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Janney
Trusted Advisors for Generations

How do I know whether to choose a college savings plan or a prepaid tuition plan?

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Answer:

Your investment preferences and the college you think the beneficiary (let's assume it's your child) might attend will affect your choice.

A prepaid tuition plan generally guarantees you a minimum rate of return to ensure that you keep up with college inflation. Essentially, by contributing to such a plan, you lock in tomorrow's tuition at today's prices. However, if the stock market enjoys an extended period of high returns, you'll generally still be limited to the return that your plan promises--the entire surplus won't trickle down to you. Also, to receive the maximum benefits under a prepaid tuition plan, your child must attend a college in that plan. If your child chooses a different school, you may pay a penalty.

By contrast, a college savings plan doesn't guarantee you any minimum rate of return. When you invest your money in a plan's portfolio (whether it's an age-based portfolio geared to your child's age or another portfolio), you take your chances. If your portfolio earns a high rate of return, you're entitled to all of it. But if it earns little or nothing (or even loses money), you may end up with less than you need to pay for your child's education. The good news, though, is that your child can use the funds in a college savings plan at any college in the country or abroad that is accredited by the U.S. Department of Education.

If you're a fairly conservative investor and believe that your child will attend a specific college or will choose from among a number of public colleges located in the same state, then a prepaid tuition plan may be the appropriate choice (assuming one is offered). But if you don't want to restrict your child's college options or you believe that you can earn a better rate of return than what is promised by a prepaid tuition plan, then a college savings plan that offers a range of investment options may be the right choice.

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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