



## Survey Results: Advisor Use of 529 Plans

By Paul Curley, CFA

August 2, 2011

*Advisor Perspectives welcomes guest contributions. The views presented here do not necessarily represent those of Advisor Perspectives.*

With investor sales volume returning to the 529 industry, financial advisors have an opportunity to grow their business. However, they are missing out: Asset growth within the advisor-sold channel has not kept pace with the growth experienced by the direct-sold channel.

The 529 college savings plan industry has grown to over \$146 billion, a 65% leap since the 2008 market volatility. Investors have made saving for college a top priority — the industry has experienced a 75% increase in net sales over the past two years.

This has been the case despite the combination of an increased rate of saving relative to 2008 and a substantial total inflow. The advisor-sold channel accounted for 59% of the 529 savings plan industry assets in 2007, but it only made up 51% at the end of 2010. Bottom line: while the overall industry has been growing, the advisor-sold channel has been less effective in capitalizing on this trend.

The questions then become:

1. Which vehicles are being used to fulfill the needs of the client?
2. Which areas are available to advisors for further market penetration?
3. Will the trend of lagging advisor usage continue?

Our survey of *Advisor Perspective* readers and financial advisors, conducted in June, provided some key insights into these questions.

### **Advisor Vehicles Used for Client's College Savings Needs, 2011**

**Source:** Financial Research Corp.

**Survey question:** "What type of vehicles do you use for your client's college savings needs? (Please check all that apply)"

**Analyst Notes:** "Other" methods include zero coupon municipal bonds, individual stocks, individual bonds and Traditional IRAs.



<b>Vehicle</b>	<b>B/D Advisors</b>	<b>RIAs</b>	<b>All Advisors</b>
529 savings plans	94%	92%	93%
529 prepaid plans	10%	17%	11%
Coverdell ESAs	32%	25%	31%
Roth IRAs	36%	33%	37%
Trust (UGMA/UTMA)	42%	49%	43%
Non-529 mutual funds or ETFs	32%	48%	37%
Insurance Product with Cash Value	23%	10%	23%
Cash or other banking product	13%	17%	15%
Other	5%	5%	6%

FRC's results reveal that advisors use a broad array of vehicles to fulfill the college-savings goals of the client. The favored product for the college-savings goal, the 529 savings plan, was heavily used by all three distribution categories — broker-dealer (B/D) advisors, RIAs and all advisors. Further analysis showed significant differences in the preferences for other product types. For example, 529 prepaid plans are more likely to be used by RIAs (17%) than by B/Ds (10%), while the reverse is true for Coverdell Educational Savings Accounts (ESAs). Additionally, Roth IRAs (37%), trusts (43%) and non-529 mutual funds or ETFs (37%) — each of which has different tax implications — received a significant amount of consideration in the college-savings goal. A broad array of products is currently used to achieve the investor goal of saving for higher education.

While examining college savings, a critical factor is the advisor's ability to present a product to a client. The advisor's approach can be to present the product as part of a value-add or as a means to protect one's book of business. In contrast to the above chart, which shows that a high percentage of advisors use 529 savings plans to meet the needs of clients, the below chart shows that 529 savings plans account for a relatively low percentage of clients' college-savings assets. The results also reflect a slight barbell shape, with the highest percentage reporting in the ranges of 0%-20% and 61%-80%. Based on the predominant use of 529 plans at either end of the spectrum, advisors in the 0%-20% bracket may be able to present the product as a means to protect their book of business from those in the 61%-80% range, who appear to be making greater use of 529 savings plans.



**Percent of Client’s College Savings Assets in 529 College Savings Plans, 2011**

**Source:** Financial Research Corp.

**Survey question:** “Approximately what percent of your clients’ college savings assets are in 529s?”

<b>% of Client AUM</b>	<b>B/D Advisors</b>	<b>RIAs</b>	<b>All Advisors</b>
0-20%	49%	45%	46%
21-40%	11%	12%	11%
41-60%	7%	21%	12%
61-80%	23%	15%	21%
81-100%	10%	8%	10%

Additionally, advisors could present 529 college savings plans within the context of estate planning to foster business development. The gift tax rules regarding 529 plans allow an individual contribution of up to \$65,000 every five years. FRC’s survey results found that approximately 80% of financial advisors take advantage of the gifting feature for clients *only 10% or less of the time*. The gifting feature can also be strategically aligned with disbursements from trust accounts (UGMA/UTMA). Therefore, the underutilization of these features provides the opportunity to present the strategy favorably to clients and represents an area for further market penetration.

With these ideas in hand, the issue then becomes identifying the clients to whom 529 plans should be marketed. FRC’s survey results quantify how often clients are related to the beneficiary of the college-savings plan. Traditionally, parents and grandparents are seen as the target market for college-savings plans. Analysis of the survey results broadened that target market, however, determining that “other relatives” and “self” are key target markets in addition to parents and grandparents.

Based on more than 10% of the advisor survey responses, both “other relatives” and “self” accounted for at least half of the college-savings clients. Therefore, a wider definition of family dynamics can be used when trying to uncover additional relatives for product recommendations. The idea of using more inclusive definitions can also be applied to initial levels of wealth, according to FRC’s study. When asked about the statement, “Saving over 50% of total tuition expenses prior to the beneficiary’s freshman year is a realistic goal for only my affluent clients,” 38% of respondents noted that they either “disagree” or “strongly disagree.” That amounts to over a third of financial advisors believing that a substantial percentage of tuition expenses can be attained by all investor wealth categories, including those not categorized as affluent. Therefore, a broader definition of the target market in the evaluation process can expand an advisor’s potential client base and help enhance business.



Lastly, and building off the opportunities presented above on the college-savings marketplace, we lead to the final question: “Will the lagging trend of advisor-sold assets in 529 savings plans continue?” Based on the FRC survey results, 21% of advisors expect to recommend 529 savings plans more often over the next 12 months than they have in the past, 5% expect to recommend them less and 74% expect to recommend them the same amount. Based on a substantial percentage of survey respondents expecting to recommend the plans more over the next 12 months, in combination with several other industry level indicators, FRC projects that 529 savings plans net sales will continue to gain momentum going forward.

The overall college-savings industry will continue to grow despite fluctuations in this post-2008 marketplace. Advisor interest in 529 college-savings plans will increase, but advisors must recognize the opportunity to present the product to clients and protect their own book. With a focused approach, advisors can better capitalize on the growth taking place in the 529 savings plan industry.

---

*Paul Curley, CFA, is the Director of College Savings Research at [Financial Research Corp. \(FRC\)](#), a research firm that has focused on the investment and asset management industry for more than 20 years. To find out more key findings on the survey results including plan selection criteria, advisor support initiatives, and adviser perceptions of college savings, go to [www.frcnet.com](#).*

[www.advisorperspectives.com](http://www.advisorperspectives.com)

For a free subscription to the Advisor Perspectives newsletter, visit:  
<http://www.advisorperspectives.com/subscribers/subscribe.php>