

Education Planning:

Education savings instrument comparison grid.

Below is a comparison grid that highlights some of the various saving instruments that can be used as resources when planning for your education needs.

| | US Series EE Savings Bonds | UTMA / UGMA Accounts | §2503 Trust Accounts | Coverdell ESA | 529: Prepaid Tuition | 529: Savings Plan |
|--|--|--|---|--|--|--|
| Highlights: | Government debt securities that can provide for tax-free withdrawals (phase out may be applicable). | Custodial accounts that allow for minors to own securities and other appreciating investments. | IRS code §2503 allows for individuals to make substantial gifts to minors in trust. | An investment account available to contributors who earn less than \$110K (single filers) & \$220K (joint filers). | Contributions today are guaranteed to cover tuition costs in the future. | State-sponsored investment account for the benefit of anyone. |
| Offered by: | Bonds issued by the US Federal Government. | Brokerages, mutual fund companies, banks. | Brokerages, mutual fund companies, banks. | Brokerages, mutual fund companies, banks. | States. | States (usually with help from a financial services companies). |
| Contribution limit: | \$5,000 annually. | Unlimited. | Unlimited. | \$2,000 per student per year. | Depends on plan and age of student. | Depends on plan -- varies from \$100,000 to \$305,000. |
| Tax treatment of withdrawals: | Tax-free if used for qualified expenses. | "Kiddie tax" rules apply. | Taxable to minor or the trust, depending on which received the trust income. | Tax-free if used for qualified expenses. | Tax-free if used for qualified expenses. | Tax-free if used for qualified expenses until 2010 (distributions will count as income to the student in 2011 unless Congress extends the current law). |
| Qualified expenses: | Tuition and fees only. | Qualified expenses are not considered with UTMA / UGMA accounts. | Qualified expenses are not considered with §2503 trust accounts. | Tuition, room, board, fees, supplies, and special needs related to qualified elementary, secondary, or post-secondary institutions. | Tuition at a college within the plan (some plans will also cover room and board) | Tuition, fees, room, and board at qualified higher-education institutions |
| Tax-deductibility: | None. | None. | None. | None. | Some states allow contributions to be partially or completely deductible. | Some states allow contributions to be partially or completely deductible. |
| Investment flexibility: | None. | UMGA accounts can hold securities only. UTMA accounts allow minors to own other types of property, such as real estate, fine art, patents and royalties. UTMA is slightly more flexible than UGMA. | Unlimited. | Assets can be invested in stocks, bonds, mutual funds, and cash equivalents. Investments can be bought and sold as often as desired. | Plan administrators invest all assets. | Assets are professionally managed. Depending on the plan, participants can choose from mutual fund-type investments. |
| Ability to transfer account: | A EE savings bond is a registered security and ownership is non-transferable. | No ability to transfer. Account has one beneficiary, and if death of minor occurs, distributions are to be paid to estate of minor. | No ability to transfer. Account has one beneficiary, and if death of minor occurs, distributions are to be paid to estate of minor. | Account may be transferred to other brokerage or mutual fund, or to a 529 plan, subject to fees and penalties. | Depends on plan | May transfer to another 529 plan once every 12 months |
| Interaction with Hope and Lifetime Learning Credits: | Taxpayers can not receive tax-free treatment of bond interest if used by expenses covered by either credits. | Inconsequential. | Inconsequential. | Credits can be claimed in the same year as tax-free withdrawal provided that the distribution is not used for the same expenses for which a credit is claimed. | Credits can be claimed in the same year as tax-free withdrawal provided that the distribution is not used for the same expenses for which a credit is claimed. | Credits can be claimed in the same year as tax-free withdrawal provided that the distribution is not used for the same expenses for which a credit is claimed. |

Education Planning:

Education savings instrument comparison grid.

Below is a comparison grid that highlights some of the various saving instruments that can be used as resources when planning for your client's education needs.

| | US Series EE Savings Bonds | UTMA / UGMA Accounts | §2503 Trust Accounts | Coverdell ESA | 529: Prepaid Tuition | 529: Savings Plan |
|--|---|---|---|---|--|--|
| Effect on financial aid: | Savings bond registered as the parent's asset has a low impact. Bonds registered in the child's name as a single or co-owner counts as a child asset (high impact). | Custodial accounts are considered assets of the minor. | Custodial accounts are considered assets of the minor. | Considered to be an asset of the student, which means a large portion of the assets will be considered in the financial aid calculation | Considered to be the student's resource and thus reduces financial aid dollar-for-dollar | Considered to be an asset of the account owner, unless the owner is the beneficiary, only a small portion of the assets will be considered in the financial aid calculation. |
| Control of the account: | Parents of minor owners maintain the bonds. | Custodian has a legal fiduciary responsibility to manage the account in a prudent manner for the benefit of the minor. | Account will be managed in a fiduciary capacity for the benefit of the minor. | In most states, account assets become property of the student at age 18. | In most states, control of account will always remain with contributor. | In most states, control of account will always remain with contributor. |
| Must use funds by: | Maturity date of the bond. | Age 18 or 21 depending on the state of residence. | Right to withdraw by age 21, term can be extended. | Age 30 | Varies by plan | Varies by plan |
| Assignability to other relatives: | A EE savings bond is a registered security and ownership is non-transferable. | No assignability. The account is held in trust for the minor until age 21. If the minor dies before age 21, the account is distributed to the minor's estate. | No assignability. The account is held in trust for the minor until age 21. If the minor dies before age 21, the account is distributed to the minor's estate. | Immediate family, including cousins, step-relatives, and in-laws | Immediate family, including cousins, step-relatives, and in-laws | Immediate family, including cousins, step-relatives, and in-laws |
| Penalty for non-qualified withdrawals: | No penalty, however, with EE bonds, there could potentially be early redemption penalties. | No penalty. Withdrawals can be made by the trustee for the benefit of the child. | No penalty. Until age 21, withdrawals can be made by the trustee for the benefit of the child. | Earnings are taxed as ordinary income to contributor, plus a 10% penalty | Earnings are taxed as ordinary income to account owner, plus a 10% penalty | Earnings are taxed as ordinary income to account owner, plus a 10% penalty |
| Contribution deadline: | No deadline for purchasing EE bonds. | Contributions are irrevocable gifts that typically utilize the annual gift exclusion. | Typically, contributions to the trust are made in order to utilize the annual gift exclusion. Additionally, in order to receive the present interest gift treatment, Crummey powers must be used. | Tax-filing deadline for the year of the contribution | Depends on the plan | Depends on the plan |

