College Savings Nation 2021:
529 Plans Thrive During a Turbulent Period

June 2021

Overview

This AKF 529 Market Report provides an update on trends and developments we have observed over the past year and opportunities for States to foster growth in their 529 Plans. With more than $438 billion in assets under management across approximately 15 million accounts nationwide,[1] the available 92 Savings Plans and 12 Prepaid Plans continue to help American families save for and realize the dream of higher education – in whatever form it takes.

Despite economic turbulence and uncertainty triggered by the global pandemic in 2020, participants kept their children's financial futures in focus and increased their reliance on 529 Plans. A summary of our 2021 Report:

Trends and Observations

- ***Direct Plans Continue to Drive Industry Growth*** – Overall, the number of 529 accounts nationwide grew 4.2% in 2020, with Direct Plans delivering 6.8% growth, which outpaced account growth across Advisor Plans and open Prepaid Plans combined. This is the continuation of a long-term trend: Direct Plans represent 58% of all 529 accounts today, compared to about 46% in 2012.

- ***Uptick in ESG Options*** – After years of lagging the broader market, 529 Plans experienced an increase in Environmental, Social and Governance ("ESG") investment options in the past year.

- ***Assets Increasingly Concentrated Among Top 10 Program Managers*** – The Program Manager landscape continues to evolve. A decade ago, the top ten Program Managers accounted for about 80% of Savings Plan assets under management. Today, the top ten account for 90%, including two Plans managed by State entities.

Opportunities to Foster Growth

- ***More Plans Join Nasdaq Fund Network*** – In 2020, a record number of 529 Plans registered their investment options with Nasdaq tickers to facilitate daily reporting across a variety of retail and institutional platforms. With enhanced discoverability and transparency, this move benefits retail investors and registered investment advisors ("RIAs") alike.

- ***Reaching a New Type of Student*** – The number of students pursuing apprenticeships have increased significantly over the past year, with proposed legislation adding fuel to this growth. This demographic group represents a potential new market for 529 Plans.

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[1] Source: College Savings Plans Network ("CSPN") as of March 31, 2021; includes all Savings and Prepaid Plans currently offered to the public

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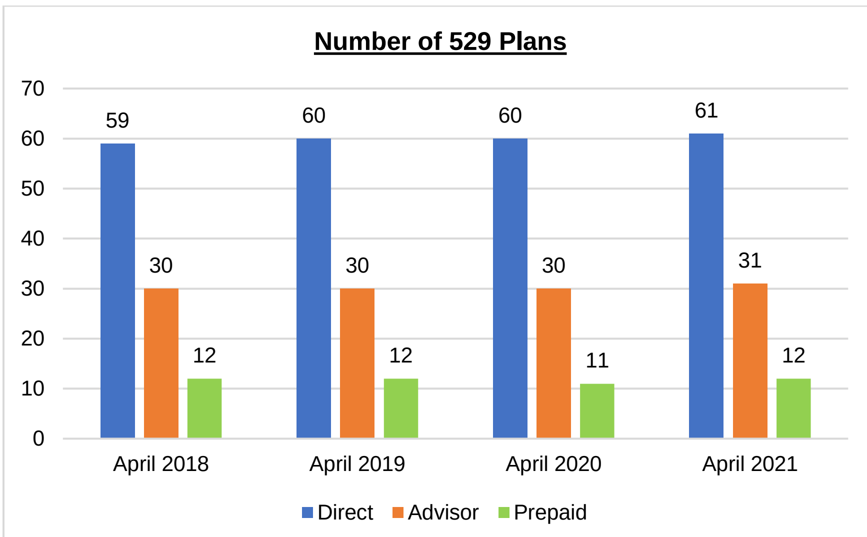
Methodology

Data for this AKF College Savings Market Report was aggregated through a review of the Program Disclosure Statements for 92 Savings Plans as of May 6, 2021. Information on recently launched ESG options is sourced to ISS Market Intelligence as of June 2, 2021. Information regarding registered investment options is sourced to Nasdaq Fund Network as of June 15, 2021.

