



Letter to the Editor

November 2, 2010

The following is in response to Robert Huebscher's October 5 article, [The Misguided Promise of 529 Plans](#):

To the Editor,

I feel obligated to highlight a few generalizations in your article that unfortunately cast the entire universe of 529 plans in a uniformly unpleasant light.

For example, your article notes that 529 plans invest "aggressively in equities over relatively short time horizons." "Relatively" is the key word. While it is true that the time horizon for retirement investing is generally longer than that of saving for college, the median length of time that college funds are invested is nine years. Most advisors would likely agree that nine years is a time horizon that, generally speaking, over which it can be appropriate to take the risk of a partial allocation to equities.

A majority of these plans offer age-based allocations, which dramatically reduce the equity allocation the nearer the beneficiary is to expected matriculation. Most of those age-based plans hold no equities shortly before or after the beneficiary reaches college age. In addition, many plans enable investors to put their money into static, multi-fund or individual-fund bond portfolios (e.g., TIPS). Still others are now offering FDIC insured alternatives for those seeking ultra conservative investments.

The harsh reality, however, is that money market funds and extremely conservative fixed income investments are not likely to keep pace – over the long run – with the rising cost of college, which continues to increase at two to three times the rate of inflation. History shows us that a well diversified portfolio with an allocation to equities may be an investor's best hope of staying ahead of inflation.

The article also delves into opportunities to invest in municipal bonds. It doesn't, however, take into account the transaction costs associated with laddering muni bonds. And, more importantly, it fails to note the sizable credit risk associated with an undiversified portfolio of individual bonds. This is of particular concern in the current environment, in which municipalities and states are running enormous budget deficits. If one of those bonds in a typical ladder – of, say, five or six individual bonds – defaults, the impact will be dramatic. Virtually any investment in most 529 Plans would offer broader diversification, and thus less risk.

There is a final glaring omission regarding the goal of saving for higher education, in that 529 plans are the only vehicle designed specifically for that purpose; earnings grow tax-



deferred, qualified withdrawals are free from federal tax, and many Plans offer state tax deductions for in-state residents. No other investment vehicle offers the same generous tax advantages for American families saving for college.

Certainly all investment vehicles have come under scrutiny in recent years, and deservedly so. But to ignore the generous tax advantages of 529 plans, especially when taxes are most likely going to increase soon, and to treat all 529 plans alike – instead of as individually managed plans, with discrete investment choices – does a disservice to investors seeking guidance on saving for an important life goal.

Sincerely,

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