College Savings Nation 2022:
529 Plans Maintain the Status Quo
Our Annual Update on 529 Plans and Trends

May 2022

Overview

This AKF 529 Market Report provides an update on trends and developments we have observed over the past year, and highlights opportunities for States to foster growth in their 529 Plans. The 529 industry has grown to more than $457 billion in assets under management across approximately 15.8 million accounts nationwide,[1] continuing the industry's mission of helping families save for education.

Looking back to our 2021 College Savings Market Report, we find that 529 Plans have largely maintained the status quo with respect to distribution and design. We also note that recent market volatility is not reflected in the data included in this Report. Both points together make this the perfect time to start thinking broadly about the future. In this Report, we address:

Trends and Observations

- ***Direct Plans Continue to Drive Growth*** – Direct Plans continue to drive 529 industry growth, but 2021 brought promising account growth rates for both Direct and Advisor Plans. We observed higher annual account growth rates for each distribution channel in 2021 than we saw in both 2020 and 2019.

- ***Morningstar Moves the Market –*** A greater percentage of Direct Plans are medal-rated today than a decade ago, and decidedly fewer Advisor Plans earn medal ratings. As the 2022 rating season begins, understanding a Plan's "Score" can help State Administrators strategize for enhancements to solidify or upgrade individual Pillar ratings from 2021.

Opportunities to Foster Growth

- ***Growing the Universe of Savers through Technology*** – The 529 industry has increasingly adopted technology to grow accounts and better serve the existing customer base. 529 Plans have an opportunity to prioritize technological advancements and leverage creative technological solutions to better connect with future savers.

- ***Anticipating the Trajectory of Higher Education*** – As a new generation of savers enter college, how will cultural shifts affect higher education as we know it? Will needs for 529 accounts change? Observing and anticipating the attitudes of young cohorts of savers towards higher education is an opportunity for 529 Plans to reposition themselves for the future.

Methodology

Data for this AKF College Savings Market Report was aggregated through a review of the Program Disclosure Statements for 91 Savings Plans as of May 16, 2022.

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[1] Source: College Savings Plans Network ("CSPN") as of March 31, 2022

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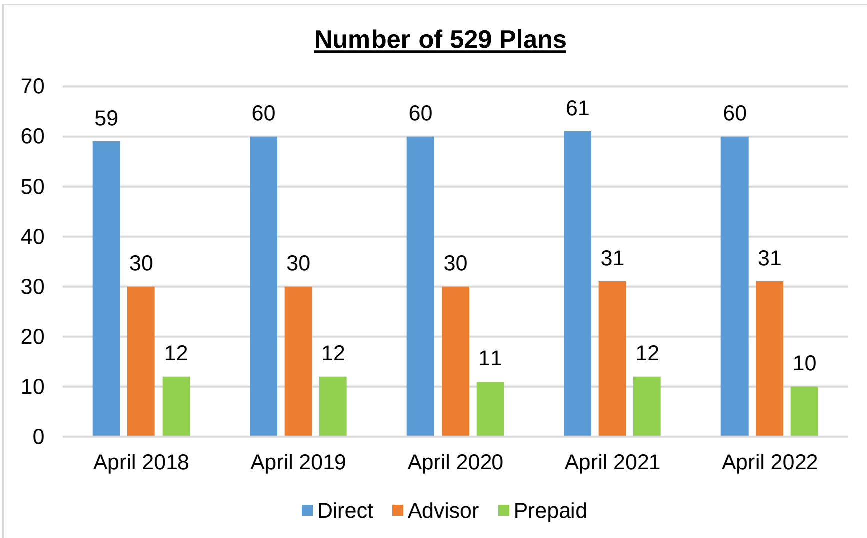
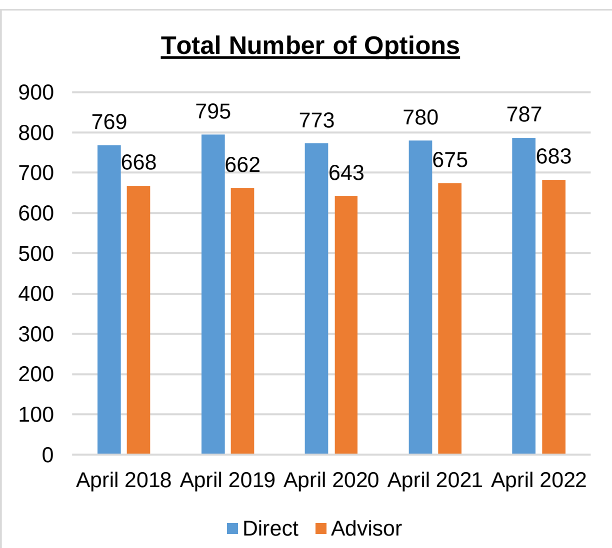
Findings and Observations

