The 2024 529 Savings Plan Landscape

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Executive Summary

For over more than two decades, 529 education savings plans have helped students and their families have better access to higher education through tax-advantaged investing. Since Morningstar assigned its first forward-looking ratings to 529 plans in 2012, we have witnessed continuous evolution to the offerings, from the quality of investment options to fee reductions. In this annual review, we discuss key observations and summarize the tax benefits of 529 plans. In the last two sections, we address common questions on education savings plans and provide an overview of Morningstar's top-rated plans.

Key Takeaways

- Tracking industry metrics: In 2023, industry assets increased, the average beneficiary became older, glide paths continued to become smoother, and fees remained steady.
- Tax benefits: While prospective accountholders should choose their 529 plan(s) based on the investment merits, they should also consider their unique tax profiles and the various tax benefits they may be able to reap by investing in their home state.
- Frequently asked questions: We address common questions about 529 plans' investment options, fees, impacts on financial aid, and withdrawals.
- Top-rated plans: We review Morningstar's rating methodology for 529 plans and our top picks in 2023.

2023 Industry Observations

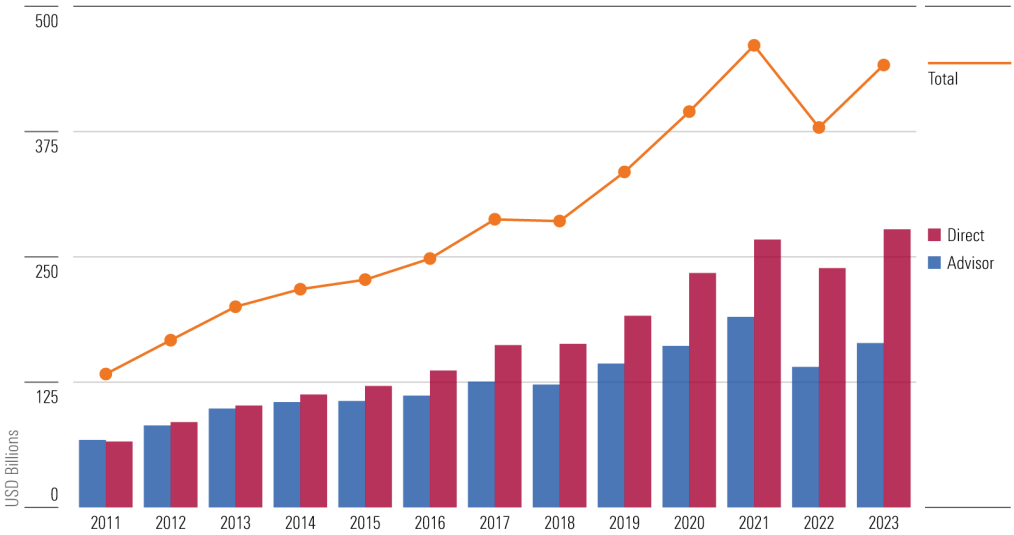
In this section, we track select key metrics across the 529 college savings plan landscape.

529 Industry Assets Recover From the 2022 Dip

In 2023, the 529 industry saw a recovery in total plan assets, following a sizable decline in 2022. All but four plans recorded a positive change in net assets, with an average plan experiencing a 12% increase in net assets. The $441 billion industry assets as of 2023 year-end was 16% higher than 2022's $385 billion, though the figure was still lower than 2021's $461 billion.

Assets in advisor-sold plans saw a slightly higher growth of 17% than those in direct-sold plans that grew 16% in total. While an average direct-sold plan's 13% net asset growth was higher than an average advisor-sold plan's 10% growth, few advisor-sold plans grew enough to tip the scale at the distribution level. For instance, Virginia's CollegeAmerica saw its net assets increase by more than $11 billion in 2023.

Exhibit 1 Assets in 529 Plans, by Distribution Channel

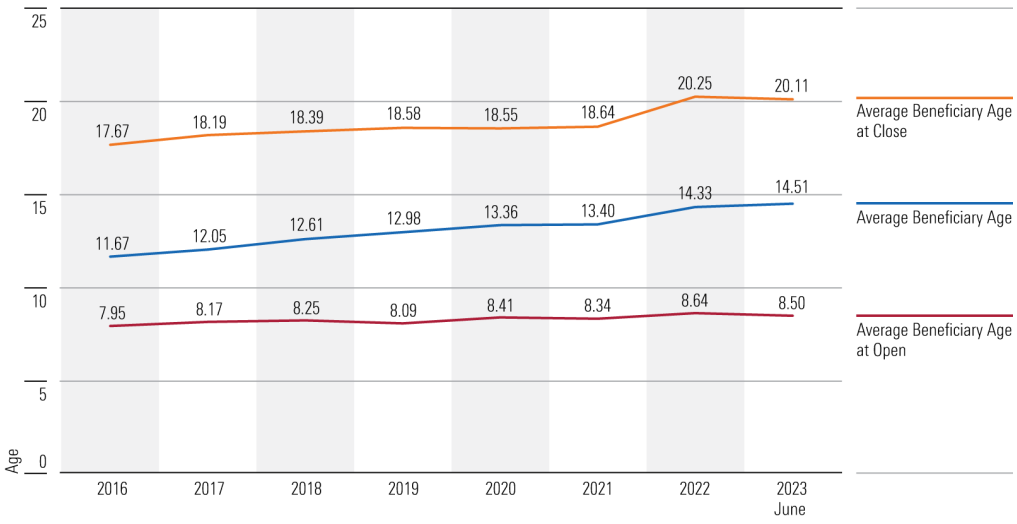


Source: Morningstar Direct, surveyed data. Data as of Dec. 31, 2023.

