

Envision Throws Its Hat Into 529 Ring

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Financial services software company Envision Financial Systems is releasing new capabilities to support 529 college savings plans with its PowerAgent transfer agency system.

Interest in 529 plans has been buoyed by recent legislative changes, and observers remain cautiously optimistic about the new features from Envision.

Envision's new 529 features help plan administrators comply with regulations and address the requirements of 529 plans, including tax reporting and contribution limits.

Satnam Gambhir, president and CEO of Envision, stresses automation as a key advantage along with open architecture and says the new features include account aggregation for the 529 tax reporting requirement.

In addition, Gambhir says Envision can take information from other systems and create online checks to make sure 529 plans are in compliance with regulatory requirements, such as those mandated by states that have limits on life-to-date contributions.

Most 529 plans also support age-based modeling, in which there is a provision to automatically move from more aggressive to less aggressive as a beneficiary ages. Gambhir says Envision supports these product features and has built into the system an automatic detection as a beneficiary moves from one age bracket to another.

Peter Mazareas, COO of Strategic Advancement Group, a 529 consultancy, and treasurer of the College Savings Foundation, says these additional features are "pretty standard stuff" and "pretty much a foundation of a 529 program" with the exception of the tax reporting requirement.

Mazareas says Envision's intention is good with this particular function, but it assumes that all providers will be cooperating with account aggregation software and multiple state programs will be submitting data.

Mazareas concedes that conceptually the idea is a good one, but he also says there may not be much of an incentive for a state to pay an additional fee and provide information to a third-party recordkeeper for aggregation because of the way the law is currently written. That's because each state is currently responsible for maximum contribution excess.

Regardless, Envision has inked two new customers, one of which is expected to go live in November and the other to follow in January. Gambhir says the company started talking to prospective clients about 18 months ago and development began about a year later.

Envision declined to identify the new clients.

The firm also says it saw a distinct opportunity. "After a careful examination of the marketplace, we decided that there really wasn't much choice in the current market for systems supporting 529 plans," says Gambhir in a prepared statement. "Our teams worked closely with a number of fund companies to determine what their ideal system would be, and we're confident that the new 529 features in PowerAgent will bring a new level of convenience to plan administrators."

The 529 market is also serviced by companies like DST and PFPC.

Mazareas is a bit more optimistic than Gambhir, saying the industry has already been addressing all current requirements such as disclosure, sales requirements and other account practices.

"The current providers are doing what's necessary and required," Mazareas says. "The whole question is, is this new software more efficient, more flexible, [and at] a lower cost?" He says it all comes down to giving fund companies a reason to make the change and whether or not the new product is a substantial improvement over what is out there or what they currently employ, and at a better price.

The answers remain to be seen. But, in the meantime, Vera Bryant, director of regulatory services at DST, says that for its part, DST provides full functionality and compliance for 529 programs, supporting 38 state plans representing 5.8 million accounts on its TA system, TA2000.

Envision prepares to enter the market at a time when recent legislation has made 529 plans "very attractive," Gambhir says.

Mazareas says Envision's move is in the right direction after President Bush signed the pension bill, which made 529 plans no longer subject to the sunset provision in 2010 and made the tax benefits permanent.

Indeed, Chris Stack, management consultant at SavingforCollege.com, expects to see increased inflows in these plans as "removing the sunset will clearly address concerns that a lot of advisors [and] investors have."

He points to technological issues like disparities between state tax laws and how they treat different plans and says these issues are some of the biggest ones keeping 529 plans from reaching their potential.

The most glaring need that remains is perhaps of a more old-fashioned nature.

Stack says it is "still largely a check and application business" and so "any technological advance that makes it easier to do business like a regular mutual fund business would only help." He says adopting electronic systems instead of paper would help further the growth of the industry.

Mazareas, too, points to the paper and check application process that is not "clean and efficient for the broker-dealer and advisor."

Mazareas calls the non-standard processing of 529 requirements "a disincentive to push for

529s [that are] unlike any other mutual fund sale that [broker-dealers are] pushing because now they have to fill out paperwork.”

Mazareas says if firms make 529s as easy to sell as any other investment product, then more and more brokers and dealers and financial advisors will be selling them. “There will be a subsequent jump in sales.... To the extent that a transfer agency can automate and standardize and eliminate paper processing, they will increase sales,” he says.

However, Gambhir says the two clients that will come onboard will have websites that will allow investors to open accounts online. In addition, PowerAgent has an integrated workflow and imaging system to streamline the processing of traditional paper-based checks and applications, he says.