Findings and Observations

As shown in the chart below, the number of available 529 Savings Plans increased from 90 to 92 since our 2020 College Savings Market Report, reflecting both the Louisiana START K12 Plan and the Morgan Stanley National Advisory 529 Plan, launched through the North Carolina State Education Assistance Authority.[2]



Source: AKF Consulting

As we reported in 2020, the Morgan Stanley Plan is the first Advisor Plan offered solely with the "best interest" standard established by Regulation Best Interest ("Reg BI"). Currently, it is offered exclusively to clients participating in Morgan Stanley-sponsored investment advisory programs, providing 13 investment options comprised of the Morgan Stanley Pathway Funds as underlying investments.

In the months prior to the July 1, 2020 effective date of Reg BI, several large distributors required changes to the available share classes offered in 529 Advisor Plans. In some cases, this compliance-mandated requirement changed the Plans otherwise available to financial professionals at those distributors. Morgan Stanley's initiative avoids this result for its financial advisors, while preserving the uniqueness of this Plan by limiting sales to its internal salesforce.

As a general matter, we would expect more Program Managers of Advisor Plans to consider this approach moving forward. In our view, share class simplification eliminates confusion and uncertainty – and the best interest standard seems to be where the financial services industry is moving overall.

[2] Louisiana launched the Start K12 Plan in December 2018, so technically it is not an additional Plan in 2020. However, we now characterize it as such because assets and accounts were not separated from the Louisiana START Savings 529 until 2020

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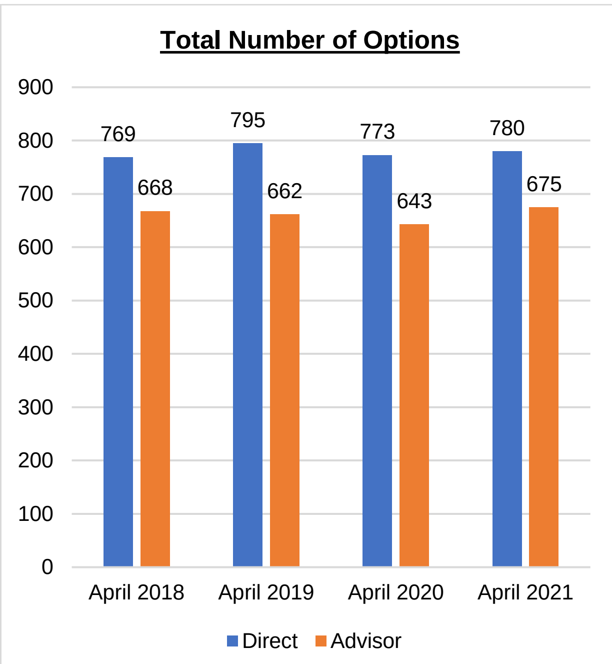
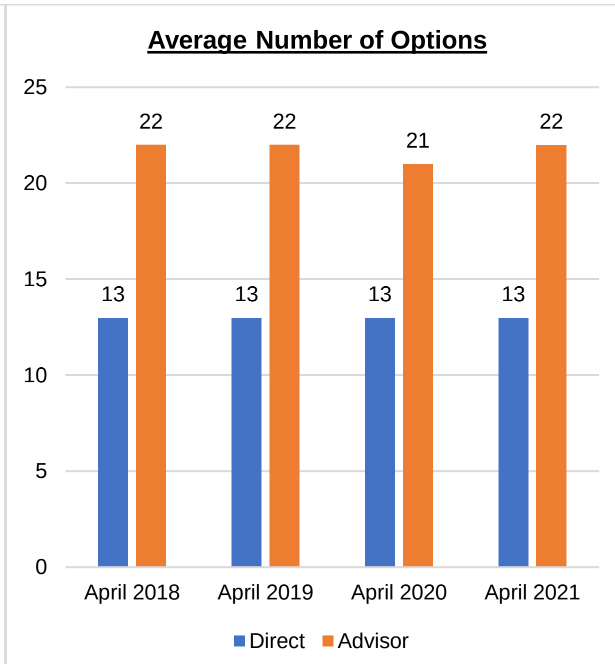
With respect to Prepaid Plans, last year we reported that the Virginia Prepaid529 Plan closed to new enrollments as of May 2019. While Virginia has not relaunched its Prepaid529 as a stand-alone plan, it launched the Tuition Track Portfolio as part of its Virginia Invest529 Plan as of February 2021. This redesign seeks to simplify prepaid pricing while making the option more accessible to individual investors. The structure mirrors Alaska's approach to a similar option, so we continue to include Virginia in our count of open Prepaid Plans.