Average Beneficiary Age Increases

Surveys sent out to 529 plans under Morningstar coverage (representing 94% of industry assets as of 2023) show that average beneficiary age has steadily inched higher, from 12 in 2016 to 15 in 2023. Average beneficiary age at account opening has remained steady, but accounts are open for longer. In 2022 we saw a jump in average beneficiary age at account closing, and in 2023 it stayed relatively high, at above 20. While we do not know the exact cause, part of this increase can be attributed to the pandemic-induced delay in higher education, as well as the expanding use of funds for student loan payment, post-baccalaureate education, and retirement.

Exhibit 2 Average Beneficiary Age for 529 Plans



Source: Surveyed data. Data as of June 30, 2023.

Glide Paths Continue to Become Smoother

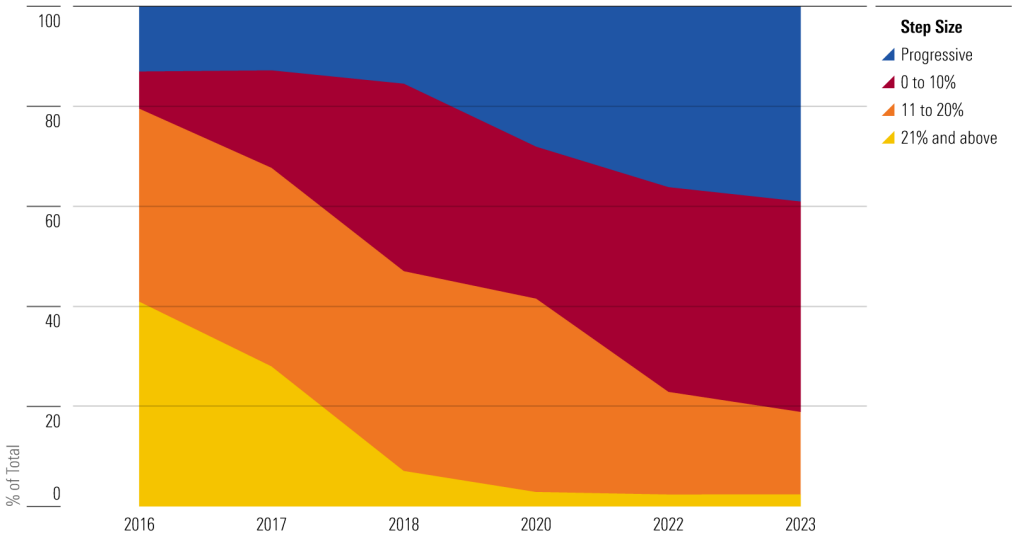
Many 529 accountholders are hands-off investors who utilize age-based or target-enrollment portfolios. These portfolios start with a large allocation in risky assets (generally stocks) when the beneficiary is young. As the beneficiary grows older, they transition to a more conservative portfolio by allocating more to bonds and cash or cashlike accounts. A glide path determines how the allocation shifts to a more conservative positioning as the beneficiary grows closer to college enrollment.

Over the years, Morningstar has cautioned investors against glide paths with large equity steps (21% or more), as they expose investors to market-timing risk. If a portfolio happens to derisk after a large market decline, investors risk locking in their losses and capping their upside by selling stocks at their low and allocating those funds to bonds and cash. As such, glide paths have become smoother in recent years. Several plans have adopted a progressive glide path, which makes small, frequent allocation changes. As of 2023 year-end, close to 40% of all plans featured a progressive glide path, yet another increase

from 2022's 36% and a substantial increase since 2018, when just 16% of plans offered a progressive glide path.

Others have added portfolios to their age-based series so that the equity step-downs (which take place in one day) are 12.5% or less. As of year-end 2023, 81% of all plans featured equity steps of 10% or less, and series with large step-downs (21% and above) accounted for less than 3% of the industry.

Exhibit 3 Percentage of Series by Greatest Equity Step

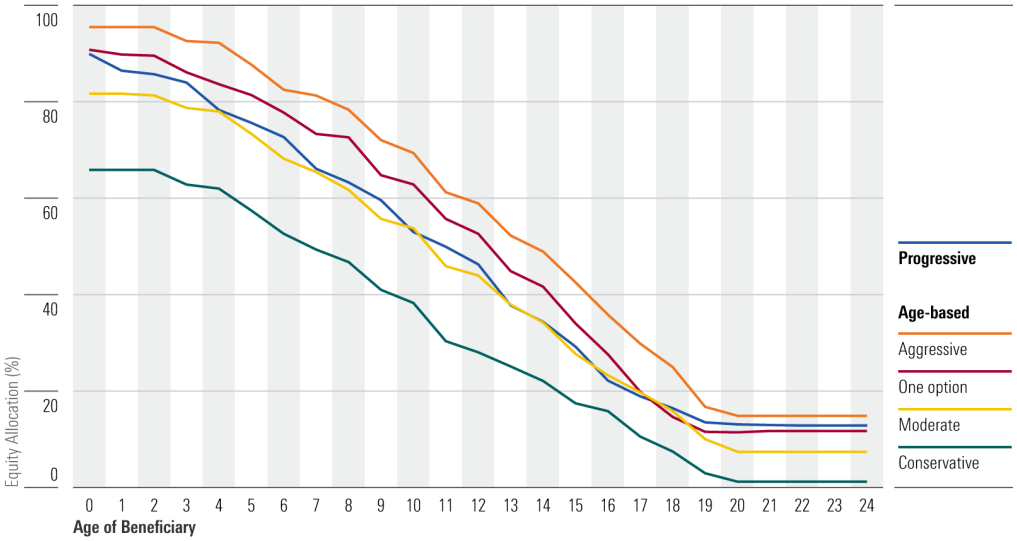


Source: Morningstar Direct. Data as of Dec. 31, 2023.

