









Put all your saving

In the past, choosing how to save for college was difficult, given the wide variety of options available, each with its own merits and limitations. One recent alternative is a 529 college savings plan, a state-administered qualified tuition program that allows individuals to save and invest for qualified higher education expenses on a tax-advantaged basis.

	Contribution limits ¹	Investment options	Control of assets	Ability to change beneficiary
 529 Savings Plans	Up to \$265,620 maximum account balance regardless of income (<i>actual amount varies by state</i>); \$55,000 per donor in one five-year period for gift tax exclusion purposes (<i>\$110,000 for spouses splitting gifts</i>)	A variety of variable investment portfolios	Account owner	Allowed (<i>tax-free if to eligible family member of current beneficiary</i>)
 529 Prepaid Plans	Actual amount varies by state; \$55,000 per donor in one five-year period for gift tax exclusion purposes (<i>\$110,000 for spouses splitting gifts</i>)	Prepaid tuition units based on the cost of college for an in-state student at a public university in a particular state of choice	Generally account owner, though varies by state	Allowed (<i>tax-free if to eligible family member of current beneficiary</i>)
 Coverdell ESAs (formerly Education IRAs)	Up to \$2,000 per year (<i>may be lower based on income</i>); Contributions can only be made until the beneficiary's age 18	A wide range of securities	Account owner until the beneficiary reaches age 21, then beneficiary; Account must be distributed by beneficiary's age 30 ²	Allowed (<i>tax-free if to eligible family member of current beneficiary</i>)
 UGMA/UTMA (Uniform Gift/Uniform Transfer to Minors Act)	\$11,000 per donor per year for gift tax exclusion purposes (<i>\$22,000 for spouses splitting gifts</i>)	Varies depending on whether an UGMA or UTMA, but generally a wide range of securities	Custodian until the beneficiary reaches their state's age of majority, then beneficiary	Not allowed; money must be used for minor's benefit
 Qualified U.S. Savings Bonds	\$15,000 in Series EE and \$30,000 in Series I bonds per year	Either of the two types of savings bonds	Account owner	Not applicable for education purposes
 Taxable Accounts	N/A	A wide range of securities	Account owner	Not applicable for education purposes



options on the table

This type of plan, first introduced in 1996, has been gaining widespread acceptance even as Congress has worked to make them more beneficial to savers and students alike. Look at how 529 savings plans compare to other traditional methods of saving for college.

Tax treatment ³	Qualified higher education expenses	Taxes and penalties for non-qualified use	Ownership of assets for financial aid purposes ⁵
Contributions may be deductible for state income tax purposes; Accumulates tax deferred; Distributions taken for qualified higher education expenses are federal income tax-free	Tuition, fees, books, supplies, required equipment, room and board at any eligible educational institution	Earnings subject to ordinary income tax, and a 10% federal income tax penalty may also apply	Parent <i>(if account owner)</i>
Contributions may be deductible for state income tax purposes; Distributions taken for qualified higher education expenses are federal income tax-free	Generally, tuition and fees at any eligible educational institution	Varies depending on state; Earnings subject to ordinary income tax, and a 10% federal income tax penalty may also apply	Student
Accumulates tax deferred; Distributions taken for qualified education expenses are federal income tax-free	Tuition, fees, books, supplies, required equipment, room and board at any eligible educational institution, and certain elementary and secondary school costs	Earnings subject to ordinary income tax and a 10% federal income tax penalty may also apply	Student
Under age 14: first \$750 of unearned income is tax exempt, the next \$750 is taxed at the child's rate, anything over that is taxed at the parents' rate; 14 and over: taxed at the child's rate	Not applicable	Not applicable	Student
Can accumulate tax deferred; Exempt from local, state and federal income tax if used to pay qualified higher education expenses ⁴ <i>(income limits apply)</i>	Tuition and fees at any eligible educational institution	Earnings subject to federal income tax	Parents
Taxed each year when interest, dividends or capital gains are paid, as well as when securities are sold	Not applicable	Not applicable	Parents <i>(if account owners)</i>

¹ All contribution limits listed as of 2002.
² Some exceptions may apply.
³ Individual state tax treatment may differ.
⁴ Additional restrictions apply.

⁵ When calculating financial aid, it is assumed that at least 35% of a student's assets will be contributed for college costs, whereas less than 6% of parental assets will be; titling assets in a parent's name may help qualify a child for more aid. Please consult your tax advisor for more information.