



## Keep chipping in to 529 college plan, but look closely at strategy

Forget *The Shining*. *Invasion of the Body Snatchers*? Kid stuff. If you really want to scare yourself this Halloween, open up your 401(k) statement. And if you're in the mood for a hair-raising double feature, pop some popcorn and review your 529 college savings plan.

The bear market has taken a chainsaw to many 401(k) plans, slashing their values by 40% or more. But for parents of children in their early to late teens, the carnage in their 529 plans is even more frightening.

"If you're close to that time period when you need the money, this is very scary," says Andrea Feirstein, an independent consultant to 529 plans.

State-sponsored 529 savings plans allow parents and grandparents to save \$250,000 or more toward a child's college education. As long as the money is used to pay for college expenses, withdrawals are tax-free.

The majority of 529 plan participants invest in age-based portfolios, which shift money to more conservative investments as the child nears college. By the time parents start taking withdrawals to pay college bills, most of their money is in money market funds or other low-risk investments.

Joseph Hurley, founder of SavingforCollege.com, has two children in college, and says the age-based portfolios worked to his advantage. Because most of his savings were moved to low-risk investments before the downturn, both of his children's plans are showing small gains this year.

Parents of children in the early to midteens are in a much more tenuous situation. The stock-based portions of their portfolios have suffered deep losses, and they have only a few years to recover.

At the same time, the economic slowdown has made it more difficult for families to make up the difference by saving more. More than a third of parents have reduced the amount they're saving for college or stopped saving altogether because they're having trouble with day-to-day expenses, according to a recent survey by Fidelity Investments.

While the market meltdown has exposed some problems with 529 plans, they still offer the most tax-efficient way to save for college. Some survival tips:

- Don't stop contributing.** Many 529 plans let you open an account for as little as \$25. And once you've opened an account, even small contributions add up, Feirstein says. If you're struggling to pay the bills, try to set aside \$25 every time you get paid, she suggests. "If you can save \$25 every pay period, the power of tax-deferred compounding still makes the 529 plan the most effective and efficient investment," she says.

- Scrutinize age-based portfolios before you invest.** Many investors are learning, belatedly, that some age-based portfolios are more aggressive than others. For example, Alaska's John Hancock Freedom 529 plan keeps nearly a third of its assets in stocks when the child is two to five years away from college. Through Oct. 24, the plan was down 19% this year. By contrast, the College Savings Iowa plan's least-aggressive age-based portfolio shifts all of its money into money market and bond funds when the child turns 16. That portfolio, which is managed by the Vanguard Group, was down 1.6% as of Friday.

Unfortunately, many investors "don't ask a lot of questions about what's in these plans," says Lawrence Glazer, partner at Mayflower Advisors in Boston.

The College Savings Plans Network website, [www.collegesavings.org](http://www.collegesavings.org), provides links to plan websites and also offers tools you can use to compare plans.

•**Shelter future contributions.** Under federal law, you can't change the investment mix in your 529 plan more than once a calendar year. That means if you've made changes in your investment mix this year, you can't make any more until after Jan. 1.

However, there's no prohibition against changing where new contributions go. Instead of making drastic changes to your portfolio, Glazer says, consider earmarking future contributions to low-risk investments. Many 529 plans have added low-risk options, such as certificates of deposit, to their portfolios.

The downside to this strategy is that your returns may not keep up with tuition inflation (see box). If your child is still many years from college, investing aggressively now could pay off, because you're buying stocks at low prices, Hurley says.

Still, the recent turmoil in the stock market offers a good test of how much pain you can tolerate, Hurley says. "What a lot of parents are learning," he says, "is that they're more risk-averse than they initially thought they were."

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