Decreasing Equity Risk Near Enrollment

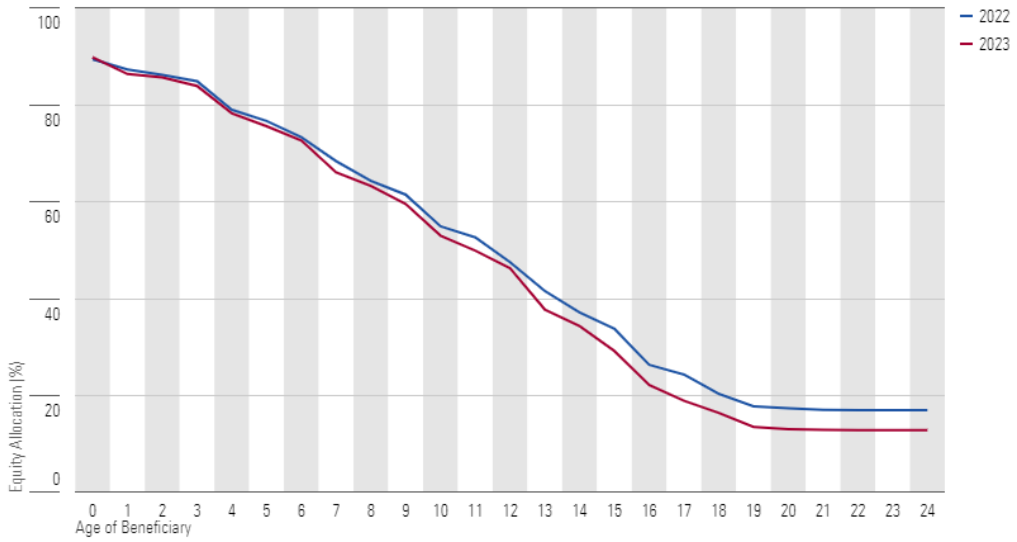
In 2023, plans that offer a single progressive glide path decreased their average equity allocation near enrollment. As rates have considerably increased for shorter term bonds, plans can take less equity risk near enrollment year to focus more on capital preservation while reaping the higher yields from fixed-income holdings, such as money market or stable-value funds. The average starting allocation to equity for this group of 62 series remains around 90%. However, the equity allocation closer to target enrollment year decreased substantially, from 20% in 2022 to 16% in 2023. The final landing point also decreased from 17% in 2022 to 13% in 2023. Of the remaining four groups that follow an age-based stepped glide path, there are 24 plans that offer one glide path option, depicted as "Age-Based: One Option." These plans also saw a 2% decrease in average equity allocation around enrollment age (age 17-18).

Exhibit 4 Average Glide Paths for Progressive and Age-Based Series



Source: Morningstar Direct. Data as of Dec. 31, 2023.

Exhibit 5 Average Progressive Glide Path, 2022 vs. 2023

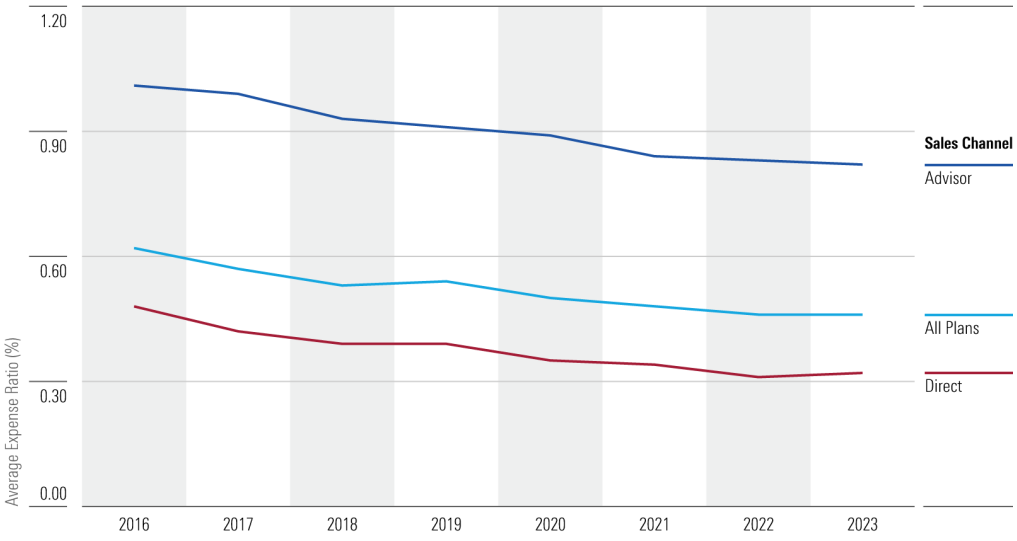


Source: Morningstar Direct. Data as of Dec. 31, 2023.