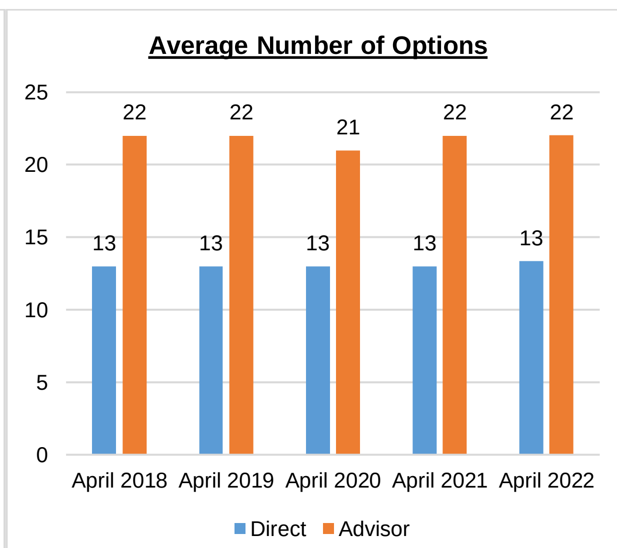
The chart below shows the historical number of 529 Plans in the marketplace. From April 2021 to April 2022, the total number of Plans dropped from 104 to 101. This reflects the recent discontinuation of Arizona's Bank Plan, and the closures of the Tennessee and West Virginia Prepaid Plans.



Source: AKF Consulting

Shifting to the number of investment options offered in Savings Plans, we see a slight increase over the last year (as shown below). Part of this increase is attributable to significant investment line-up changes in certain States, including California, Colorado, Illinois, Rhode Island and Texas.





Source: AKF Consulting based upon Program Disclosure Statements as of May 16, 2022

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Observation 1: Direct Plans Continue to Drive Growth

Continuing a trend we have observed over the past few years, Direct Plans continue to drive 529 industry growth. Notably, Direct Plan accounts overall were not impacted by the COVID-19 pandemic. Advisor Plan accounts reported relatively lower growth before the pandemic, but account numbers have increased in 2020 and 2021.

	Direct Plans		Advisor Plans	
	Net Increase	**Percent Growth**	**Net Increase**	**Percent Growth**
2019	460,326	6.17%	5,340	0.10%
2020	540,646	6.83%	49,438	0.92%
2021	692,334	8.19%	104,565	1.93%

Source: CSPN with clarification by certain States as of December 31, 2021

While both Direct and Advisor Plan accounts increased during 2020 as compared to 2019, the uptick in Advisor Plan growth in 2021 is notable. Perhaps 2021 growth represents renewed confidence in getting "back to normal" – people are once again meeting in person with advisors and having those important financial planning discussions, including the importance of 529 savings. Alternatively, perhaps the appeal of active management, which dominates investment options in Advisor Plans, is starting to reverse the trend of stagnant growth in recent years. It remains to be seen whether this increased activity will be sustained, particularly as we experience market volatility, inflation and rising interest rates.

Observation 2: Morningstar Moves the Market

Morningstar publishes rating information for approximately two-thirds of 529 Savings Plans each year, offering investors a tool to make more informed decisions. Morningstar rates 529 Savings Plans across four "Pillars": Process, People, Parent and Price. Pillar ratings combine to form the basis for an overall Plan rating of Gold, Silver, Bronze, Neutral or Negative. Gold, Silver and Bronze Plans are referred to as "medal-rated."

Over time there has been considerable upward movement in Direct Plan ratings and considerable downward movement in Advisor Plan ratings, as shown by the charts on the next page. Compared to a decade ago, the number of medal-rated Direct Plans has increased by 50% (20 Plans in 2012 versus 30 in 2021). At the same time, the number of medal-rated Advisor Plans has decreased by over 70% (7 Plans in 2012 but only 2 Plans in 2021).

