Education Savings Nation 2023:
Going Beyond Just College Savings
Our Annual Update on 529 Plans and Trends

June 2023

Overview

The road for 529 savings is broader than ever. The continued expansion of qualified expenses for 529 Plans beyond those just for higher education deserves acknowledgement, which is why we have changed the name of our annual 529 Market Report from "College Savings Nation" to "Education Savings Nation." We embrace the expanded uses for 529s, which collectively provide more flexibility to investors outside of conventional college boundaries.

This Report provides an update on trends and developments we have observed over the past year, and highlights opportunities for State Administrators to foster growth in their 529 Plans. Through 2022, the 529 industry grew to more than $411 billion in assets under management across approximately 16 million accounts nationwide, continuing the mission of providing American families tax-advantaged plans to save for education.

In this Report, we address:

Trends and Observations

- ***Launch of 529 Prepaid Cards*** – Two States have now soft-launched prepaid cards for 529 withdrawals, a significant enhancement for 529 distributions.

- ***Growing Presence of ETFs*** – ETFs have been increasingly visible in investment lineups, leading to fee reductions compared to actively managed funds.

Opportunities to Foster Growth

- ***From 529 to Retirement –*** The passage of SECURE 2.0 created an opportunity for individuals to boost or even jumpstart their retirement savings through the transfer of unused 529 account assets to Roth IRAs. A number of conditions must be met for funds to qualify for this transfer; industry associations are currently addressing these, all aiming for the January 1, 2024 effective date.

- ***Higher Education Redefined*** – In past Reports, we discussed the increased interest in non-traditional education and its impact on the 529 marketplace. We see this trend continuing, evidenced by proposed federal legislation further supporting the definitional expansion of higher education. 529 Plans have much to gain by embracing this evolution.

Methodology

Data for this AKF Education Savings Market Report was aggregated through a review of Program Disclosure Statements for 91 Savings Plans as of May 31, 2023.

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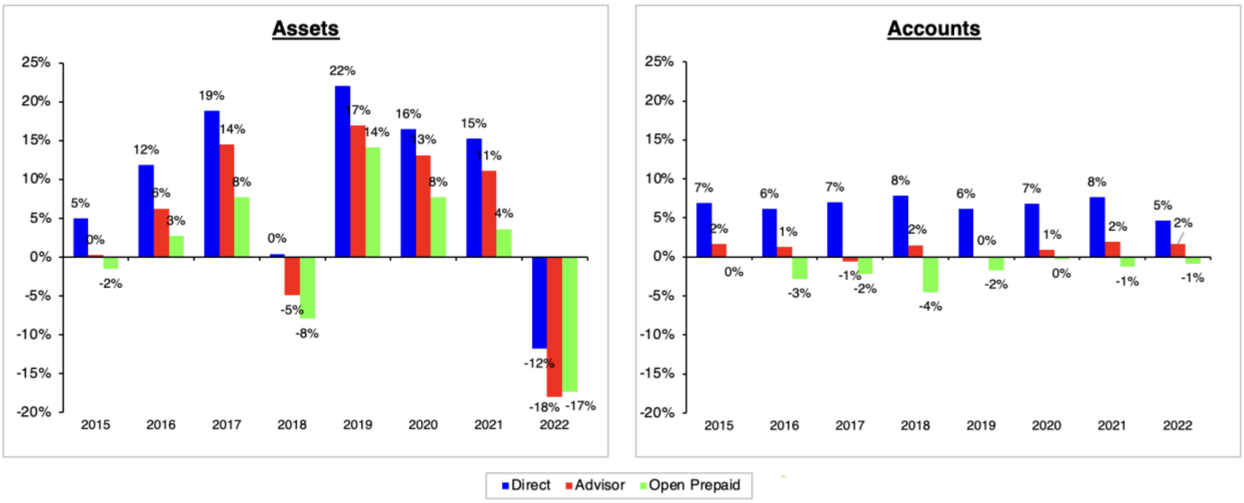
Findings and Observations

Market Performance. Described as "Wall Street's worst year since 2008,"[1] 2022 market performance had a profound impact on asset growth rates across all 529 Plans (Direct and Advisor Savings Plans and Prepaid Plans). The impact on account growth, however, varies, as shown by the charts below. While we see a decrease in account growth for the Direct-sold savings market, growth rates in the Advisor-sold and Prepaid markets remains consistent.