Fees Stay Low; Direct-Sold Plans Maintain Their Fee Advantage

After several years of fee slashing, the average fee for an age-based or target-enrollment series stayed steady at 0.46%. These series still have a distinct fee advantage when accessed through direct-sold plans whose 0.32% average expense ratio is 50 basis points cheaper than advisor-sold plan's average of 0.82%. Both direct-sold and advisor-sold plans had their average fees stay steady in 2023. The industry saw many plans switch to cheaper (often passive) underlying funds in recent years, which left fewer plans to make the same move in 2023. Still, plans with a growing and relatively larger asset base can achieve economies of scale through reduction in asset-based fees or administrative fees.

Exhibit 6 Average Progressive Glide Path, 2022 vs. 2023



Source: Morningstar Direct. Data as of Dec. 31, 2023.

529 Tax Benefits in 2024

Tax benefits from 529 education savings plans depend on several factors, like annual income and contribution levels, which can be quite different across investors. For this reason, tax benefits aren't an explicit input to Morningstar Medalist Ratings for 529 Plans. However, investors should consider their unique tax profiles before selecting an option. If your home state provides tax benefits, and if you plan to start early, the compounding effect of tax savings can make it worthwhile to invest in-state.

Federal Tax Break

Tax benefits at the federal level are straightforward. Money invested in 529 plans grows tax-free, and investors do not pay capital gains taxes if they spend that money on qualified education expenses.

The amount of capital gains tax savings is a function of the accountholder's taxable income. Say a married couple regularly puts money into an investment account over several years, and that amount appreciated by $10,000 by the time the beneficiary needed to take withdrawals.

If the couple files taxes jointly in 2024 and has their money in a taxable account, this $10,000 would be reduced by:

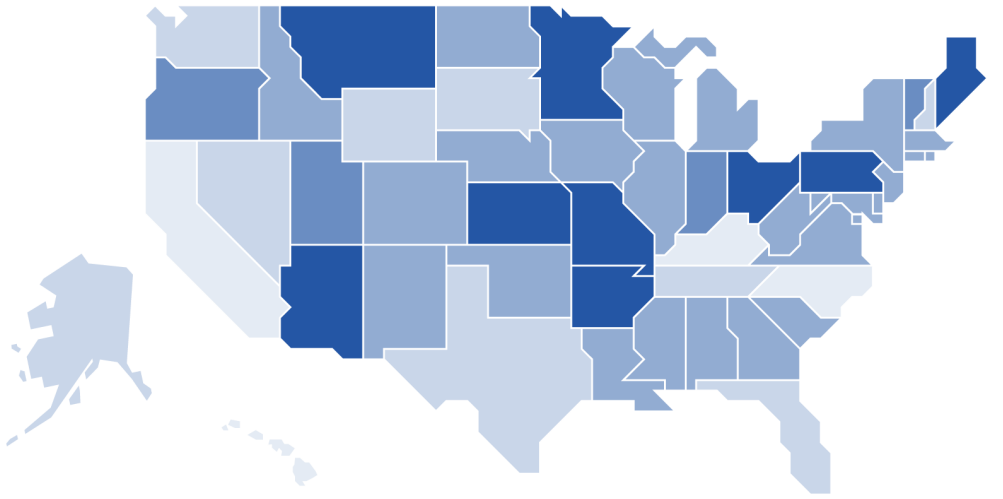
- $1,500, or a 15% long-term capital gains tax, if they earn between $94,051 and $583,750;
- $2,000, or 20%, if they earn more than $583,750.

Families who earn less than $94,051 would not be liable for taxes on capital gains and therefore would not benefit from a federal tax break.

State Tax Benefits

At the state level, 529 tax benefits are more complicated but worth understanding. Depending on the state, the benefit can come in the form of a tax deduction or tax credit. We outline each benefit in the following exhibit.

Exhibit 7 529 Tax Benefits by State



No Benefits	No State Tax	Tax Deduction		Tax Credit	Tax Parity
California	Alaska	Alabama	Montana	Indiana	Arizona
Hawaii	Florida	Arizona	Nebraska	Minnesota*	Arkansas**
Kentucky	Nevada	Arkansas	New Jersey	Oregon	Kansas
North Carolina	New Hampshire***	Colorado	New Mexico	Utah	Maine
	South Dakota	Connecticut	New York	Vermont	Minnesota
	Tennessee	Delaware	North Dakota		Missouri
	Texas	Georgia	Ohio		Montana
	Washington****	Idaho	Oklahoma		Ohio
	Wyoming	Illinois	Pennsylvania		Pennsylvania
		Iowa	Rhode Island		
		Kansas	South Carolina		
		Louisiana	Utah		
		Maryland	Virginia		
		Massachusetts	Washington DC		
		Michigan	West Virginia		
		Minnesota*	Wisconsin		
		Mississippi			
		Missouri			

Source: Morningstar and state websites. Data as of April 30, 2024. *Minnesota taxpayers may claim either the credit or the deduction, but not both. **If joint filers select an out-of-state plan, the maximum deduction is $6,000; for in-state, the maximum is $10,000. ***Income tax only applies to interest and dividends income. ****Income tax only applies to capital gains income of high-earners.

Tax Credits

Five states provide tax credits, which families can use to offset their state income taxes. These credits, on average, offer greater tax savings to a broader range of families than deductions do.