Shifting to the number of investment options offered in Savings Plans, we see an increase over the last year as shown below. The increase in the number of options from April 2020 to April 2021 reflects the inclusion of the Louisiana and Morgan Stanley (North Carolina) Plans discussed above. From our research, it does not appear that any other single Plans substantively changed investment option lineups.





Source: AKF Consulting based upon Program Disclosure Statements as of May 6, 2021

It is interesting to note that the ratio of choices in Direct and Advisor Plans has not changed over time. On average, Direct Plans continue to offer about nine fewer choices than Advisor Plans. This is consistent with our view that more choice in Advisor Plans is manageable because financial professionals help investors sort through the options. In Direct Plans, nine more choices on average could overwhelm an unsophisticated investor.

With these overall industry findings, our first observation confirms the continuing growth of Direct Plans nationwide.

Observation 1: Direct Plans Continue to Drive Industry Growth

The 529 market grew decisively throughout 2020 despite early market volatility and overall economic uncertainty caused by the pandemic. Over the course of the year, Savings Plans and open Prepaid Plans added more than 587,000 accounts, representing an overall 4.2% increase. We see this growth as affirmation that 529 Plans continue to be an attractive way for families to save for education.

As shown in the chart below, Direct Plans were the driving force behind this trend, as they have been for several years, delivering 6.8% growth in 2020. The number of Advisor Plan accounts, meanwhile, grew about 1%, which is consistent with the trend over the last decade. The number of accounts in open Prepaid Plans decreased by 0.3%, but this is an improvement over a 1.7% decrease in 2019 and is similar to the near-zero growth recorded in recent years. Notably, Direct Plan accounts represented 46% of all 529 accounts in 2012 and have climbed to 58% today.

Number of Accounts

	December 31, 2019	December 31, 2020	Annual Growth
Total Savings and Open Prepaid	**14.09 million**	**14.68 million**	***4.2%***
Direct Plans	7.92 million	8.46 million	***6.8%***
Advisor Plans	5.37 million	5.41 million	***0.9%***
Open Prepaid Plans[3]	0.82 million	0.81 million	***-0.3%***

Source: AKF Consulting based upon CSPN as of December 31, 2020

We see the same pattern in assets under management: Direct Plans continue to outpace Advisor Plans, as shown in the chart below. Similar to the relative share of accounts, Direct Plan assets under management represent more than 56% of the overall 529 market.

Assets Under Management

	December 31, 2019	December 31, 2020	Annual Growth
Total Savings and Open Prepaid	**$367.2 billion**	**$421.1 billion**	***14.7%***
Direct Plans	$202.8 billion	$236.2 billion	***16.5%***
Advisor Plans	$143.5 billion	$162.3 billion	***13.2%***
Open Prepaid Plans[4]	$20.9 billion	$22.5 billion	***7.7%***

Source: AKF Consulting based upon CSPN as of December 31, 2020

[3] Includes Virginia Prepaid Plan accounts
[4] Includes Virginia Prepaid Plan assets

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With respect to asset growth, our data reflects market performance as well as net contributions. This explains the higher annual growth rates of assets as compared to accounts. However, it is interesting to compare the asset growth rates for Direct versus Advisor Plans (16.5% versus 13.2%), which are much closer than the respective account growth rates (6.8% versus 0.9%). We know that more money is flowing into Direct Plans, but we also know that investment options in Advisor Plans largely are "actively managed." Recognizing this, we attribute the smaller asset growth difference (3.3% versus 5.9% for accounts) to better market performance from actively managed investments.

Observation 2: Uptick in ESG Options

As we reported in 2020, inclusion of ESG criteria in investment decisions continues to be a much-debated topic across investors generally. Public funds, institutions and individual investors are increasingly conscious about the impact or consequences of their investment decisions and often use ESG criteria to reflect corporate and personal values. The analysis of ESG factors became more visible in the fall of 2020, as the Department of Labor ("DOL") sought to address these considerations by fiduciaries.

