

Be Careful When Rebalancing Your Kid's 529 Plan Allocation

Market extremes tend to make uninformed people invest at extremes. As the market has suffered over the past nine months, families putting their college savings into 529 college savings plans have watched their stock-based holdings shrink with the market and many have run for cover.

This has fueled a growing number of states with 529 college plans to offer accounts that are insured by the FDIC. According to *InvestmentNews*, Arizona, Ohio, Montana, Virginia and the latest state, Utah, have adopted FDIC-insured investment options such as savings accounts and certificates of deposit. Could your state's plan be next?

If you're a first-time investor in 529s or are still reeling from the impact to your current plan results, before you run for the safe cover of minimum returns, you may want to run for advice first. A CERTIFIED FINANCIAL PLANNER™ professional can evaluate not only your 529 investments but your entire investment and savings situation to make sure you're not only doing the best for your college student, but for your retirement – which actually should be your first priority. After one of the worst market downturns since the Great Depression, now is actually a great starting point for this kind of advice.

Here are a few things to consider about more conservative investments in a 529 portfolio:

Is 1 or 2 percent good enough?

Yes, keeping your investment safe is a critical goal during a downturn, but how long do you have until your child needs the money and how close are you to your savings target? Investing for such an expensive goal takes a mixture of risk and caution, and if you were one of the smart ones who shifted your 529 funds into conservative investments last summer, bravo. Just make sure you have the right information so you know when to get out. A mixture of equities and fixed-income investments are the best structure for these portfolios, but they bear watching in case of a downturn.

CD flexibility is limited:

The attraction of investing in CDs is not only safety, but the ability to “ladder” (buying at regular intervals) your investment as CDs mature into potentially higher-paying investments. Here's the problem. Current rules for 529 savings plans allow investors only one investment change per calendar year though in 2009; the IRS made an exception and allowed two changes. So much for laddering – that means you can't roll over funds from a matured CD into a new one more than twice, though some of the plans are devising ways to automatically roll over mature CDs into shorter-term investments as the funds meet their target date of use. Yet, it won't be the same as making those decisions yourself.

Could rolling into more conservative investments now be a mistake?

Knowing when a market bottoms out would guarantee riches. So you have to have some exposure in the portfolio to the possibility of growth, even in these times. Rolling your investments into conservative waters may actually lock in losses of as much as 40 percent. It makes sense to get advice with such a move and keep your ear to the ground with respect to economic news.

Let the younger child's 529 pay for the older child's tuition:

If your oldest child is ready to or has started college and you have more than one child and one 529 plan for each, consider using the cash in the younger child's plan to pay for the older child's tuition. This way the equity investments in the older child's plan have a chance to recoup their losses and pay for the younger child's tuition in future years.

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