Below is a list of those five states. The values in the table assume a joint filer with an adjusted gross income of $100,000 who contributes $3,000 a year to a single account.

For our hypothetical investor, being an Indiana resident would have brought the largest tax credit. Although Indiana counts less of the contributions for tax credit than Minnesota or Oregon, the higher credit limit of $1,500 means that aggressive savers in Indiana will ultimately receive more back from the state. On the other hand, Utah employs a low 4.55% contribution percentage to calculate the tax credit, so a $3,000 contribution would result in a tax credit of $137.

The three other states also offer solid tax benefits. Oregon's maximum tax credit for joint filers is $360, which can be met with a relatively low contribution of $1,440. For those earning $100,000, the percentage of contribution eligible for the tax credit is 25%, but this percentage is higher for families with lower incomes (and the percentage is lower for families with higher incomes). Minnesota also offers larger benefits to families earning less, as it offers the option of a deduction or a more generous credit. Like Oregon, the tax-credit calculation is adjusted by income level. For those earning $93,610 or less, the maximum credit of $500 can be earned with a low contribution of $1,000 (where 50% of the contribution can be taken as a tax credit).

Exhibit 8 State Income Tax Credit on 529 Contributions

State	Percentage of Contributions Eligible for Tax Credit (%)	State Tax Credit Limit ($)	Who Qualifies	State Tax Credit Basis	Estimated Tax Credit Received ($)
Indiana	20.00	1500	Any contributor	Taxpayer	600
Minnesota	50.00	500	Any contributor	Taxpayer	436 *
Oregon	25.00	360	Any contributor	Taxpayer	360
Utah	4.55	219	Account Owner	Beneficiary	137
Vermont	10.00	500	Any contributor	Beneficiary	300

Source: Morningstar and state websites. Data as of April 30, 2024. *The $500 limit is reduced by 1% of Minnesota AGI exceeding $93,610.

Tax Deductions

More than 30 states, and the District of Columbia, allow families to deduct their 529 contributions from their taxable income calculation. Again, for simplicity, let's consider a couple filing jointly with an annual income of $100,000 who deposits $3,000 a year (or $250 a month) into one beneficiary's 529 account. Using each state's personal marginal income tax rate for this hypothetical couple, the annual estimated tax savings range from $48 to $255.

There are nuances to this tax savings figure. The District of Columbia and Minnesota offer large estimated annual tax savings for our hypothetical couple, but that is because those states have among the highest marginal tax rates for a joint filer with $100,000 of adjusted gross income. On the other hand, states like Arizona and Pennsylvania offer lower tax savings for our example, but those states have lower marginal tax rates. Moreover, these states offer deductions per beneficiary, meaning if a family is saving for more than one child, their deductions will be much higher than what's shown in the example. Some places look unambiguously unattractive, though, such as Rhode Island, whose low tax deduction limit of $1,000 leads to a 529 investor saving just $48 a year.

Certain states provide highly generous tax benefits for aggressive savers:

- New Mexico, South Carolina, and West Virginia have no deduction limits. If the same family earning $100,000 saves $5,000 a year for each of their three kids, they can deduct $15,000 from their income, resulting in tax savings between $735 and $960.
- Five states (Colorado, Illinois, Mississippi, Oklahoma, and Pennsylvania) have relatively high deduction limits of $20,000 to $34,000.

- Nine states (Arizona, Georgia, Iowa, Kansas, Louisiana, Maryland, Ohio, Virginia, and Wisconsin) have deduction limits of $4,000 to $8,000—but this is per beneficiary, so the maximum is applied per child, not per taxpayer. So, a family with three beneficiaries can take maximum deductions of $12,000 to $24,000, depending on the state.
- Pennsylvania and Colorado are by far the most generous, as they offer the highest deduction limits of $36,000 and $34,000, respectively, per beneficiary.

The nine states with no income tax—and thus no 529 deductions—are Alaska, Florida, New Hampshire (income tax applies only to interest and dividend income), Nevada, South Dakota, Tennessee, Texas, Washington (income tax applies only to capital gains income of high earners), and Wyoming.

Four states charge income tax but do not have a 529 state tax deduction: California, Hawaii, Kentucky, and North Carolina.

