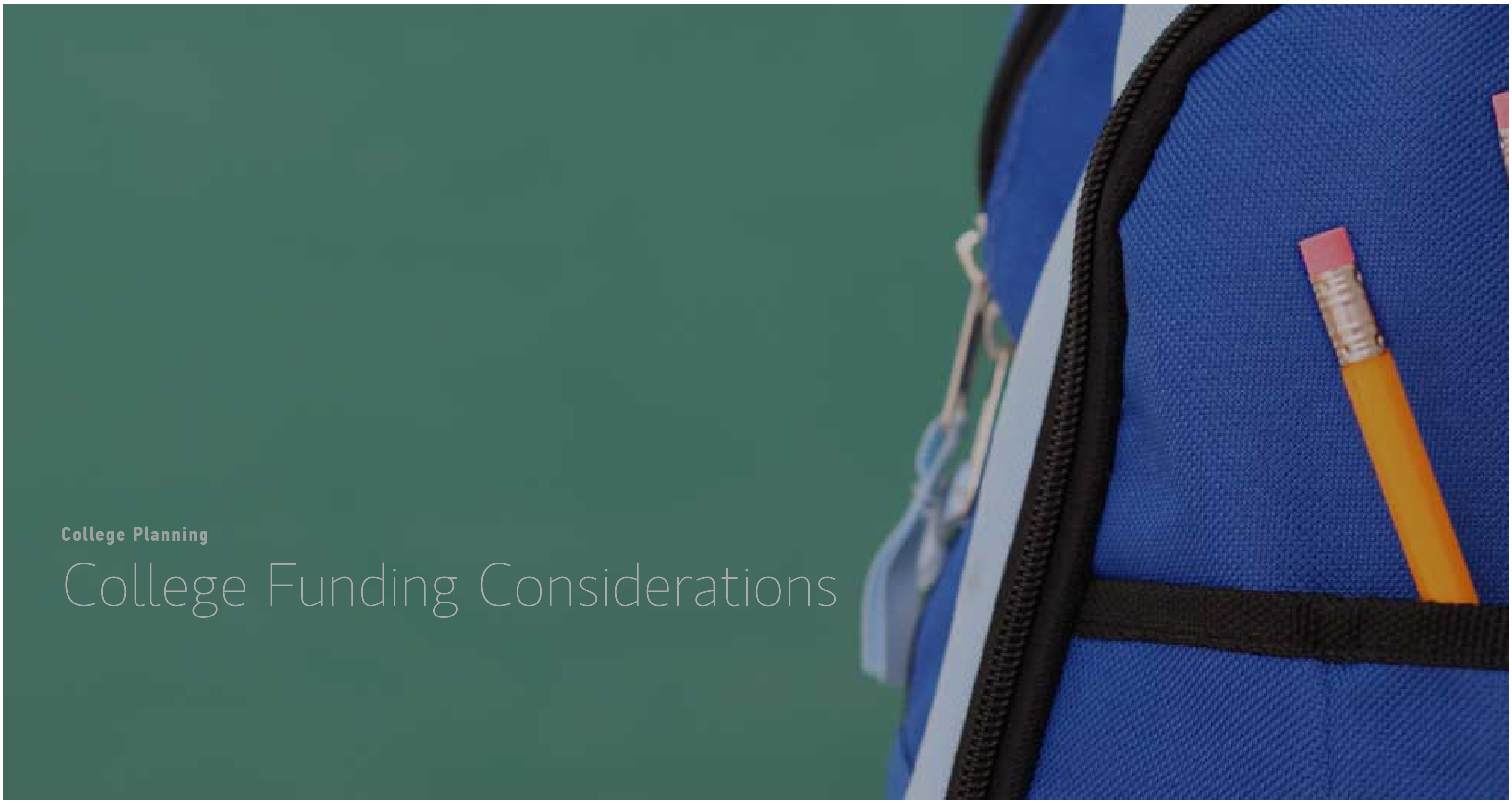


There are numerous ways to fund a college education that could save you time, headaches and money.

While the price of college has risen rapidly over the years, financial aid has failed to keep pace, according to two reports by the College Board[1]–leading to students and parents having to carry more of the funding burden. Still, there are saving options to help lessen the load for those who plan ahead.

Three of the most popular savings tools are 529 plans, Coverdell Educational Savings Accounts (ESA) and Uniform Transfers to Minors Act (UTMA)/Uniform Gifts to Minors Act (UGMA) accounts. Below are the major considerations around each financial vehicle parents and other family members should consider when saving for a child's education.

