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Does a college savings plan allow me to choose my own investments?

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Answer:

The quick answer is no. Under federal law, 529 plan account owners aren't allowed to directly or indirectly control their plan investments (a college savings plan is a type of 529 plan). This lack of control is often cited as the major disadvantage of college savings plans.

However, depending on the college savings plan, you may have a limited say in how your money is invested. When you open an account, you might be able to choose from a variety of investment portfolios with different levels of risk. The options might include an all-stock portfolio, an all-bond portfolio, and several "blend" portfolios. Some plans may even let you spread your contributions over several portfolios. Other plans will select a portfolio for you based solely on your child's age (known as an age-based portfolio). The more investment options you have, the better you can take into account your risk tolerance, time horizon, and overall market conditions. But keep in mind that you can never choose the underlying assets that a portfolio invests in. That job is for the plan's professional money manager.

All college savings plans entail risk, because your investment returns are not guaranteed by the state sponsoring the plan. In fact, there's a chance you could lose some of the original amount you invested. If you're not happy with your portfolio's investment performance, you have a few options. First, depending on the rules of your specific plan, you might be able to direct any future contributions into one or more different portfolios. Also, the IRS has given states the discretion to allow you to change your investment option for your existing contributions once per calendar year (twice per calendar year for 2009 only), or if you change the beneficiary of your account. Check with your plan for more details.

You're allowed to roll over your college savings plan account once every 12 months to another 529 plan (college savings plan or prepaid tuition plan) without changing the beneficiary. When you do the rollover, you may get to select from among the new plan's different investment options. Please note, however, that rollover contributions may not be eligible for a state income tax deduction if your state offers one for 529 contributions. Check with your tax professional for more information.

Note: Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about 529 plans is available in each issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits.

Janney Montgomery Scott LLC Financial Advisors are available to discuss the suitability and risks involved with various products and strategies presented. We will be happy to provide a prospectus, when available, and other information upon request. Please note that the information provided includes reference to concepts that have legal, accounting and tax implications. It is not to be construed as legal, accounting or tax advice, and is provided as general information to you to assist in understanding the issues discussed. Neither Janney Montgomery Scott LLC nor its Financial Advisors (in their capacity as Financial Advisors) give tax, legal, or accounting advice. We would urge you to consult with your own attorney and/or accountant regarding the application of the information contained in this letter to the facts and circumstances of your particular situation.

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