Exhibit 9 State Income Tax Credit on 529 Contributions

	Issuing State	Tax Parity	Marginal Tax Rate (%)*	State Tax Deduction Limit ($)	State Tax Deduction Basis	Estimated Tax Saving ($)*
AL	Alabama	—	5.00	10,000	Per Taxpayer	150
AZ	Arizona	Yes	2.50	4,000	Per Beneficiary	75
AR	Arkansas	Yes	4.40	10,000	Per Taxpayer	132
CO	Colorado	—	4.40	34,000	Per Beneficiary	132
CT	Connecticut	—	4.50	10,000	Per Taxpayer	135
DE	Delaware	—	6.60	2,000	Per Taxpayer	132
GA	Georgia	—	5.49	8,000	Per Beneficiary	165
ID	Idaho	—	5.80	12,000	Per Taxpayer	174
IL	Illinois	—	4.95	20,000	Per Taxpayer	149
IA	Iowa	—	5.70	5,500	Per Beneficiary	171
KS	Kansas	Yes	5.70	6,000	Per Beneficiary	171
LA	Louisiana	—	3.50	4,800	Per Beneficiary	105
ME	Maine	Yes	6.75	1,000	Per Beneficiary	68
MD	Maryland	—	4.75	5,000	Per Beneficiary	143
MA	Massachusetts	—	5.00	2,000	Per Taxpayer	100
MI	Michigan	—	4.25	10,000	Per Taxpayer	128
MN	Minnesota	Yes	6.80	3,000	Per Taxpayer	204
MS	Mississippi	—	4.70	20,000	Per Taxpayer	141
MO	Missouri	Yes	4.80	16,000	Per Taxpayer	144
MT	Montana	Yes	5.90	6,000	Per Taxpayer	177
NE	Nebraska	—	5.84	10,000	Per Taxpayer	175
NJ	New Jersey	—	5.53	10,000	Per Taxpayer	166
NM	New Mexico	—	4.90	No limit	—	147
NY	New York	—	5.50	10,000	Per Taxpayer	165
ND	North Dakota	—	1.95	10,000	Per Taxpayer	59
OH	Ohio	Yes	3.50	4,000	Per Beneficiary	105
OK	Oklahoma	—	4.75	20,000	Per Taxpayer	143
PA	Pennsylvania	Yes	3.07	36,000	Per Beneficiary	92
RI	Rhode Island	—	4.75	1,000	Per Taxpayer	48
SC	South Carolina	—	6.40	No limit	—	192
VA	Virginia	—	5.75	4000**	Per Account	173
DC	Washington, D.C.	—	8.50	8,000	Per Taxpayer	255
WV	West Virginia	—	5.12	No limit	—	154
WI	Wisconsin	—	5.30	5,000	Per Beneficiary	159

Source: Morningstar and state websites. Data as of April 30, 2024. *Assumes a joint filer with adjusted gross income of $100,000, contributing $3,000 to a single account. **No limit if age 70 or older.

Bonus: 529 State Tax Parity

Nine states—Arizona, Arkansas, Kansas, Maine, Minnesota, Missouri, Montana, Ohio, and Pennsylvania—offer tax parity, which means that investors can deduct their taxable income on contributions made to any plan in the US (most states allow you to take a deduction only if you invest in the state-sponsored plan).

Arkansas offers a lower $6,000 state tax deduction limit if a family invests out of state (the maximum is $10,000 when investing in-state), but the remaining six make no distinction between investing in or out of state.

Should You Shop Around for an Out-of-State 529 Plan?

You might want to pick a high-quality plan outside your home state if one or more of the below apply to you:

- Your home state doesn't have income tax.
- Your home state charges income tax but doesn't provide any tax incentives.
- Your home state offers tax parity.
- You save less than $2,000 a year overall.

For the first three cases, your tax situation will be the same regardless of the plan you choose. It will be worthwhile to spend some time researching the best plan that will meet your investment preferences (such as fees and types of funds offered). Morningstar Medalist Ratings can point these investors to the best options. Currently, 17 plans receive top marks of Gold or Silver.

As for the last case (those who contribute smaller amounts to college savings plans), you may find the tax savings less appealing, even when your home state offers generous tax benefits. If the tax benefits of investing in your home state's 529 plan aren't substantial enough to make a difference in your ability to finance your beneficiary's education, it's worth shopping around. This is especially true if your home state's direct-sold plan carries a Neutral or Negative Medalist Rating and/or relatively high fees.

Exhibit 10 Gold- and Silver-Rated 529 College Savings Plans

Gold-Rated

UT	UT my529
PA	PA Pennsylvania 529 Investment Plan

Silver-Rated

MO	MO MOST Missouri's 529 Education Plan	OH	OH CollegeAdvantage 529 Savings Plan
NV	NV The Vanguard 529 College Savings Plan	CA	CA ScholarShare College Savings Plan
OR	OR Oregon College Savings Plan	MI	MI Michigan Education Savings Program
AK	AK T. Rowe Price College Savings Plan	MD	MD Senator Edward J. Kasemeyer College Investment Plan
MN	MN Minnesota College Savings Plan	IL	IL Bright Start Direct-Sold College Savings
GA	GA Path2College 529 Plan	WI	WI Edvest 529 Plan

Source: Morningstar. Data as of April 30, 2024.

Common 529 Plan Questions

As 529 plans continue to evolve, many of the same questions remain top of mind for people saving for education. In this section, we address some of these important, common questions.

Why Should I Use a 529 Plan?

A 529 savings plan offers a tax-advantaged way to pay for education. Federal and state-level tax breaks, deductions, and credits are available, depending on where you file your taxes.

At the federal level, your money invested through a 529 account grows tax-free, and you don't pay capital gains taxes on your withdrawals if you use them for qualified education expenses.

In addition, many states offer additional tax benefits to residents who contribute to in-state plans. The benefits can come in the form of a tax deduction (subtracting your 529 contributions from your taxable-income calculation) or tax credit (cash amount that you can use to offset your state income tax). Some states, such as Arizona, Kansas, and Maine, extend the tax benefits to contributions made to any 529 plan, not just the in-state option.

We recommend you consult with a tax specialist regarding your specific situation.

What Counts as a 'Qualified Education Expense' for a 529 Plan?

At the college level, qualified education expenses include tuition, fees, books, supplies (computers, for example), special needs equipment, and room and board if the student is enrolled at least part time.

Expenses outside of college can also be considered qualified education expenses. Tuition and fees for graduate school and trade school, for example, qualify. For K-12 schools (public, private, or religious), savers can claim tax benefits on up to $10,000 of contributions per year. Up to $10,000 can also be used for student loan repayments.

