SAVINGS PLAN CHOICES

There are several strategies to save for your child's education. The key differences are:

» Account ownership

» Tax advantages

» Annual contribution limits

GENERAL INVESTMENT ACCOUNTS

Here, we're not talking about accounts with special education tax breaks — just a regular account held in a parent's or grandparent's name.

ADVANTAGES

» No contribution limits.

» Parents control how the account is invested and used.

» No income or age limitations.

DISADVANTAGES

» All interest, dividends and gains are taxed for federal income tax purposes at the account owner's tax rate.

» These accounts may impact the Expected Family Contribution calculation made by a college's financial aid department to determine financial aid eligibility.

529 COLLEGE SAVINGS PLANS

» A tax-advantaged investment account designed to encourage saving for the future higher education expenses of a designated beneficiary.

» In 2017, K-12 public, private, and religious school tuition were included as qualified expenses for 529 plans along with post-secondary education costs with passage of the Tax Cuts and Jobs Act.

ADVANTAGES

» Qualified withdrawals are exempt from federal and possibly state income taxes.

» Funds can be used for all qualified education expenses, including tuition, certain room and board expenses, fees, supplies and equipment required for enrollment at any accredited school in the U.S. or abroad.

» Typically, these have less impact on financial aid eligibility than other types of accounts.

» Large contributions are permitted, and the account owner maintains control of the assets.

» Generally, anyone can contribute, regardless of residency or income.

» Potentially transferable to another family member without a penalty.

DISADVANTAGES

» Withdrawals that aren't used to cover qualified expenses are subject to a 10% penalty on earnings, in addition to ordinary federal and state taxes on those earnings.

» Limited investment options, an uncertain ending value and the possibility of losses.

For more information about 529 college savings plans, including pre-paid tuition plans, visit ***collegesavings.org*** *for state-specific details.*

COVERDELL EDUCATION SAVINGS ACCOUNTS

- Only a parent or legal guardian is allowed to open the account.
- As of 2018, the annual contribution limit is $2,000 per beneficiary.

ADVANTAGES

- Funds can be used for qualified elementary, secondary or college expenses, including tuition, room and board, books, equipment and supplies.
- Earnings are federal income tax-free when used for qualified expenses.
- Offers a variety of investment options, and the flexibility to change the student beneficiary as needed.

DISADVANTAGES

- You may gain or lose money depending on how it is invested.
- Gifts are irrevocable and considered assets of the beneficiary.
- No contributions are allowed once the beneficiary reaches age 18, and funds must be used by age 30.
- There is a 10% penalty on investment earnings plus federal income taxes if funds are not used for qualified education expenses.
- Contributions are limited to $2,000 total per beneficiary each year, no matter how many accounts are established.
- Families with high income may not qualify.

UNIFORM TRANSFER TO MINORS ACT (UTMA) AND UNIFORM GIFT TO MINORS ACT (UGMA)

- Allows parents, grandparents and others to contribute an irrevocable gift.
- These are accounts owned by the child but managed by parents, under your state's Uniform Gifts (or Transfers) to Minors Act.

ADVANTAGES

- The parent controls the account until the child is an adult under the state law — generally age 18 or 21.
- Earnings and gains may be taxed at a lower rate than what the parent would pay if he or she owned the account. Some distributions may not be taxed at all.

DISADVANTAGES

- In some circumstances, earnings and gains are taxed at the parent's tax rate.
- Gifts are irrevocable — once it goes in the account, it is the legal property of the child.
- Ownership of the account can't be changed, and the money can't be used for a different child.
- Money owned by children may have a negative effect on financial aid eligibility.

PREPAID TUITION PLANS

- Allows parents, grandparents and others to lock in current tuition rates.
- Participants purchase units of tuition (years, semesters or credits) at current costs for state colleges, then use them to pay for future college costs.

ADVANTAGES

- Anyone can contribute regardless of income.
- With most plans, proceeds may be transferred to another family member.
- Plans are guaranteed by state governments, and as such, are subject to state-specific rules.

DISADVANTAGES

- Most plans cover in-state tuition only.
- Generally, room and board, books, equipment and supplies are not covered.
- There is a 10% penalty on investment earnings plus federal income taxes if funds are not used for qualified higher education expenses.
- Limited enrollment periods during each year.

SAVINGS BONDS

- U.S. savings bonds are issued by the U.S. Department of the Treasury.
- Savings bonds are considered one of the safest investments because they are backed by the full faith and credit of the U.S. government.

ADVANTAGES

- Savings bonds are easy to purchase.
- The bond purchase price, or your principal, is guaranteed.
- Earnings are exempt from federal income taxes if used to pay qualified education expenses.

DISADVANTAGES

- Relatively low yields.
- Penalty for early redemption.
- When cashed in, colleges will factor the income into the Expected Family Contribution calculation used in determining financial aid.