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Morningstar rates Ohio 529 plan one of worst

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Plain Dealer Reporters

Ohio parents and grandparents aren't getting the most for their money from the state's most popular college savings program, says an influential investment research group.

Morningstar Inc. considers the Ohio Putnam CollegeAdvantage savings plan sold by brokers and investment advisers to be one of the five worst in the country. That plan accounts for nearly three-fourths of the \$5.2 billion invested in Ohio's program.

"If you look at the [Putnam] funds' lineups over the past several years, they've been fairly middling," said Marta Norton, a Morningstar analyst who compiled the new report comparing so-called 529 savings plans across the country.

Morningstar has lost faith in Putnam because of the firings of several managers and lackluster performances in several funds, Norton said.

For example, Putnam's aggressive growth fund grew 4.7 percent in the last three years. A similar fund with lower management fees run by the Vanguard Group gained 7.2 percent in the same period. On a \$1,000 investment, that's a difference of \$25.

While she did not mention it in her report, Norton said Ohio's second college savings plan, which lets people invest without a broker, is a great option. The direct investment plan lets investors chose from funds offered by Putnam, Vanguard and Fifth Third Bancorp.

Michele Marra, chief financial officer of the Ohio Tuition Trust Authority,

said Ohio was aware of personnel changes at Putnam. Her office is hoping for better results from new fund managers.

"We have not been happy with the performances on their funds made up of shares from the country's biggest companies", Marra said.

Earlier this year, she said, Putnam lowered its fees on many of the investment options offered in Ohio.

Putnam acknowledged it has had turnover in key positions. Elaine Sullivan, Putnam's managing director and head of retail marketing, said the Boston-based company was reacting to poor fund performances by firing some managers.

"We have acted aggressively to change," Sullivan said.

Local financial planners said they have told clients to use the direct investment plan since the state began offering it in 2004. That plan offers 32 investment choices, 15 funds each from Putnam and Vanguard, and two plans from Fifth Third.

Scott Snow of Scott Snow Financial Advisors LLC in Westlake said he never recommended Ohio's 529 plan until it began offering Vanguard.

"I do believe the Putnam fund is one of the worst," he said, because of the high fees.

Putnam actively manages its funds, meaning it has a highly-paid fund manager who trades stock within the fund regularly. Vanguard's funds are passive, meaning they track the performances of big indexes such as the Standard & Poor's 500.

The lack of an active manager keeps fees lower on passive funds.

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Morningstar's Top 5 state college savings plans

Illinois Bright Start College Savings Program

Maryland College Investment Plan

Virginia CollegeAmerica

Virginia Education Savings Trust

Colorado Scholars Choice College Savings Program

Morningstar's Bottom 5 state college savings plans

Ohio Putnam CollegeAdvantage

Mississippi Affordable College Savings Program (state-sold)

Mississippi Affordable College Savings Program (broker-sold)

New York 529 College Savings Program

Nebraska AIM College Savings Plan

“I generally recommend clients get out of Putnam and roll their assets to the Vanguard plan,” Snow said. “Vanguard is a phenomenal plan. I would put it up against the top (college savings plans) available across the country.”

Karin Maloney Stifler of True Wealth Advisors LLC in Hudson said Ohio’s direct college savings plan gives investors lots of options.

“It was set up to cater to the various ways people invest their money,” said Stifler, who is on the advisory board for Ohio’s program.

Stifler, however, said she is a fan of the Vanguard investment because of its stability and lower fees.

Investors are free to invest in other states’ college savings programs, but Stifler recommends against it. Ohioans can receive up to a \$2,000 state tax deduction for money invested in the state program. Many states charge extra fees to outsiders. Ohio, for example, collects about \$2 in management fees for every \$1,000 invested by non-residents.

In the last one to two years, managed funds have beaten passive funds in returns, despite higher fees, said Joe Hurley, founder of the Web site, www.savingforcollege.com. But several of Putnam’s funds have fallen behind.

He warned against fleeing Putnam because of a few bad performers.

“They’re going to have some options that perform really well and others that don’t,” Hurley said.

Watching your investments

Here’s what those concerned about money they have invested in Ohio’s college savings plans can do:

Examine which plan you’re using.

Ohio has two. Its direct plan is managed by the state and offers 32 investment options from Putnam, Vanguard Group and Fifth Third Bancorp. Investors can sign up at www.collegeadvantage.com.

Its broker-sold program is offered through brokers and investment advisers. That’s managed by Putnam, which offers 15 of its funds as options. Morningstar’s negative rating applied only to Ohio’s broker-sold college savings plan, the state’s oldest offering.

Talk to your financial adviser.

If you have funds in Ohio’s broker-sold plan, talk to your investment adviser about how it’s doing relative to the market and other funds. Some Putnam funds continue to perform well while others have fallen behind.

Check the funds’ performances.

Ohio’s www.collegeadvantage.com site lists the performances of all options available to investors. You can check fund performance through the first few months of this year, the last year, the last three years or since the inception of the fund. The site also lists management fees associated with each. If you want to check out fees and performances of other funds, www.savingforcollege.com offers a rating system of all states’ college savings plans.

Transfer money.

If after doing your research, you decide you don’t like the direction your investments are going, you can move them once a year without penalty. If you have broker-sold Ohio investments, tell your broker you want to shift those to direct Ohio investments. Or you can contact the Ohio program at 1-800-233-6734 and ask for forms to shift the investments yourself. You can also shift your funds to another state’s college savings program, but that would mean giving up the \$2,000-per-year state tax deductions associated with Ohio’s plan. Investment advisers said that tax deduction makes Ohio’s program tough to beat for state residents.