Source: College Savings Plans Network ("CSPN") as of December 31, 2022
Note: Percentages represent growth rates for January 1 to December 31

As inflation ballooned in 2022 (with the Consumer Price Index reaching a 9.1% peak in June 2022[2]), it is likely that the ability - or even the willingness – of many individuals to invest has decreased.[3] This may explain why account growth slowed most noticeably in the Direct-sold market. In contrast, stability in the growth of Advisor-sold Plan accounts suggests that individuals working with professional advisors were more comfortable continuing to save despite volatile market conditions. We surmise that this demonstrates the power of financial advice versus the uncertainty that Direct investors may exhibit when working on their own.

As shown above, the down market in 2022 took a toll on 529 Plans, resulting in decreased assets across the board and slower account growth for Direct Plans. However, by the close of the first quarter of this year, preliminary numbers show a rebound across all measures. To this point, for the period from December 31, 2022 to March 31, 2023, we see positive asset growth rates across Direct, Advisor and Prepaid Plans,[4] and positive account growth rates across Direct and Prepaid Plans.[5] Despite some expected continuing market fluctuations, we are optimistic that the 529 industry will continue to grow in the coming years as market conditions continue to improve and families once again embrace the value of saving for education.

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[1] CNBC, December 30, 2022
[2] The Wall Street Journal, January 12, 2023
[3] See The New York Times, ISS Market Intelligence, May 26, 2023
[4] Preliminary CSPN asset data for March 31, 2023 shows growth rates of 5.75%, 4.50% and 3.90% for Direct, Advisor and Prepaid Plans
[5] Preliminary CSPN account data for March 31, 2023 shows growth rates of 1.10%, -0.10% and 0.90% for Direct, Advisor and Prepaid Plans

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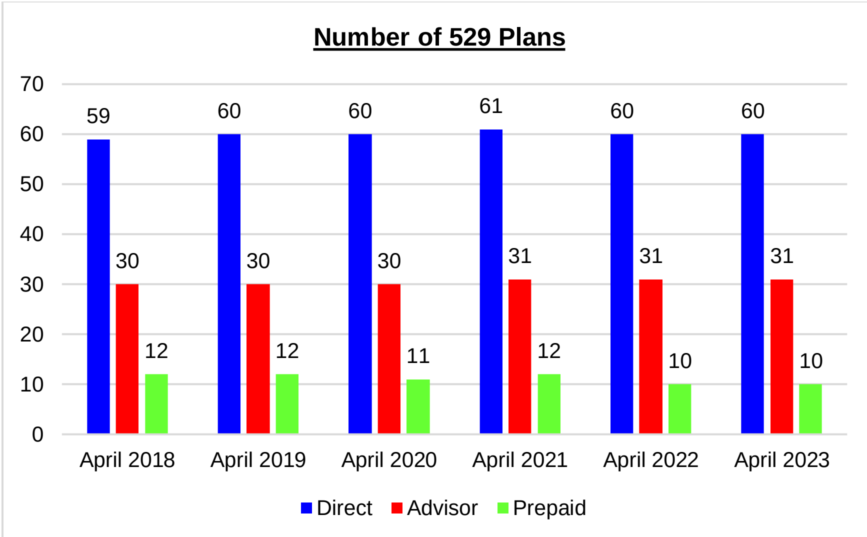
Plan Developments. The chart below shows the number of 529 Plans in the marketplace. From April 2022 to April 2023, the total number of Plans has remained constant.



Source: AKF Consulting as of May 26, 2023

While the number of Plans is unchanged, we have seen several interesting program manager developments since we published our last Report in May 2022. Notably, **Arizona's Ivy Advisor Plan** converted to The Goldman Sachs 529 Plan, which launched on June 13, 2022, and features a new investment lineup from Goldman Sachs Asset Management. We also note that **Nevada's SSGA Upromise Plan** is expected to convert to J.P. Morgan's Future Path 529 Plan on June 26, 2023, and will feature an investment lineup from J.P. Morgan Asset Management. While J.P. Morgan currently serves as distributor and investment manager for New York's Advisor Guided College Savings Plan, these developments demonstrate a renewed interest in the 529 market from two major asset managers.

Observation 1: Launch of 529 Prepaid Cards

The introduction of prepaid cards into the 529 industry marks a significant accomplishment. We have seen this innovation – the ability to access and pay for qualified expenses with a card – in the ABLE industry and as a feature of Health Savings Accounts, where prepaid cards have streamlined the distribution process for account owners. In many cases, accessing 529 funds can be cumbersome. For example, while several schools now have electronic tuition transfers,[6] there are few easy options for students to gain quick access to their 529 assets for simple expenses, such as buying books or a computer.

