

# **Saving For College's 529 Ratings Methodology**

*Updated: July 2024 by Scott Morrison, Head of Product*

This document describes the methodology by which Saving For College calculates a 529 Rating score for a state-sponsored 529 savings plan.

## **Background**

Although 529 plans are sponsored by state governments, potential 529 savers are not limited to selecting a plan offered by their state of residence. Today's 529 marketplace offers over eighty different savings plans competing to provide a great investment program to families planning for a student's future education costs. These plans involve an ever-changing myriad of program managers, investment managers, and program features.

This complexity can result in hesitancy and confusion on the part of a potential 529 saver, especially since selecting a 529 plan is often one of the first investment products to be considered outside of a 401(k) plan offered by their employer.

Saving For College adopts a consumer perspective when compiling its annual 529 Ratings. We undertake thousands of hours of research to provide a rating of each state-sponsored 529 savings program that ranges from one cap (least attractive) to five caps (most attractive). The 529 Rating represents our opinion of the overall attractiveness of a 529 plan to a potential saver compared to similar plans, based on a significant number of weighted factors.

We strive to grade 529 plans on objective measures based on data and documentation directly disclosed by the plan. When plan information is not readily available from those sources, we obtain the information directly from the plans.

## **Separate 529 Ratings for direct-sold and advisor-sold plans**

529 savings plans are distributed in either of two ways:

- Direct-sold, offered directly to consumers
- Advisor-sold, distributed via financial professionals to their clients

Saving For College generates two sets of 529 Ratings due to the differences in the audience, fee structures, enrollment methods, and perceived importance of certain features for plans grouped within these two distribution channels.

### **Our numeric 529 Ratings do not encompass Resident Benefits**

We do not include factors related to a prospective account owner’s state of residence when calculating our numeric 529 Ratings scores. Certain 529 plans offer residents of the sponsoring state additional benefits, such as state tax deductions or credits. These factors are important for potential 529 savers to consider, but are difficult to include in a comprehensive peer-to-peer rating framework. We instead evaluate “Resident Benefits” with a three-tier metric separate from the plan’s numeric 529 Ratings score.

### **Summary of what a 529 Ratings score represents**

Our numeric 529 Rating score represents the overall attractiveness of a 529 plan to a potential saver, compared to its peer plans and excluding Resident Benefits. We rate all state-sponsored 529 savings plans that have at least one year of investment performance data.

The 529 industry’s constantly evolving landscape of regulations, technology solutions, plan features, and program sponsors and administrators has led to steadily increasing consumer expectations for 529 plans. As such, our 529 Ratings criteria will be updated on an annual basis to reflect these changes, and a plan’s score in a given year is to be regarded as a snapshot in time based on the current rating criteria.

### **Methodology**

The 529 Ratings utilize the same framework for compiling plan scores for each set of ratings – direct-sold and advisor-sold – although the specific factors and their relative weights may differ. The factors we examine and score for each 529 plan are grouped into four categories: **Performance, Ease of Use, Savings Success, and Program Delivery.**

## **Performance**

Each plan's performance score is based on performance of its age-based portfolios versus those of similar plans as captured in Saving For College's quarterly 529 Performance Rankings. A 529 savings plan must have at least one year of performance history for its current portfolios before they will be assigned a 529 Rating score.

A plan's performance ratings for each timeframe are assigned in relation to the average performance of all other plans within a set of ratings. The average rating is designated as a 3.0 out of a maximum of 5.0. Plans are awarded (or deducted) additional rating points in increments of 0.5 points based on the standard deviation of the plan's performance to the average rating, resulting in a score between 1.0 and 5.0.

## **Ease of Use**

We evaluate a variety of criteria when assigning an Ease of Use score to each plan, including the simplicity of enrolling in the plan, making contributions, and the ability to easily access and transact from any type of online device.

## **Savings Success**

How well do a plan's features and fee structure enable a 529 saver to maximize their education savings? Positive Savings Success factors include a robust gifting platform and other plan features that promote savings. Negative Savings Success factors include annual or one-time fees that reduce the plan's account balance.

## **Program Delivery**

We assign a Program Delivery rating as a measure of the likelihood that a 529 program will continue to deliver excellence. Among the factors considered here are program manager tenure, the impending risk of a management change, and the plan's actions to measure customer service quality.

## **Calculating a 529 Ratings score**

For each set of ratings, a category weight (Cx%) is assigned corresponding to its contribution to the overall plan 529 Rating score, such that  $C1\% + C2\% + C3\% + C4\% = 100\%$ .

Within a given category, a number of rating factors (between three and twelve per category) are individually scored on a scale of 1 to 5. Each of the individual factors within a category is weighted on a ten-point scale based on the perceived importance of the factor within the overall category for a prospective 529 saver.

A Weighted Score is calculated for each factor (Factor Score x Factor Weight) and then summed to create a total weighted score for the category. The Weighted Score divided by the summed factor weights results in a category score (computed out to two decimal places) between 1 and 5.

In the example below, a direct-sold plan received a 4.17 score for Category 1 after its Weighted Score of 50 was divided by a total factor weight of 12. Note that although the plan’s raw factor scores (3,4,5) average out to 4.00, the plan received a higher category score due to superior performance on the more heavily-weighted factors.

**Rating set = Direct-Sold**

Category	Category Weight	Rating Factor	Factor Score (1-5)	Factor Weight	Weighted Score
Category 1	C1%				
		Factor 1	3	2	6
		Factor 2	5	4	20
		Factor 3	4	6	24
		Totals		12	50

**Category 1 score = 50/12 = 4.17**

The overall 529 Rating plan score is computed as follows, rounded up to the nearest half point:

- (Performance category score x category weight)
- + (Ease of Use category score x category weight)
- + (Savings Success category score x category weight)
- + (Program Delivery category score x category weight)