

Pennsylvania 529 Investment Plan

10-27-20 | by Alyssa Stankiewicz

Morningstar's Take

Morningstar Analyst Rating



Morningstar Pillars

Process	+	Positive
Performance	—	Neutral
People	+	Positive
Parent	+	Positive
Price	+	Positive

Pennsylvania's 529 Investment Plan boasts a shrewd design, diligent stewardship, and compelling fees, a combination that earns it a Morningstar Analyst Rating of Silver.

This plan's thoughtful design and iterative improvements underpin an Above Average Process Pillar rating. As of October 2020, Pennsylvania's 529 Investment Plan offers three age-based tracks designed to accommodate an investor's risk tolerance: Conservative, Moderate, and Aggressive. Each track features 12.5% equity step-downs, which is on par with most peers, but the state is currently in the process of vetting Vanguard's recently launched progressive glide path, with plans to transition investors to the smoother option.

The investment cohorts contributing to this plan are well-resourced and collaborative and thoughtfully guide the investment menu, supporting an Above Average People Pillar rating. Pennsylvania's Treasury office, with its dedicated investment staff, selected a strong investment manager in Vanguard, and the plan's underlying lineup is almost entirely composed of Morningstar Medalists. As an added layer of analysis and oversight of Vanguard's recommendations, the state hired Marquette as an investment consultant in mid-2019.

The Keystone State uses its resources and influence to implement best practices, driving an Above Average Parent Pillar rating. Since taking the reins in 2016, State Treasurer Joseph Torsella has provided thoughtful oversight of the plan. He hired CIO Tom Clancy to lead the state's roughly 20-person investment office, instituted checks and balances to minimize the plan's susceptibility to political turnover, and pushed earnestly for lower fees. Additionally, Pennsylvania became the first state to launch a universal opt-out savings program for children born in the state in 2019, and as of mid-2020, that project has driven nearly \$10 million in college savings.

Pennsylvania is a tax-parity state, meaning residents can obtain a tax credit for investing in any state's plan, but with an average expense ratio of 0.24%, this plan is compellingly priced relative to competitors, direct- or advisor-sold. It merits a Below Average Price Pillar rating.

This written analysis references Morningstar's new, more-granular five-point pillar scale. For the People, Process, and Parent Pillars, High and Above Average ratings show as Positive, Average shows as Neutral, and Below Average and Low show as Negative. The inverse is true of our Price Pillar, where High and Above Average ratings show as Negative, Average shows as Neutral, and Below Average and Low show as Positive. ■■■

Alyssa Stankiewicz is a Manager Research Analyst

For more detailed information about Morningstar's Analyst Rating for 529 College-Savings Plans, including its methodology, please go to:

https://www.morningstar.com/content/dam/marketing/shared/pdfs/Research/Morningstar_Analyst_Rating_Methodology_071020.pdf

The Morningstar Analyst Rating (i) should not be used as the sole basis in evaluating a plan, (ii) involve unknown risks and uncertainties which may cause analyst expectations not to occur or to differ significantly from what they expected, and (iii) should not be considered an offer or solicitation to buy or sell a 529 college-savings plan or its underlying investment options.



22 West Washington Street
Chicago, IL 60602 USA

© 2020 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results. The Morningstar Analyst Rating™ is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's manager research group, which consists of various Morningstar, Inc. subsidiaries ("Manager Research Group"). In the United States, that subsidiary of Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission. The Manager Research Group evaluates each plan's investment options within the context of their objectives and peer groups, with emphasis placed on the options with the most assets. Plans are evaluated based on four key pillars, including process, people, parent, and price. The Manager Research Group uses this four pillar evaluation to determine which plans they believe are likely to adhere to industry best practices and feature investment options that are likely to collectively outperform relevant peers on a risk-adjusted basis over the long term. They consider quantitative and qualitative factors in their research, and the weight of each pillar is as follows: 30% for Process, People, and Parent, and 10% for Price. The Morningstar Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. Plans that receive Morningstar Analyst Ratings of Gold, Silver, or Bronze for the most part follow industry best practices, offering some combination of the following attractive features: a strong set of underlying investments, a solid manager selection process, a well-researched asset-allocation approach, an appropriate set of investment options to meet investor needs, low fees, and strong oversight from the state and program manager. State income tax benefits vary widely from state to state, and some states have no state tax benefit for investing in a 529 plan. Given the variability of state tax benefits for investors based on personal considerations such as residency, income level, size and frequency of contributions, and other factors, we do not treat tax benefits as a predictor of performance, and therefore it is not included in our ratings assessment. Morningstar Analyst Ratings are continuously monitored and reevaluated annually.