Prepaid cards are a welcome addition to 529 Plans. States are beginning to add this feature to their Plans to enable students to pay for educational expenses. The account owner, typically a parent, will direct an account withdrawal directly to a prepaid card. This means that the beneficiary as cardholder will have quicker access to funds and a monthly card statement will provide details of usage, allowing for tracking of expenses in the event of future audits.

[6] Allowable payment methods vary across institutions

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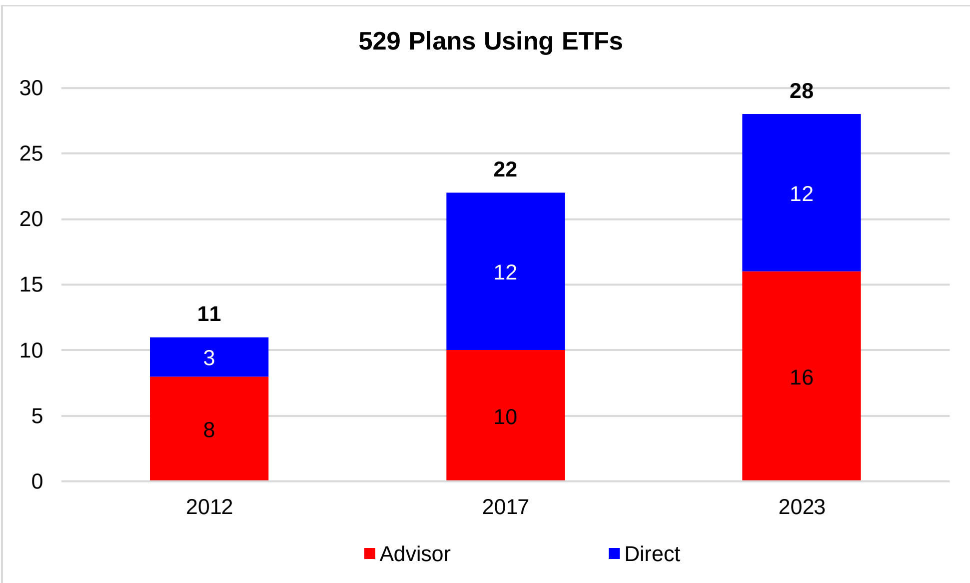
To date, two States – Mississippi and Utah – have proceeded with soft card launches. As the ease of withdrawals and accelerated access to distributions becomes more visible, we believe that more Plans will quickly follow suit.

Observation 2: Growing Presence of ETFs

Exchange Traded Funds ("ETFs") are included in about 31% of the 529 Savings Plans offered today. As shown in the chart below, 20% of Direct Plans include ETF-based investment options, but they are present in over 50% of all Advisor Plans.



Source: AKF Consulting as of April 20, 2023

ETFs have become an important component to an overall investment plan for many individuals, which is likely why we are seeing them more frequently in 529 lineups. Although predominantly found within an asset allocation strategy, they are also offered as a stand-alone option in many Advisor Plans. To that point, we are not surprised to find more ETF-based investment options where an investment professional advises on the selection of investment options.

Additionally, ETFs provide access to diversified asset classes at lower price points than actively managed mutual funds. Prevalent low-cost providers include BlackRock (iShares), Schwab, State Street (SPDR) and Vanguard. To this point, ETFs help reduce the overall fees in Advisor Plans, which is an added incentive for their inclusion.

Opportunities for the Future

As the 529 marketplace continues to mature, we know that the use of 529 funds has broadened beyond "college." In fact, with increased frequency, we see the term "education savings" applied to describe 529 accounts rather than "college savings" — a key reason we have renamed our annual Market Report. Now, thanks to SECURE 2.0, 529 assets may even be used for retirement. With this landscape in mind, the following opportunities bear consideration.

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Opportunity 1: 529 to Roth – Using Assets to Jump-start a Retirement Plan

There has been significant media coverage of SECURE 2.0 and its impact on various components of our financial lives. In our view, few items have been as well publicized as the provision allowing for the rollover of certain excess funds from a 529 Plan to a Roth IRA.[7]

Following the trend of creating additional uses for 529 funds, this new qualified use might incentivize individuals who previously used the need to save for retirement to justify not saving for education. To this end, individuals might open accounts for themselves to supplement other retirement savings (or with the intent to change the beneficiary in the future). Also, investors for whom 529 Plans are not the sole means of funding higher education, may consider this new provision as a way to jump-start a child or grandchild's retirement savings.

