

Topic Brief: Which vehicle?

You don't purchase a sports car if you're always driving on an unpaved, rocky mountain road. Similarly, it's important to match the right college savings vehicle to the account owner.

There are many ways to save for college. Here we take a high-level look at three of the most popular options, their benefits, and drawbacks.

529 plans

Ideal for middle- and upper-income savers and/or residents of states with tax-incentives, scholarships and grant programs

The 529 plan is one of the most versatile college savings options available. Sponsored by a state or institution, the 529 plan allows the investor to grow their account tax-free for qualified higher education expenses. They are the only accounts that allow the account owner to retain control of the assets indefinitely, offer estate-planning benefits, high investment limits and the ability to revoke the gift. They also receive preferred treatment on the Free Application for Federal Student Aid (FAFSA).

Coverdell ESA

Ideal for low- and middle-income earners that are relatively investment-savvy

Previously known as the Education IRA, the Coverdell ESA is like a cross between a 529 plan and a Roth IRA. The account owner contributes after-tax dollars, which grow tax-free so long as withdrawals are made for qualified education expenses. There are also big two advantages Coverdell ESAs have over 529 plans:

- A broad range of K-12 expenses are considered qualified
- They offer self-directed investments

That said, there are some big drawbacks as well:

- Investors can earn-out of eligibility starting at \$95,000 in 2018 (single filer)
- Annual contributions are limited to \$2,000 per beneficiary

- Contributions made after the beneficiary turns 18 will be subject to a 6% excise tax
- Once the beneficiary reaches 30 the account must be liquidated to the beneficiary, and earnings will be subject to income tax as well as a 10% penalty



Roth IRA

Ideal for low- and middle-income earners that have insufficient income to concurrently fund a dedicated college savings plan

Though not designed specifically for college savings, the Roth IRA allows account owners to withdraw contributions at any time, for any reason without taxes or penalty. What's more, the 10% early distribution penalty on earnings is waived when the funds are used to pay for qualified education expenses.

A Roth also has similar drawbacks to a Coverdell:

- Investors can earn-out of eligibility starting at \$120,000 in 2018
- Contributions are limited to \$5,500 per year (\$6,500 for those over 50)
- Distributions will count as base-year income on the FAFSA

For more information you can find an in-depth comparison of these and other vehicles on Savingforcollege.com.

For more information on these and other topics related to college savings, visit us at Savingforcollege.com.

This information does not constitute tax advice and is provided for informational purposes only. Please consult your tax advisor, financial advisor, local taxing authority, and/or plan provider or sponsor for more information.

529 savings plans are not FDIC-Insured, and do not provide bank, state, or federal guarantees unless specified by the respective plan. These plans may lose value.