**529 Plans**

Named after section 529 of the Internal Revenue Code, 529s can provide significant tax advantages and benefits. Nearly every state offers a 529 plan.  State incentives vary and you should consider what if any benefits your state's plan offers to its residents before choosing any other state's plan. Funds in a 529 plan can be used for to pay eligible expenses at virtually all public or private institution of higher education in the United Sates and even many abroad including community college and vocational school; they can even be used to pay for your own continuing education.

Additionally, the Federal Tax Cuts and Jobs Act of 2017 permits Federal Tax Free qualified withdrawals from 529 plans of up to $10,000 per year per student to pay expenses for tuition related to elementary or secondary public, private or religious school. While withdrawals for such expenses will have no federal tax impact or 10% penalty, there may be a tax impact at the state level, as not every state follows the federal tax law changes. Any account owners should consult with a qualified tax advisor about their personal situation prior to making such withdrawals as they may be subject to adverse state tax consequences. Account owners should consult with a qualified tax advisor prior to making such withdrawals as they may be subject to adverse tax consequences.

With a 529, the account owner controls the account investments and can withdraw funds at any time. However, the earnings portion of non-qualified withdrawals are subject to income tax as well as a 10% federal penalty tax. Unlike ESAs, there is no contribution limit with 529s, so parents need not be concerned with overfunding from different sources. Although, it's still imperative that 529 ownership is coordinated in relationship to student aid and general education funding.

**Uniform Transfers to Minors Act (UTMA)/Uniform Gifts to Minors Act (UGMA) accounts**

UTMA/UGMAs were originally created for large gifts, including college expenses. These custodial trust accounts predate both ESAs and 529s and were originally used in lieu of both. Any adult can transfer money into a UTMA/UGMA. The donor typically operates as the custodian of the account until the beneficiary reaches the age of maturity, which varies between states, from 18 to 21 years old.

Unlike other college savings vehicles, the beneficiary is permanent and irrevocable. Since UTMA/UGMAs weren't specifically created for education expenditures alone, the beneficiary can spend the money on non-education expenses. Also of note is that these accounts are not tax-deferred. Unearned income over $2,100 is taxed at the custodian's highest marginal rate, based on their income.

The government considers funds held in UTMA/UGMAs as a student's assets when determining aid, as opposed to ESAs and 529s which are counted as parent's assets. This matters when it comes to applying for financial aid through the Free Application for Federal Student Aid (FAFSA) program. By the government's metric, student's assets are counted against them at a rate of 20% of the total net value, compared to the parent(s) rate of 5.64%.

**Coverdell ESAs**

Coverdell ESAs were first introduced under the Taxpayer Relief Act of 1997. They were formulated as a tax-advantaged investment account designed to encourage savings for all levels of education. ESAs provide tax-free earnings growth and tax-free withdrawals, similar to 529s. They also provide flexibility, with the ability to reassign an account beneficiary. In the ESA's case, the eligible beneficiary must be under 30 years old.

ESAs do come with additional limitations in relation to 529s, such as lower annual contribution limits. In order to avoid tax penalties, contributors are limited to a $2000 maximum contribution cap per calendar year. This means that even with multiple ESAs with multiple contributors, assets aren't permitted to amass beyond that $2000 limit in aggregate. Contributions to a beneficiary over the age of 18 are also subject to a 6 percent excise tax, incentivizing use primarily for K-12 education or for early college savings.

Footnotes:

[1] Source: Trends in College Pricing – The College Board, https://trends.collegeboard.org/college-pricing

[2] Source: Saving for College and Section 529 Plans – The Federal Reserve, https://www.federalreserve.gov/econresdata/notes/feds-notes/2016/saving-for-college-and-section-529-plans-20160203.html

Investors should consider many factors before deciding which 529 plan is appropriate. Some of these factors include: the Plan's investment options and the historical investment performance of these options, the Plan's flexibility and features, the reputation and expertise of the Plan's investment manager, Plan contribution limits and the federal and state tax benefits associated with an investment in the Plan. Some states, for example, offer favorable tax treatment and other benefits to their residents only if they invest in the state's own Qualified Tuition Program. Investors should determine their home state's tax treatment of 529 plans when considering whether to choose an in-state or out-of-state plan. Investors should consult with their tax or legal advisor before investing in any 529 Plan or contact their state tax division for more information.  Investors should review a Program Disclosure Statement, which contains more information on investment options, risk factors, fees and expenses and possible tax consequences.

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