A full rundown of tax benefits for education savers can be found in the IRS' Publication 970.

What Does a 529 Plan Investment Menu Look Like?

While specific line items can differ by state, all 529 plan menus share the same basic structure.

All plans provide an age-based or target-enrollment series for set-it-and-forget-it investors, which gradually reduces their exposure to risky assets (that is, stocks) during the accumulation period. These series can serve as a default choice for most investors, like a target-date series would for retirement savers.

For those who want to select their own investments, 529 plans also offer a menu of individual mutual funds. The lineup can include a balanced fund, an index-tracking fund, or more specialized products such as value, growth, or small-cap funds.

Finally, plans provide an FDIC-insured account or a stable-value account as their least risky option.

Can I Use a 529 Plan Like a Brokerage Account?

No. Unlike brokerage accounts, 529 plans generally do not provide the ability to purchase individual stocks. In fact, families cannot take an active or trading approach to these 529 accounts, as investment changes are only allowed twice per calendar year. Contributions into the account are also invested in your preselected investment option once the check or bank transfer clears. It usually is not possible to deposit the money into a cash account and then decide when to invest.

If you live in a state that does not offer much in tax incentives, you may want to shop around to find a plan that provides options that best match your investment preferences. Some plans use only low-cost index funds for their age-based or target-enrollment series, but others employ a mix of actively and passively managed funds or focus solely on active underlying funds. Plans may even provide each of these different flavors to savers while following the same broad asset allocation. The static individual fund options also vary from plan to plan. Some offer a short list of index funds, while others provide a broad mix and include actively managed strategies from well-regarded fund families such as T. Rowe Price, American Funds, and Dimensional Fund Advisors.

What Fees Do 529 Plans Charge?

Setting aside minute differences, the cost to an investor will be the sum of the underlying funds' expenses in the chosen portfolio and any potential management fees. Management fees pay for the state agency that administers the 529 plan and, in most cases, the outside firm that manages the portfolio. Additional fees may include a sales charge, for those who invest in a 529 plan through a financial advisor, and account maintenance fees that typically range from $0 to $25 a year.

What Are the Cheapest 529 Plans?

Currently, 15 plans earn a Morningstar Price Pillar rating of Low based on the average fee of their age-based or target-enrollment options. Many of these hold cheap index funds, and all 15 are plans that investors can buy directly from fund companies, as opposed to going through financial advisors. They also do not charge any additional account or maintenance fees.

There are valid reasons why investors choose advisor-sold 529 plans, such as when the state's advisor-sold plan is better managed than its direct-sold plan, or if the investor seeks more actively managed funds, which advisor-sold plans tend to hold more of. However, investors should note that exposure to expensive funds and the additional distribution fees lead to higher overall costs. In our ratings methodology, plans with low fees relative to peers are more attractive, as the hurdle to generating strong performance is reliably lower than more expensive peers.

The five cheapest 529 plans covered by Morningstar analysts are listed below. The average cost of each plan's age-based or target-enrollment options sat at or below 0.12% as of October 2023.

- Florida 529 Savings Plan
- Georgia's Path2College 529 Plan
- Michigan Education Savings Program
- South Carolina's Future Scholar 529 (Direct)
- New York's 529 Program (Direct)

Conversely, there are plans with relatively unattractive price tags that exceed 0.50% on average and can go as far up as 1.41%. These plans can charge high administrative fees and/or program management fees.

Does Using a 529 Plan Affect Financial Aid Packages?

Yes, though to a lesser degree than income does.

Federal financial aid is based on an estimate of what a family can contribute annually from their income and assets. Income is the largest portion of the expected family contribution, typically 25% to 35% of the parents' adjusted available income, though it can go as high as 47%. Parental contribution from assets, including 529 account balances, is assessed at a much lower maximum of 5.64%. So, if a family has a 529 account with $10,000, this raises the expected family contribution by at most $564 and reduces the federal aid package by the same amount.

You should still consider a 529 plan if you are saving for future tuition and expenses. Aid packages typically include a loan component, so any savings that reduce the need for future loans benefit the student. Moreover, with changes to the federal student aid calculation starting in the 2024-25 academic year, assets in 529 accounts will be counted as parental assets only for the beneficiary of the account. That means if you have 529 accounts set up for your other children, the assets in those accounts are no

longer counted toward the expected family contribution. Accounts owned by grandparents will also be excluded from calculating the federal financial aid.

Is It Easy to Withdraw Funds From a 529 Plan?

Yes. Accountholders can request a withdrawal to pay an educational institution or to reimburse themselves for a beneficiary's qualified education expenses.

A request can be made online, by phone, or by mail, and payment is issued either via check or electronic bank transfer. Some plans also support auto pay. Many families pay tuition and fees first and then reimburse themselves from the 529 plan. Some states, such as Utah and Mississippi, offer prepaid debit cards that students can use for qualifying education expenses.

No documentation is needed for withdrawals, but it is important to keep records that prove that a withdrawal is qualified, in case of an audit. Also, withdrawals must occur in the same period that educational expenses are incurred. When withdrawals begin, the 529 plan administrator will send a 1099-Q form. If the distribution doesn't exceed the amount of the student's qualifying expenses, then accountholders do not have to report any of the distribution as income on their tax returns.

What Happens to My Money in a 529 Plan If It Isn't Used?