With the DOL withdrawing its opposition to ESG criteria as a sole basis for investments by plan fiduciaries, we would expect to see 529 Plans renew their interest in this option. To that point, ESG options have been introduced in four Savings Plans since August 2020, including Alaska529, Alaska T. Rowe Price, Florida and Minnesota.[5]

Recently Launched ESG Options

Launch Date	Plan	Option
December 2020	**Florida 529 Savings Plan**	Social Index Fund Option
May 2021	**Alaska 529**	T. Rowe Global Impact Equity Fund
	Alaska T. Rowe Price College Savings Plan	
June 2021	**Minnesota College Savings Plan**	TIAA Social Choice Equity Portfolio

Source: ISS Marketing Intelligence as of June 2, 2021

As a result of these launches, we find 26 ESG investment options across 21 Plans nationwide. It is interesting to note that ten of these 26 options were launched since 2018. While we would not say there has been an avalanche of ESG activity, the addition of ten more options across eight 529 Plans in just the last two and a half years suggests the idea resonates more now than in prior years. Stay tuned as we will continue to track this trend going forward.

[5] In August 2020, Invesco included its Floating Rate ESG Fund in age-based and target risk asset allocation options in the Rhode Island Direct and Advisor Plans, which previously offered ESG options. In February 2021, Fidelity replaced the TIAA Social Choice Option with its US Sustainability Index Portfolio in the Connecticut Direct Plan

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Observation 3: Assets Increasingly Concentrated Among Top Ten Program Managers

Over the course of the last year, eleven 529 Plans across six States changed or announced changes in Program Managers, as shown in the following table:

Recent and Announced Program Manager Changes

Effective Date	State / Plan	Distribution	Program Manager Change
September 2020	Oklahoma	Advisor	Fidelity replaced Allianz
December 2020	Nebraska (NEST)	Direct	Union Bank replaced First National Bank of Omaha
		Advisor	
	Nebraska (TD Ameritrade)	Direct	
	Nebraska (State Farm)	Advisor	
February 2021	Connecticut	Direct	Fidelity replaced TIAA
		Advisor	Fidelity replaced Hartford
July 2021	*Colorado (Scholars Choice)*	*Advisor*	*Nuveen to replace Legg Mason*
2021 Q4	*Maine*	*Direct and Advisor*	*BNY Sumday to replace Merrill Lynch*
2022 Q2	*Oregon (MFS)*	*Advisor*	*BNY Sumday to replace MFS*

Source: AKF Consulting

We note three points about these changes:

- States have demonstrated their willingness to make major Plan changes even when a Program Manager's tenure would suggest otherwise. To that point, longstanding Program Managers should not take their positions for granted. Every RFP is a new opportunity (and test!) because the market of interest is unpredictable. We believe Connecticut demonstrates this best, particularly when considering TIAA's tenure with the Direct Plan and the Hartford's in-State presence.

- Fidelity is one of the longest standing 529 Program Managers, having launched the New Hampshire Direct Plan in 1998. Over the last 22 years, the firm has been steadfast in its focus on Plans in Arizona, Delaware, Massachusetts, New Hampshire and, for a five-year period, California. However, in the last two years we have seen Fidelity re-emerge as a respondent to 529 Program Manager RFPs, resulting in its acquisition of the Oklahoma Advisor, the Connecticut Direct and Connecticut Advisor Plans. These are clearly strategic decisions by Fidelity, but also encouraging for the competitiveness of future solicitations. Other firms committed to the 529 market may see and respond to the same market dynamics that prompted Fidelity to pursue these new opportunities.

- Some dislocation results from business decisions unrelated to 529 market influences. For example, in 2019, the Invesco-Oppenheimer merger forced New Mexico to change Program Managers, given Invesco's exclusive engagement with Rhode Island. We will soon witness a

