



The great state debate on tuition-savings plans

Financial advisers disagree over whether New Jersey's '529' still stacks up to others

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People come to certified financial planner Christopher Cordaro for many reasons, and financing their children's college education is near the top of the list.

Cordaro says he generally advocates using a 529 plan, which allows college-aimed investments to grow tax-deferred while, under current law, withdrawals are tax-free if they are used for qualified education expenses.

There was a time when Cordaro recommended that clients invest their tuition savings in a 529 plan sponsored by the state of New Jersey, but no more.

"New Jersey should be ashamed, offering a program that charges more than 1 percent on average" in fees, said Cordaro, who works for RegentAtlantic Capital in Chatham.

In 2003, management of New Jersey's 529 plan was given to Franklin Templeton, a San Mateo, Calif., mutual fund and money management company. Officials with the New Jersey Higher Education Student Assistance Authority say they made the change to give investors more options.

Many financial planners approve of the switch, while others agree with Cordaro.

When the state treasurer ran the New Jersey plan, the annual operating cost for investors, including investment management and administration, was 0.50 percent -- a pretty good price compared with 529 plans in other states.

But now New Jerseyans have two plans to choose from, both managed by Franklin Templeton. The first, NJBEST, is sold directly to New Jersey residents only, without a middleman. The second, the Franklin Templeton 529 College Savings Plan, is sold by brokers and available also to out-of-state investors.

Cordaro said the fees led him to advise all his clients and his own family to bail out of the New Jersey plan and invest elsewhere.

"I have 13-, 11- and 9-year-old girls," he says. "Their college money is in the Michigan plan."

One of the clients who took Cordaro's advice was Julia Rathkey, 42, of Mountain Lakes. Under Cordaro's counsel, Rathkey, whose husband died in the 2001 World Trade Center attack, originally took the donations made to her 16-year-old daughter and twin 13-year-old boys and invested them in the New Jersey plan. But when Cordaro suggested the move, she jumped to the Missouri plan, which is managed by TIAA-CREF.

"I'm glad I made the change," she says. "It definitely costs less, and it's taking less of my money away from the kids' educations."

John Iacovelli, senior director of client services and marketing for the Higher Education Student Assistance Authority, defended the state's move to Franklin Templeton.

"By going with Franklin Templeton, we were giving almost unlimited options and we were delighted to have that partnership," he said.

Iacovelli noted the volume of investments in the plan has been on the rise since the change. More than \$500 million is in the plan, compared with \$130 million before the change, he said.

Iacovelli also said the plan offers special options for New Jersey residents. It will give a \$1,500 scholarship to any student who attends an in-state college -- a perquisite he says investors should add to their calculated rate of return. Iacovelli also said the costs are low.

"We were looking to strip away any excuse that people would have made for not starting a college savings plan," he said. "We wanted to have a plan for investors who are doctors or if you drive a school bus and everyone in between."

NJBEST allows contributions to start with a minimum \$25 investment, far less than some other state plans. The Franklin Templeton option requires a \$250 initial contribution and at least \$50 in subsequent contributions.

The higher starting balance isn't unusual among 529 plans. It is the annual expenses that rile some advisers and investors. For example, Michigan's plan, managed by TIAA-CREF, also has a \$25 starting contribution. The big difference is in the annual fees.

The TIAA-CREF plan's annual expenses don't exceed 0.65 percent, while the Franklin Templeton plan can charge 0.40 percent for asset management, plus between 0.85 percent and 2.11 percent for management of the underlying funds. Add to that the annual \$25 account-maintenance fee for Franklin accounts valued at less than \$25,000, and the plan can take a big chunk out of your savings to pay for expenses each year. (People interested in comparing the expenses of plans offered by various states can visit www.planningforcollege.com.)

Dan Reinhold, national sales manager with Franklin Templeton Investments, says the fees are designed to be competitive while allowing financial advisers to be compensated for their efforts in helping families.

"A much smaller percentage of families invest in the direct-sold NJBEST plan than the adviser-sold plan because many investors realize that investing can be technical and complicated, and they prefer to get advice and assistance from a financial adviser when planning to invest for the high cost of college expenses," Reinhold said.

Many New Jersey-based planners agree and still recommend their clients buy the state plan.

"I like the investments inside the plan," says William Connington, owner of Connington Wealth Management Group in Pine Brook. "The costs are higher, but it's still a viable plan if the performance is still there."

Those advantages aren't enough, says Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains.

"My primary concern with the Franklin Templeton plan is that it is obscenely expensive," Aznar said. "It is important for investors to recognize that we have no control over the performance of the underlying investment options, but we do have some control over the fees and expenses we

pay."

Aznar gives this example: Imagine an investor chooses to pay 2.51 percent per year for a 529 plan, compared with a plan charging 0.65 percent a year, and the underlying funds in the accounts perform equally at an average growth of 7 percent a year. On a hypothetical \$50,000 lump sum investment made today and held for 18 years, the account with the lower expenses could be worth \$71,895 more than the account with the higher expenses.

She said she prefers the low-cost options offered by Vanguard (Nevada, Iowa, New York, Utah), TIAA-CREF (Missouri, Minnesota among others) and T. Rowe Price (Alaska).

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