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Do Advisor-Sold 529 Plans *Earn Their Fees?*

By Ian A. Post, CFA, CFP®

As the principal of a Registered Investment Advisory firm, I don't have a philosophical issue with payment for financial services and advice. Compensation for services provided is a cornerstone of our economic system. I do, however, have a problem with expenses charged without commensurate services provided. A recent review of a new client's existing 529 college savings plans demonstrated how critical it is that clients understand the services they receive in exchange for the fees they pay.

529 college savings plans come in two flavors: (1) direct plans that are opened and managed by investors and (2) advisor-sold which are opened by brokers for their clients. In New York for instance, Vanguard offers investments in the direct plan (www.nysaves.org) while J.P. Morgan offers investments in the advisor-sold plan (www.ny529advisor.com).

The primary difference between the plans is the cost of their investment options. In exchange for much higher fees, the expectation (hope) would be that the advisor-sold plan would offer an exceptional level of additional services. In this case, the clients were not receiving additional services, beyond basic investment management, in exchange for the higher fees.

529 Plan	Initial Sales Charge	Annual Account Fee	Program Fee	Distribution Fee	Fund Expenses	Hypothetical 10 Yr. Expenses on \$10,000 Initial Investment
ny529advisor.com	5.25%	\$25.00	0.30%	0.25%	0.56%	\$2,056.00
nysaves.org	0.00%	\$0.00	0.13%	0.00%	0.03%	\$205.00

To understand how important an issue this is, let's examine the cost differences between the two New York 529 plans.¹

We can see from the table above that the cost of the advisor-sold plan is ten times that of the equivalent direct-plan over a ten-year holding period.

Most anyone can open an online account, select an age-based investment option, and fund the account. So, what services should a client of an advisor-sold plan expect in exchange for the additional fees? They should, at a minimum, receive assistance in answering questions and monitoring progress toward the following:

- What are our college savings goals?
- How much do we need to save to achieve those goals?
- How does the college savings goal interact with our other financial goals?
- Beyond simply funding 529 plans, what other strategies might make sense?
- What are the tax, gifting and estate planning opportunities around college savings plans?

These issues form a subset of the ongoing relationship-type assistance that should be part of a stand-alone advisor-sold 529 plan. If clients are not receiving this level of assistance, they should either move their assets to a direct plan and put the expense savings toward their future college funding liability, or look elsewhere for assistance.

The value a financial advisor provides on 529 plans is not, primarily, in the investment management, but rather in the financial planning that encompasses the 529 plan. In personal finance, as in everything else, spending for service is OK if there is commensurate value in return.

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¹ Source: www.ny529advisor.com and www.nysaves.org. The J.P. Morgan fund in the example is an "A" share.

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