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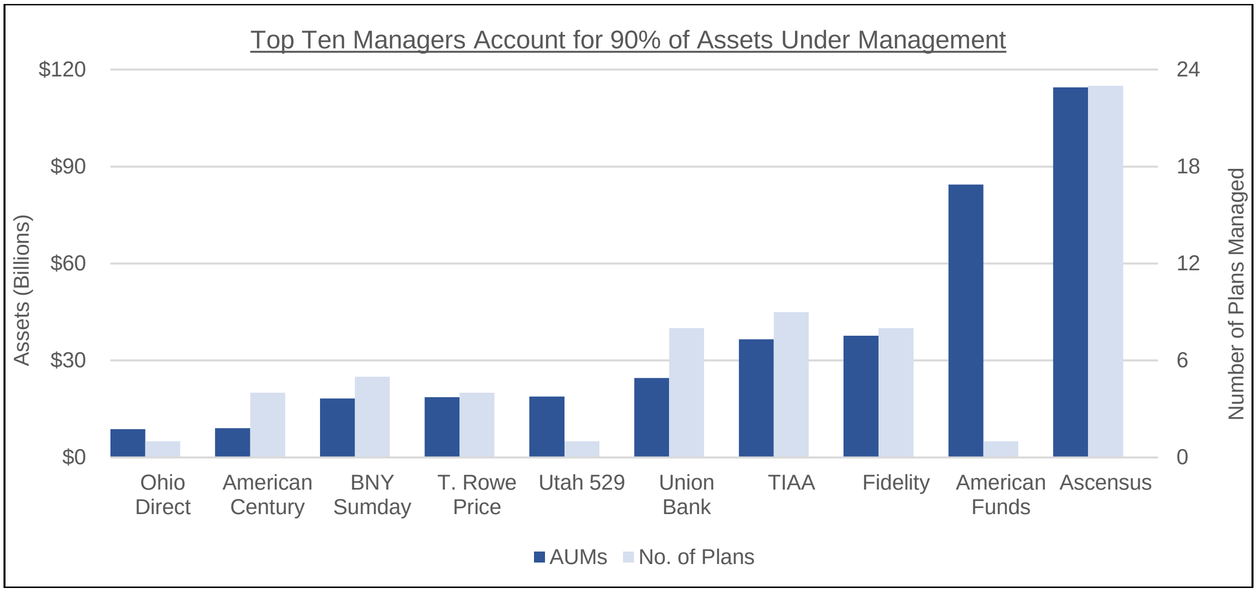
similar shift in Colorado, where Nuveen will replace Legg Mason as the Scholars Choice Program Manager. The change results from the Franklin Templeton-Legg Mason merger, which cannot support exclusive 529 engagements in both Colorado and New Jersey.

On a related note, we have tracked "Industry Concentration" over the last decade, particularly among the top ten Program Managers. While the percentages tend not to change much year-to-year, we have seen consolidation over the last decade. Ten years ago, the top ten Program Managers accounted for approximately 80% of Savings Plan assets under management. Today, the top ten Managers account for approximately 90%, as shown by the following chart.[6]



The composition of Top Program Managers has mostly remained constant, with Ascensus, American Funds, Fidelity and TIAA consistently ranking in the top four. Interesting shifts include the presence of Union Bank and BNY Sumday, ranking fifth and eighth, respectively. In each case, assets under management have rapidly expanded in connection with successful bids and planned conversions. These observations suggest that while the Program Manager landscape has become more concentrated, it also continues to be competitive, offering opportunities for growth and change.

Finally, it is interesting to note that the Direct Plans in Ohio and Utah today are among the Top Program Managers. Each of these Plans (along with the Direct Plan in Virginia, which individually is ranked number eleven on our Top Program Managers' list) is among the longest standing Savings Plans offered. More importantly, none have outsourced overall management to a third-party provider and none came close to the Top Program Managers' list a decade ago. In our view, this is further demonstration of the increasing presence of Direct Plans.

[6] The chart reflects Program Manager conversions expected in Colorado (July 2021), Maine (on or before 2021 Q4), and Oregon (2022 Q2)

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Opportunities for the Future

As the 529 market continues to evolve, State Plan 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 their attention and consideration.

Opportunity 1: More Plans Join Nasdaq Listings

Institutional and retail investors are familiar with searchable ticker symbols that identify stocks, mutual funds and other investment vehicles. Importantly, many popular financial information platforms use these tickers to provide access to real-time information about performance, fees and valuations. Nasdaq Fund Network ("NFN") is actively expanding its distribution service to include 529 Plans, creating enhanced transparency and visibility for the 529 market.

By way of background, NFN is a registering, pricing and distribution service that covers more than 35,000 financial instruments, providing price and NAV information for institutional investors, RIAs and individual retail investors. In the 529 market, the NFN works directly with Plan Administrators and Program Managers to register each 529 CUSIP with an individual ticker symbol. Pricing information is sent directly from a Plan's pricing agent to Nasdaq and is then published and shared across more than 400 institutional and retail platforms including household names such as Yahoo Finance, Google, Bloomberg, FactSet, Morningstar Direct, Marketwatch.com and Barron's.com. The key point is that with individualized tickers, 529 investment option information is searchable, transparent and accessible, just like a mutual fund.

