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529: Advanced College Savings Plans for Families

By SANA SIWOLOP

With five children ranging in age from 2 to 12 and a \$380,000 mortgage, Peter and Lisa Fatianow of Highlands Ranch, Colo., would seem hard-pressed to stay on top of their monthly bills, let alone set aside money for college.

But the couple can now do both at the same time. A new savings program by UPromise Inc. of Brookline, Mass., will reward the Fatianows whenever they buy certain products and services, kind of like a frequent-flier program, only their rebate dollars will go into a state-sponsored college savings account, known as a 529 plan.

"It's free money, so I'll take it," said Mr. Fatianow, 37, a health care executive, who signed up last fall when the program was rolled out in limited areas. It is scheduled to become available nationwide next month, with participation from a wide range of companies, including AT&T, Citigroup and General Motors.

Saving for college can be an expensive chore for most families. According to a study that was commissioned for UPromise last fall, if present trends continue, tuition alone at the average four-year college will more than double over the next two decades, to \$15,879 from \$7,472 in today's dollars.

Still, saving for college is becoming somewhat easier these days because of corporate-sponsored programs like UPromise and efforts by an increasing number of states to offer savings and tuition plans with a wider range of investment opportunities and tax benefits.

Almost every state now offers 529 plans, named after the section of federal tax law that authorized them. They include prepaid tuition plans, in which state residents pay a set fee that guarantees the full amount of tuition will be paid by the time a child enters college, and investment programs. Unlike the prepaid plans, which may not allow investors to transfer the full value of their contract to private or out-of-state schools, the investment plans usually can be used at any accredited college or university, and contributions to the plans can be used for school expenses other than tuition.

The plans have come a long way since they were introduced in the mid-1980's, said Joseph F. Hurley, a Pittsford, N.Y., accountant. Mr. Hurley runs a Web site, savingforcollege.com, that focuses on 529's.

Even the prepaid tuition plans have become more attractive, he said. Some plans now guarantee investors a minimum investment return on their contracts, or have done away with the restrictions that prohibited unhappy investors from getting a refund before a prospective college student turned 18. For college investment plans, he added, the big move has been to make them more like employer-sponsored 401(k) plans, which offer a number of investment choices.

Until recently, college investment plans usually forced investors to put their money into portfolios that became progressively more conservative as the plan's beneficiary grew older. But especially over the past year, more states have brought in investment advisers to actively manage and market the plans. As a result, 529 investors can now increasingly customize their asset allocations, and even put money into mutual funds not offered by the plans' managers.

Last fall, State Street Global Advisors began offering a college savings plan through the state of New Mexico that not only lets potential investors sign up entirely online but also lets them mix and match mutual funds from State Street, MFS, Janus and Invesco. About the same time, Merrill Lynch began offering, through its brokers, a version of Maine's 529 plan that lets people invest in mutual funds from Merrill, AIM Capital Management, Franklin Advisors and MFS. In January, Nebraska launched a college savings plan that incorporates mutual funds from Vanguard, Janus, American Century and Fidelity Investments.

Many of the plans allow out-of-state residents to invest, although they may not necessarily get the same tax benefits.

This spring, Fidelity Investments, which manages programs in Massachusetts, Delaware and New Hampshire, plans to roll out more investment choices for its 529 customers, said Stephen Mitchell, a senior vice president. Instead of automatically putting new contributions into one of eight portfolios, based on the age of the intended college student, the company will let investors decide which portfolio to use, he said.

Mr. Mitchell said Fidelity wanted to accommodate customers looking for more aggressive investment strategies as well as people who have different timing needs — for example, people who need money for graduate school or prospective college students who plan to work for a few years after high school.

While college savings plans offer a growing array of investment options, financial counselors urge consumers to shop carefully. Federal tax law specifies that once money is allocated to a certain investment in a 529 plan, it must stay there, regardless of where the stock market is headed. "Customization with these plans presumes that investors really know what they're doing," Mr. Hurley said.

Still, 529 investors can expect even more consumer-friendly perks. In April, Schoolhouse Capital, a subsidiary of State Street Global Advisors, will begin offering New Mexico's college investment plan as an employee benefit through 12 employers. Money for the plan would be automatically deducted from employees' paychecks in amounts as small as \$25 a month. Employees will be able to choose investments ranging from an aggressive portfolio that invests only in stock funds to a conservative portfolio centered on bond funds. Ted Miller, chief operating officer at Schoolhouse Capital, says a few states like Nebraska and Virginia already offer payroll deductions for 529 plans as a benefit to state employees.

The ability to tap into a college investment plan was appealing to Roger C. Nagel, a certified public accountant in Albuquerque. Mr. Nagel has two daughters, 18 and 14; the older one is about to go to college. In addition, his wife, Melody, is to start attending the University of New Mexico this summer to study radiologic sciences.

Last December, about three months after New Mexico introduced prepaid tuition and investment plans, Mr. Nagel set up two investment plans through State Street, one for each daughter. Since then, he has put enough money into each plan to cover about two years of college.

Mr. Nagel said 529 plans "are one of the few ways that allow anyone to save for college, even if they make a good living." He added that his family did not meet the income requirements for education individual retirement accounts.

Mr. Fatianow and his wife, who is a self-employed interior designer, also earn a good living. They have managed to sock away about \$120,000 for their children's education over the last five years, thanks to bonuses and stock options. But they worry about meeting the costs, which is why the UPromise program seemed appealing. Mr. Fatianow still remembers having to work full time while he was in college from 1988 to 1992, as a landscaper and at assorted campus jobs, both to cover his education costs and to support his wife and their first child.

He and his wife prefer to have their five children attend Brigham Young University in Provo, Utah, a private college that he says costs between \$10,000 and \$15,000 a year, costs that would not be covered by a prepaid tuition plan.

UPromise executives say that a major goal of their program is to give families like the Fatianows a relatively painless way to save for college. They say they have already signed up about a dozen nationally known companies for the program, as well as some 7,000 restaurants and 60 online retailers.

Contributions vary by company. For instance, UPromise executives say participating real estate brokers will contribute a half percent of the price of buying or selling a home.

Other contributions will range from 1 percent for Citibank credit card purchases to up to 15 percent for certain online retail purchases.

Mr. Hurley said Congress was considering efforts to put even more zip into college savings plans by making either their earnings or withdrawals tax exempt. Right now, they are only tax deferred.

For now, however, some consumers are simply happy to have a way to automatically save money for college.

Spencer and Emily Gold, of Pepperell, Mass., signed up with UPromise in late January even though they already had two education I.R.A.'s for their 18-month-old son and 3-year-old daughter.

The Golds, who have a third child on the way, are frustrated by current law that lets them contribute only \$500 annually into each education I.R.A. They say an automatic savings program is the best way for young investors like themselves to meet their college-savings goals.

To take advantage of UPromise, the Golds are thinking of switching their current credit card for the one that is offered by Citibank, as well as swapping their long- distance company to AT&T, another UPromise participant. "Putting money together at this point in time can be very easily overlooked because college seems so far away," said Mr. Gold, 31, an electrical engineer. "But this is like a gigantic locomotive heading at you. We expect the costs to be almost overwhelming."



Porter Gifford for The New York Times

Spencer Gold and his wife, Emily, in back, are using a savings program to help pay college costs for their daughter, Annie, and son.

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