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529 Performance Ranking Methodology: Comparing 529 Plan Performance Using Age-Based or Year-of-Enrollment Investment Portfolios

BACKGROUND:

Each 529 savings plan offers a menu of investment options to its participants. In most 529 plans, an option represents a “portfolio” of one or more underlying mutual funds. In some 529 plans, however, an option represents the 529 share class of a mutual fund registered with the SEC. Investment options may also be categorized as “static” or “dynamic.” A static option is one that maintains a specific targeted asset allocation over time. A dynamic option, usually labeled as the age-based option or the enrollment-based option, is one in which the targeted asset allocation becomes more conservative over time as the account beneficiary approaches college age. In some 529 plans, the dynamic option represents a set of “target-year portfolios,” where each portfolio shifts to a more conservative asset allocation over time. In other 529 plans, the dynamic option involves a transfer of the participant’s invested balance from one static portfolio to another static portfolio at specific points in time tied to the age of the beneficiary.

Among all 529 plans, there is significant variation in the number of options and the portfolio construction. This variation presents special challenges when attempting to compare investment performance across 529 plans. Saving For College (SFC) has developed a methodology for ranking investment performance by comparing and ranking the performance of selected portfolios. The “age-based rankings” methodology compares the historical performance of all age-based and year-of-enrollment 529 plan portfolios by age, and across a trajectory from age 0 to age 19+. This ranking is produced each quarter and made available on savingforcollege.com.

Age-based or year-of-enrollment portfolios are offered by all 529 plans offering investment portfolios, and the majority of assets in 529 plans are invested in these types of portfolios. An age-based rankings methodology is therefore reflective of the 529 landscape and provides an intuitive approach to plan performance comparison.

CREATING AGE-BASED RANKINGS

In brief, this methodology calculates a hypothetical average return for each 529 plan across a glidepath from age 0 to 19+, then ranks 529 plans from highest to lowest returns. There are several steps involved in generating the rankings:

1. Compiling and processing portfolio returns
2. Assigning age descriptors to each age-based or year-of-enrollment portfolio
3. Processing and sorting portfolio returns into ranking categories
4. Consolidating returns across all ages by plan
5. Calculating average glide path returns by plan and rank

1. Compiling and processing portfolio returns

First, Saving For College collects data each quarter on reported performance by portfolio for all 529 plans. Returns are reported for the prior one-, three-, five-, and 10-year periods. In the majority of cases, this data is sent directly to SFC by the 529 plan administrators. In some cases, SFC obtains the data directly from the 529 plan's website. SFC then compiles this data into a unified, internal database. For broker-sold plans that offer multiple share classes, SFC collects data on Share Class A only.

2. Assigning age descriptors to each age-based / year-of-enrollment portfolio

Next, SFC identifies the relevant portfolios from all direct- and broker-sold 529 plans, and assigns individual ages from 0 to 19+ to each portfolio. This identification process is run each quarter to add or remove any portfolios that have been activated or deactivated in the prior three months and to update age assignments.

An active portfolio called Age-Based Aggressive: Ages 0-2 would have ages 0, 1 and 2 assigned.

For year-of-enrollment portfolios, ages are assigned based on the target year and the number of years to the preceding portfolio. For example, Portfolio 2030 is preceded by Portfolio 2027. Portfolio 2030 has ages 12, 13 and 14 assigned (when considering 2024 performance). It is assumed that a child starts college at age 18. In 2024, a child in the 2030 portfolio can be expected to be at least 12 years old ($18 - (2030 - 2024)$). The target date of the preceding portfolio is three years earlier. Therefore, 2030 is assumed to cover a range of ages over three years, from 12 to 14, and the minimum age of the 2027 portfolio is age 15.