The concept of 529-specific tickers was introduced in 2002 when American Funds and MFS, on behalf of the Virginia and Oregon Advisor Plans, respectively, each offered 529 Share Classes within their mutual fund offerings. Other 529 Advisor Plans quietly included 529 investments as part of their general mutual fund registration over the years, including Columbia in South Carolina and Fidelity in New Hampshire.

More visible efforts began in 2020 with the launch of tickers for the BlackRock Advisor Plan in Ohio. In fact, in the first 6 months in 2020, the NFN registered more than 400 unique 529 portfolios. Additional Plans have announced their intention to participate in the NFN, including the Fidelity-managed Connecticut Advisor Plan, the New Jersey Franklin Templeton 529 College Savings Plan, Utah's my529 and the Voya-managed Tomorrow's Scholar in Wisconsin. While Connecticut, New Jersey and Wisconsin are Advisor Plans, Utah's decision to join the NFN represents the first Direct Plan we can identify to do so. Adding tickers to Direct Plans will make information more accessible, thereby making these Plans more appealing to RIAs, whom we believe account for an increasing share of the Direct market today.

When considering the NFN ticker opportunity, we note that there is an annual per portfolio charge to maintain registrations. To that end, each State Administrator and Program Manager will need to assess the costs against the potential upsides of the opportunity. Overall, we believe the opportunity is well worth considering as data transparency and accessibility is a powerful marketing tool for any 529 Plan.

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Opportunity 2: Reaching a New Type of Student

Our 2020 Market Report discussed the expansion of Section 529 qualified education expenses resulting from the SECURE Act, including costs associated with apprenticeship programs. We believe this is an outreach opportunity for 529 Plans to increase their appeal. According to the Department of Labor Data and Statistics, in 2020 alone, over 636,000 students were enrolled in apprenticeships and more than 82,000 graduated from these programs nationwide. To be treated as a qualified education expense under Section 529, apprenticeships must be registered with the DOL. Today, approximately 26,000 programs fit the bill, including more than 3,100 established in 2020, representing more than 73% growth over the last decade.

We are hopeful that recently introduced legislation will lead to more apprenticeship opportunities ahead:

- **The National Apprenticeship Act of 2021**, introduced in January 2021 by Rep. Robert Scott (D-VA), would create an additional one million apprenticeships, thereby expanding the market of individuals who may potentially benefit from 529 Savings Plans. Interesting as well is the requirement that the DOL Office of Apprenticeship work with the Department of Education to promote the integration and alignment of apprenticeship programs with secondary, post-secondary and adult education. The Act passed the House in February 2021 and is pending Senate approval.

- **The American Workforce Empowerment Act**, introduced in April 2021 by Rep. Jim Hagedorn, (R-MN), would expand the use of 529 Plans to certain non-degree technical training programs and apprenticeships.

- **The Freedom to Invest in Tomorrow's Workforce Act**, introduced in March 2021 by Rep. Abigail Spanberger (D-VA) and three others, and its companion bill, introduced by Sen. Amy Klobuchar (D-MN) and Sen. Mike Braun (R-IN), would allow 529 Plans to cover costs related to certification programs and exams in addition to maintenance of these credentials.

In addition, some States are creating programs to assist individuals who have graduated from trade, technical or vocational schools. For example, in March 2021, West Virginia's Governor signed into law the JumpStart Savings Program, which helps students save for tools, equipment, licenses and business startup costs. The authorizing statute provides extremely favorable State tax treatment for contributions to and withdrawals from the Program, including credit provisions that allow for employer matching contributions to an employee's JumpStart account. While details of the Program have not been finalized, the message is clear – Program's like this will help individuals advance the State's economy and their own employment trajectories.

From our perspective, initiatives like West Virginia's matter because they reinforce the notion that there are many avenues to a successful career. All paths do not necessarily run through a traditional four-year college or university. In our view, 529 Plans should consider adding a marketing focus to educate and engage people pursuing these alternative professional paths. We recognize that families may reduce their savings target if their objective is something less than a traditional higher education. While that seems counterintuitive from an Administrator or Program Manager's standpoint (on the theory that we want folks to save more, not less), it could make it easier for families to begin saving at all, because the savings goal will be more achievable. And, in our view, increasing the pool of potential participants will benefit the 529 industry overall.

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Conclusion

The 529 market has continued to grow through the pandemic, with Direct Plans driving the results. In the year ahead, we believe opportunities exist for expanded Plan access and transparency, and for States to lead the charge to expand offerings to help families save for education. 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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