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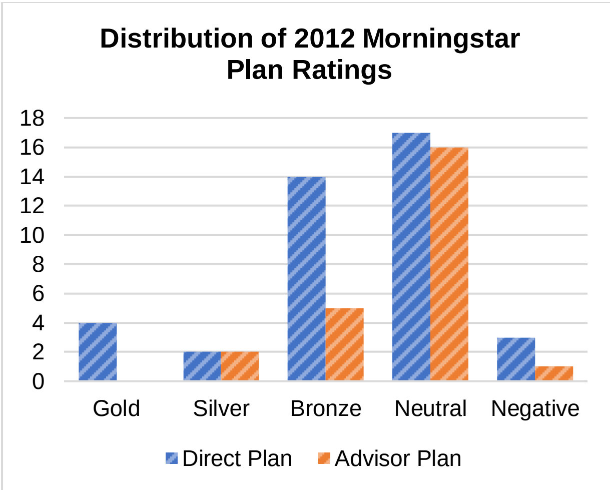

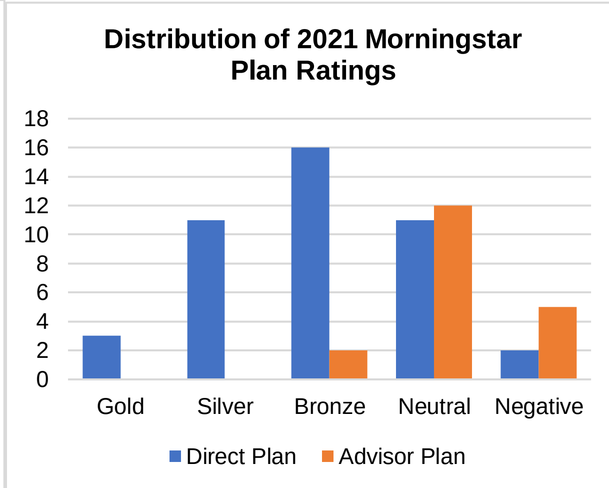

This shift suggests that Morningstar favors Direct Plans overall. In fact, Morningstar's rating methodology – revised in 2020 – rewards lower-cost, passive investments, which are predominantly present in Direct Plans.

Morningstar's influence on the 529 industry is palpable — over the past few years, significant changes have been made to Plans as a direct result of Morningstar's methodology. A principal example of this has been the industry-wide trend toward progressive glidepaths. Other examples include the continued downward movement on fees and underlying investment changes.

We note a few things for State administrators to keep in mind as they enter a new rating season. First, understand your current Plan Score.[2] This is particularly important if the Score is on the borderline of one rating category or another. Second, pay close attention to industry best practices cited by Morningstar, which has just released its 2022 529 Savings Plan Landscape. Remember that ratings are relative, so comparing your State's Plan to peer Plans will be key. And finally, strategize on and plan for enhancements that will contribute to Pillar score solidification or upgrades.

Notwithstanding the industry's focus on Morningstar, AKF advises its 529 clients to exercise their fiduciary duties without regard to ratings. Morningstar's apparent or suggested preferences may not always align with the best of interest of participants in a particular Plan. And, at the end of the day, Plan Administrators must always make decisions based on the best interest of their participants.

[2] Morningstar's Plan Score is a numerical expression of the analyst's views of a Plan's potential to follow best practices and outperform. The Plan Score is derived from four weighted Pillar ratings that are each individually scored on a 1-to-5 basis. The analyst's level of conviction in the Plan's merit is based upon the following Pillar weightings: 30% for each of Process, People and Price; 10% for Parent. Accordingly, the Plan Score = (0.3*Process Score) + (0.3*People Score) + (0.3*Price Score) + (0.1*Parent Score).

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Opportunities for the Future

As the 529 market continues to evolve, State Administrators must continually monitor trends and evaluate changes to manage risks and seize opportunities for growth. We have identified two areas that we believe merit attention and consideration.

Opportunity 1: Growing the Universe of Savers through Technology

As with so many other aspects of life, families are increasingly using technology today to help manage their finances. In keeping with this trend, we have seen significant advancements in technology adoption in the 529 industry. Just over the course of the last year, at least two leading program administrators (Ascensus and TIAA – representing 27 Plans) have launched a mobile app. We anticipate others will continue the trend.

As with all technological advances, there are challenges building mobile applications for 529 Programs — the expense alone can be a daunting hurdle. In the long run, however, the benefit of technology promises to outweigh costs. A mobile app can significantly simplify and streamline interactions between 529 Plans and their participants. Program administrators also can encourage account growth by allowing account openings and contributions through an app. After all, the world is increasingly "mobile-first"; new generations of savers prefer to transact on-the-go rather than at-the-desk.

But mobile apps offer more than just ease-of-use. Perhaps the most valuable aspect of a mobile app is its ability to regularly remind investors to check in on their college savings. Apps do this through push notifications or just by mere presence — account owners will see their 529 Program's icon as they scroll through their phone. In short, mobile apps offer 529 Programs something that no website can: the daily (sometimes constant) attention of participants.