If a beneficiary no longer needs the money in the account (by deciding not to go to school or by earning a generous scholarship, for example), the account owner can name a new qualified beneficiary without incurring federal or state income tax penalties. Qualified beneficiaries are members of the current beneficiary's family, which includes siblings, children, nieces and nephews, their spouses, or a first cousin.

In addition, driven by the passage of the Secure 2.0 Act, beneficiaries with an account open for 15 years or more can transfer unused funds to their Roth IRA, allowing them to reposition the funds to another tax-advantaged vehicle. The ability to execute the conversion began in 2024 and is subject to Roth IRA contribution limits, in addition to other requirements.

Top-Rated 529 Plans

Morningstar currently rates 54 education savings plans, representing 94% of the assets in the industry. Of those 54, two plans, Utah's my529 plan and Pennsylvania's 529 Investment Plan, receive our top Morningstar Medalist Rating of Gold, reflecting our highest confidence in their ability to provide participants with compelling investment results.

In this section, we discuss some of the features that distinguish the two Gold-rated plans from their peers.

Morningstar's Medalist Rating for 529 Plans

Morningstar's Medalist Rating for 529 plans considers four pillars:

- People
- Process
- Parent
- Price

For each pillar, we look for what we believe are best-in-class industry practices, including:

- Skilled teams with experience managing multi-asset strategies and curating investment menus
- A well-researched approach for target enrollment and age-based options
- A robust process for selecting investments
- The state agency's ability to provide thoughtful oversight and stewardship
- Low fees for age-based or target-enrollment options

The overall Medalist Rating (Gold, Silver, Bronze, Neutral, Negative) for each plan is calculated from the pillar scores with a 30% weight for People, Process, and Price, and a 10% weight for Parent. Higher-rated plans reflect our analysts' conviction in the plans' ability to offer compelling investment options to help investors save for educational expenses.

Top-Ranked 529 Plans: Utah and Pennsylvania

Utah's my529 and Pennsylvania's 529 Investment Plan have a Morningstar Medalist Rating of Gold as of May 2024. Each offers well-designed target-enrollment portfolios, which are great investment options for hands-off investors. Target-enrollment portfolios emphasize growing savings further away from a target date and gradually shifting their focus to preserving savings closer to that date. Both plans also employ a solid menu of stand-alone options for investors who want to build their own portfolios.

Exhibit 11 Rating Details for my529 and Pennsylvania 529 Investment Plan

Issuing State	Plan Name	Morningstar Medalist Rating	People Rating	Process Rating	Parent Rating	Price Rating
Utah	my529	Gold	High	Above Average	High	Low
Pennsylvania	Pennsylvania 529 Investment Plan	Gold	High	Above Average	High	Low

Source: Morningstar. Data as of April 30, 2024. A Low Price rating reflects positively on the plan's overall rating. The inverse is true for People, Process, and Parent Pillars, where a High rating reflects positively on the plan's overall rating.

Utah: Something for Everyone

Utah's my529 has consistently been one of our favorite offerings, setting industry standards on many fronts.

The plan employs a thoughtful and cost-effective design. The target-enrollment portfolios follow a steep glide path, which starts with a 100% allocation to stocks that falls to 10% by enrollment. The team mitigates the market-timing risk with a progressive glide path, meaning that the portfolios shift frequently (quarterly) and gradually out of stocks, instead of making one large move every year or two. This design helps those who are saving for education avoid the risk of meaningfully shifting out of equities just after a market dip, when there is the potential to lock in losses. The underlying lineup consists of low-cost index funds that provide broad market exposure. The fees for these portfolios are low, at 0.14%-0.15%.

The team behind my529 boasts topnotch resources. Instead of hiring an investment manager for the plan, the state employs its own well-resourced and experienced investment team. The team also receives support from an investment advisory committee and multiple independent consultants that provide an edge compared with the typical 529 peer. The state's centralized oversight structure allows for engaged stewardship of the plan, and the state has earnestly continued to reduce fees.

My529 distinguishes itself from peers through customized age-based portfolios. Investors can design their own glide path and select the underlying investments from a well-curated menu of funds that cover broad groups of stocks and bonds. Given the degree of customization for this option, though, it is easy to misuse and is more suitable for experienced investors or those who work with an investment advisor.

Pennsylvania: Exceptional Stewardship From the State

Pennsylvania's 529 Investment Plan offers a simple yet thoughtfully designed investment menu at a low cost. The Pennsylvania Treasury Department's effective and steadfast advocacy on behalf of its investors puts the plan a notch above peers.

The plan draws from industry behemoth Vanguard's resources, including its Investment Strategy Group and education savings team, to develop the investment menu and target-enrollment portfolios. Its glide path starts with a 95% exposure to equities that reduces to 18% at enrollment, and the portfolios' quarterly shifts mitigate market-timing risk. The underlying funds are similar to those in Utah's target-enrollment portfolios: low-cost, broad-market index funds.

The plan's 2023 upgrade to Gold resulted partly from the Pennsylvania Treasury Department's effective oversight. The department's aggressive negotiations for lower fees and additional fee breakpoints, among others, led to a more positive investor experience. Pennsylvania's Treasury Department and its consultant Marquette have also demonstrated their investment expertise that add value on top of Vanguard's.

Your Best Fit May Not Be One of Our Top-Ranked 529 Plans

While these plans exemplify many of what Morningstar considers as best practices, there are many other 529 plans we rate that investors can explore. Depending on personal circumstances (that is, tax situations) and preferences, a thoughtful investor can still settle on a different plan.

About Morningstar Manager Research

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