NextGen College Investing Plan Direct	Direct
ME	NextGen College Investing Plan Select	Advisor
NJ	NJBEST 529 College Savings Plan	Direct
OK	Oklahoma College Savings Plan	Direct
OR	Oregon College Savings Plan	Direct
PA	Pennsylvania 529 Investment Plan	Direct
NV	Putnam 529 for America	Advisor
NM	Scholar'sEdge	Advisor
NV	SSgA Upromise 529 Plan	Direct
NE	TD Ameritrade 529 College Savings Plan	Direct
WV	The Hartford SMART529	Advisor
WI	Tomorrow's Scholar 529 Plan	Advisor
VT	Vermont Higher Education Investment Plan	Direct
Negative-Rated		
RI	CollegeBoundfund*	Advisor
RI	CollegeBoundfund Direct*	Direct
MN	Minnesota College Savings Plan	Direct
KS	Schwab 529 College Savings Plan	Direct

Source: Morningstar, Inc. as of 12/31/2013

* As of March 21, 2014, CollegeBoundfund and CollegeBoundfund Direct of Rhode Island are Not Ratable. These plans have one or more investment options that track a Morningstar 529 Index. Morningstar does not provide qualitative, analyst-driven ratings or opinions for 529 college-savings plans where an underlying investment tracks a Morningstar 529 Index.