Beyond mobile apps, 529 Programs are seeking other opportunities to leverage technology to grow their universe of savers. Some Plans are using or otherwise considering robo-advisor services and other partnerships with fintech companies to assist with gifting, employer payroll, withdrawal processing and enrollments generally. Continuing this effort to reach the forefront of technological trends is an opportunity to attract a new generation of tech-savvy savers.

Opportunity 2: Anticipating the Trajectory of Higher Education

The last several years have brought enormous cultural, societal and technological changes. The trends of today are sure to impact how current and future generations think about higher education. No one can predict the future. But we do think there are enough considerations to warrant some thoughtful discussion, including:

- ***Student debt tops $1 trillion dollars.*** It's not new news: Millennials (the current generation of college-saving parents) are saddled with enormous levels of student debt from their own college days.[3] Will this impact how they think about the value of college? Will it propel them to save more to protect their children from a similar burden? Or will it have the opposite effect,

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[3] *Student Loan Debt Statistics,"* Education Data Initiative, May 9, 2022

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souring them to the prospect of college-as-an-investment in general? A 2019 study showed that 42% of Millennials who had student loans believe the burden of loans was not worth attending college.[4] Will that attitude carry through to their savings and to their children?

- ***The culture of the next generation.*** The Gen Z cohort is realistic, career-oriented and concerned about finances. In terms of college, they are focused on academics and support services more than they are on campus frills. This generation is interested in practical subjects with clear career paths, and they want to estimate their return on investment as specifically as possible.[5] Given this pragmatic mindset, will the would-be Gen Z English majors become Engineering majors, or will they simply forego traditional 4-year college altogether?

- ***Recent legislative initiatives.*** Free community college and tuition assistance efforts have been implemented in pockets throughout the country and are now being seen in federal legislative proposals. Will these initiatives hamper 529 growth? Or will they afford families the capacity to save more for other aspects of higher education, including other qualified 529 expenses apart from college tuition?

- ***Decreasing college enrollments and increasing interest in career programs.*** Recent reporting tells us that the proportion of high schoolers considering a four-year education has dropped from 71% to 48% since the start of the coronavirus pandemic.[6] At the same time, enrollment in short-term credential classes increased by 70% over the same period last year. The number of apprenticeships nearly doubled to more than 700,000 between 2012 and 2019.[7] Overall, while college and university enrollment has decreased in recent years, enrollment in technical colleges and trade schools is up.[6] For example: according to Course Report's Coding Boot Camps 2022, the number of graduates from full time, in-person immersive coding bootcamps ballooned from just 2,178 in 2013 to 24,975 in 2020.[8]

Today we continue to see the evolution of higher education. Although college degrees remain the predominant path to future careers, the attitude towards the value of these degrees is changing. Given the ongoing increasing cost of college and what the future may hold with respect to the importance of some degrees, it is not surprising that many people are questioning its benefit. Prominent tech firms such as Google, Apple, and IBM have validated this sentiment by dropping requirements for college degrees in recent years.[9]

More recently, the Strada Education Network's 2021 Alumni Survey found that only half the respondents believed their college degree was worth the cost.[10] Similarly, the College Savings Foundation's May 2022 Youth Survey found that 63% of students view career and technical schools in the same way as traditional college; however, only 28% know they can use 529s to pay for them.[11]

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[4] *"Millennials and Their Money: The Kids Are All Right,"* Morning Consult, April 8, 2019
[5] *"The New Generation of Students,"* The Chronicle of Higher Education, 2018
[6] *"Long disparaged, education for skilled trades is making a comeback,"* The Washington Post, December 31, 2021
[7] *"Is This the End of College as We Know It?"* The Wall Street Journal, November 12, 2020
[8] *"2020 Coding Bootcamp Market Size Study,"* Course Report, April 2, 2020
[9] *"Google, Apple and 12 other companies that no longer require employees to have a college degree,"* CNBC, October 8, 2018
[10] *"Strada Alumni Survey,"* Strada Center for Education Consumer Insights
[11] Survey Resources, College Savings Foundation

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We cannot predict what exactly the future of college (and college savings) will be, but there are enough cultural shifts happening to at least make us take notice, and to ask: Are 529 Plans ready for the next generation? Plans have an opportunity now to consider all possibilities and prepare.

Conclusion

The 529 market has maintained the status quo over the past year, with no new notable trends or developments. In the year ahead, we believe opportunities exist for Plans to leverage technology to continue to grow their accounts, and to contemplate where the 529 industry is headed. As always, we hope the information shared in this AKF Market Report informs decisions and fosters growth.

Find Out More

State Administrators and Program Managers are always searching for new ways to serve this evolving market. We would be delighted to discuss our findings in more detail with you. For more information, please contact:

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