Although the effective date for this provision is January 1, 2024, several questions must be addressed before the provision can be implemented. For example, the account must be in place for at least fifteen years. Since a 529 beneficiary can be changed among family members, when does the fifteen-year clock begin and for whom? Another requirement stipulates that no contributions or earnings on contributions from the last five years can be transferred to a Roth IRA. To this end, Plan Administrators will have to be able to track funding history. In addition, IRA custodians annually issue a Form 5498, which may require information that is not currently collected by 529 Plans. The provision raises other considerations as well, so from an operational perspective, there are still questions to be answered. Industry association groups have been actively addressing these issues, and given the importance of this provision, we look forward to a resolution by January 1, 2024 effective date.

As States continue to implement State-run Retirement Programs that offer Roth IRAs to residents (see our 2022 State-Run Retirement Programs Market Report), we note an additional opportunity to facilitate transfers from 529s to a State-run Retirement Program's Roth IRA to assist an individual in building a quality retirement plan.

Opportunity 2: Higher Education Redefined

President Biden has emphasized the importance of offering "every American a path to a good career," rather than a path to a good *college.*[8] We see an opportunity for 529 Plans to capitalize on the qualification of expenses for more than traditional "higher education."

In our 2022 College Savings Market Report, we highlighted the growth in federally approved apprenticeship programs and, at the same time, an increase in interest from students. Apprenticeships have proven to be a means by which individuals can chart a successful career path by developing skills not necessarily available in the confines of a conventional classroom. There is ample evidence of the value of supporting apprenticeships. New apprentices have demonstrated a strong growth trajectory - 64% growth from 2012 to 2021. In addition, more than 14,700 new apprenticeship programs were created from 2016 to 2021.[99]

[7] See Section 126 of the SECURE 2.0 Act of 2022 (Consolidated Appropriations Act, 2023, P.L. 117-328)
[8] The New York Times, May 15, 2023
[9] Department of Labor FY 2021 Data and Statistics

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As discussed in last year's Market Report, we believe it's important for 529 Plans to communicate the ability to use 529 accounts to fund nontraditional education expenses such as apprenticeships, and we look forward to Congressional action to further expand the definition of qualified expenses, as shown below.

It is evident that Congress would like to broaden the use of 529 Plan assets. Several bills have been introduced over the past few years that would provide funding from 529 Plans for more non-traditional education alternatives. The chart below details several currently proposed bills, each of which would expand qualified expenses for 529s:

Legislation	Would Allow For:
American Workforce Empowerment Act (H.R. 329)	Technical training certificate and registered apprenticeship programs Included would be fees, books, supplies, tools and equipment
Student Empowerment Act (S. 57)	Certain homeschool expenses Educational therapies for students with disabilities Examinations related to college for university admission among others
Children Have Opportunities in Classrooms Everywhere Act (S. 105 / H.R. 463)	A variety of additional schooling expenses, including: • Curriculum and curricular materials • Books or other instructional materials • Online educational materials • Tutoring or educational classes outside the home • Testing fees • Fees for dual enrollment in an institution of higher education • Educational therapies for students with disabilities Tuition and the purposes above in connection with a home school Would also allocate grant funds from the state to 529 accounts for children who are from a household where the taxable income in the most recent completely taxable year is not more than 130% of the poverty level.
Freedom to Invest in Tomorrow's Workforce Act (S.722 / H.R. 1477)	Postsecondary credential programs The bill was recently endorsed by the American Institute of Certified Public Accountants (AICPA) as a means to provide greater flexibility to gain and maintain professional certifications.
Aviation Workforce Development Act (H.R. 1818)	Certain aviation maintenance and commercial pilot courses The act has been endorsed by twenty associations representing a variety of entities that support the airline industry.

While college savings has always been the core use of 529 funds, there is no doubt that the future of 529 savings will include access to funds for varied sources of education, and even retirement for some account holders. The continued progression of the need for nontraditional higher education opportunities is key to ensuring the relevance of 529 Plans in a fast-evolving market. We urge the industry to support and advocate for legislative enhancements broadening qualified expenses. One thing is clear: in the future, saving with a 529 Plan will mean more than just saving for college.

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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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