3. Processing and sorting portfolio returns into ranking categories

Portfolio returns are processed and sorted into 16 sets of rankings generated for the following time periods and categories:

PLAN TYPE	Direct-Sold	Broker-Sold	RIA Channel
PERFORMANCE PERIOD	1-year (NAV) 3-year (NAV) 5-year (NAV) 10-year (NAV)	1-year (NAV) 3-year (NAV) 5-year (NAV) 10-year (NAV) 1-year (POP) 3-year (POP) 5-year (POP) 10-year (POP)	1-year 3-year 5-year 10-year


Within each of the ranking categories, the returns are then arrayed by age, based on published investment returns, as illustrated in the table below.

Direct-Sold NAV 1Yr Performance by Age		0	1	2	3	4	5
Plan A	Age-Based Moderate: Ages 0-2	0.1354	0.1354	0.1354			
Plan A	Age-Based Moderate: Ages 3-4				0.121	0.121	0.121
Plan B	Portfolio 2036				0.1416	0.1416	0.1416
Plan B	Portfolio 2039	0.1556	0.1556	0.1556			

4. Consolidating returns across all ages by plan

Within each ranking category (for example, Direct-Sold NAV 1Yr) the returns are then consolidated by 529 plan. In cases where a 529 plan offers only one age-based portfolio glidepath, this is simply a matter of arraying the returns for each 529 plan by age in a single line. For example:

Direct-Sold NAV 1Yr Performance by Age		0	1	2	3	4	5
529 Plan A	Ages 0-2	0.1354	0.1354	0.1354			
529 Plan A	Ages 3-4				0.121	0.121	0.121
529 Plan B	Portfolio 2036				0.1416	0.1416	0.1416
529 Plan B	Portfolio 2039	0.1556	0.1556	0.1556			




Direct-Sold NAV 1Yr Performance by Age		0	1	2	3	4	5
529 Plan A		0.1354	0.1354	0.1354	0.121	0.121	0.121
529 Plan B		0.1556	0.1556	0.1556	0.1416	0.1416	0.1416

In some cases, plans may offer more than one age-based portfolio to meet different investor preferences. For example, a plan may offer distinct conservative, moderate, and aggressive glide paths for an age-based portfolio to suit different risk profiles. Other examples include different glide paths for actively managed vs passively managed investments, or different glide paths for other investor preferences (e.g., an ESG-focused glide path).

To consolidate returns by plan and by age, this methodology calculates the mean average of the performance of different portfolio glide paths in each age band to create a single average return for the plan by age, as illustrated in the table below.

Direct-Sold NAV 1Yr Performance by Age				
		0	1	2
Plan A	Age-Based Conservative: Ages 0-2	0.121	0.121	0.121
Plan A	Age-Based Moderate: Ages 0-2	0.1354	0.1354	0.1354
Plan A	Age-Based Aggressive: Ages 0-2	0.14729	0.14729	0.14729



Direct-Sold NAV 1Yr Performance by Age			
	0	1	2
Plan A	0.13456	0.13456	0.13456

5. Calculating average glide path returns by plan and rank

Finally, to create consolidated plan performance rankings, an average return is calculated across all age levels for each plan, letting us arrive at the average return of the glide path. This is a hypothetical average since at any point in time, an investor will be at a different point in the glide path experiencing the actual returns at that moment. Within each of the 16 ranking categories, the average return is used to sort plans from highest to lowest performance and to rank them numerically.

ELIGIBILITY FOR RANKING

Not all portfolios are able to report performance data for all four investment time horizons (1Y, 3Y, 5Y, and 10Y), depending on the date of portfolio inception. To ensure that there is enough data for a meaningful comparison and ranking, a plan will only be eligible for a numerical ranking in a given time period if its overall average was based on at least 10 age groups AND at least three portfolios.

Plans that meet the eligibility criteria are included in the numerical rankings for any time periods with sufficient data. Ineligible plans or plans with no return data receive an N/A ranking. A plan can be included in the ranking for one or more time periods (e.g., 1Y and 3Y) and not in the others.

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