College Savings Options

Jean Clements
Extension Educator, Family & Consumer Sciences, Emeritus
OSU Extension, Greene County

Christine F. Olinsky
Extension Educator, Family & Consumer Sciences
OSU Extension, Montgomery County

A dream of a college education can become a reality if savings are planned. However, financial experts recommend that saving for retirement should be a priority. If the budget allows, then additional savings may be considered for college education. Motivated students may find financial resources for their college education but there may be no additional source of funding for retirement. Students may pursue loans; grants; jobs; scholarships; tuition refunds from employers; participating in post-secondary education options or "tech prep" as high school students; or joining the military.

There are a variety of ways that parents, grandparents, and other interested persons can save for a child's education. When choosing an option, consider the following:

- eligibility
- contribution minimums or limits
- tax implications; savings/investment options
- how the money can be used
- who controls how the money is invested, withdrawn and spent
- how eligibility for financial aid to the beneficiary is affected; and
- options available if the named beneficiary does not use the funds for educational purposes.

The *College Savings Options* chart in this fact sheet lists a variety of choices and summarizes basic information about each. It may be wise to consult an accountant or financial planner before selecting a college savings option. Most options will have fees that should be factored into projected earnings.

For more information, check out the following web sites. Be sure to check the date on the web site materials to make sure the information is current:

http://www.savingforcollege.com/ — 529 Plans
http://www.collegeadvantage.com/ — A 529 College Savings Plan
http://www.collegesavings.org/ — College Savings Plans Network
www.nasd.com/investor — National Association of Security Dealers
www.morningstar.com — Morning Star: Stocks, Mutual Funds and Investing
www.irs.gov — Internal Revenue Service

Other references include:

Consumer Money Matters. Personal Financial Newsletter. Jennette B. Bradley, State of Ohio Treasurer. Vol. 1, Issue 6, February 2006.

Fact Sheet: The Morningstar Stewardship Grade for Funds. Morningstar. 2004.

Hurley, Joseph F. *The Best Way to Save for College: A Complete Guide to 529 Plans–2007*; Savingsforcollege.com, LLC; Pittsford, NY.

O'Boyle, Kerry. How to Pick a 529 Plan. Morningstar, Inc. 2005.

Stevens, Sue. Your Guide to College Savings Plans. Morningstar, Inc. 2005.

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Options	Eligibility	Contribution Rules	Tax Implications	Savings/ Investment Options	Use Guidelines	Control	Affect on Financial Aid	Transferability
Personal Investment Account	Anyone.	No limit.	Deposits not tax deductible; owner taxed on investment interest and earnings.	Unlimited; normal investment risks apply.	None.	Owner.	Contributes to assets of parents.	Only to beneficiary.
Traditional Individual Retirement Account (IRA)	Must be employed.	Set by federal government; check www.irs.gov	Income tax due on withdrawals.	Limited to those in plan.	No penalty on loan for educational purposes: tuition, fees, books, supplies, and equipment.	Owner.	Funds do not count as income for financial aid; leave funds in as long as possible.	Only to beneficiary.
Roth IRA	Must be employed.	Set by plan provider based on federal income guidelines.	Income tax due on earnings portion of funds withdrawn if held less than 5 years.	Limited to those in plan.	No penalty on loan for educational purposes: tuition, fees, books, supplies, and equipment.	Owner.	Funds do not count as income for financial aid; leave funds in as long as possible.	Only to beneficiary.
401(K) and 403(B) retirement plans	Must be employed. If plan allows you to take a loan for college, it must be repaid. If you leave your job, the loan is due.	Set by plan provider based on federal guidelines.	Income tax is paid on money used to repay loan and again when funds are withdrawn at retirement. If loan is not repaid, the balance is considered early distribution and subject to ordinary income tax and a penalty.	Limited to those in plan.	No penalty on loan for educational purposes: tuition, fees, books, supplies, and equipment.	Owner.	Funds do not count as income for financial aid; leave funds in as long as possible.	Only to beneficiary.

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Custodial Account: Uniform Gift to Minors (UGMA) or Uniform Transfer to Minors (UTMA)	Anyone.	Set by federal government; up to $12,000 per child per year (Gift Tax Allowance).	Interest and earnings on investments are taxed at adult's rate until child reaches 18; when transferred to child, the investments sold will be subject to lower capital gains tax. To avoid capital gains, appreciated securities can be transferred to account. If investments are sold after child turns 18, gains will generally be subject to a lower tax rate.	Variety of options including cash or securities.	May be rolled over to 529 Plan. At age 18, child gets control and may use the money for whatever he or she wants.	Transfer is irrevocable. At age 18, child has complete control, whether or not funds rolled over to 529 Plan. On death of owner, the account becomes part of the estate if the child has not reached 18.	Considered to be child's assets and counts towards the amount student is expected to contribute for college costs.	Irrevocable transfer from owner when minor reaches 18.
Coverdell Education Savings Account (formerly known as Education IRA)	Income levels for singles and couples filing joint income tax returns are set by federal government. Singles with incomes below $110,000 or joint filers with incomes under $220,000. These provisions are in effect until 2010 unless Congress makes provisions permanent.	$2,000 per year per beneficiary. No funds may be added after child reaches age 18.	Contributions not tax deductible; income earned is tax-free when used for education expenses.	Owner controls investments; no management fees.	Can pay expenses for elementary to post-secondary: tuition, books, equipment, room and board; 10% penalty if not used before beneficiary is age 30.	The original agreement names person in control and states whether or not child receives control at age of majority. A second beneficiary should be identified. On death of beneficiary, the account becomes part of the child's estate if the child has not reached age 18.	If owner is the child, it does not count as income for financial aid purposes; if parent is owner, financial aid may be impacted.	Money left in an account may be transferred to another family member under age 30 without penalty.

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529 Plan: Savings plan	Anyone. May also participate in other state plans that allow non-resident owners; may roll over funds from one state plan to another.	Up to $12,000 per child. Allow up to five years Gift Tax allowance in one year or $60,000 for catch-up. No limit on contributions over life of plan so potential savings are unlimited. Beneficiary may have more than one account opened by different people; withdrawals for the same educational expense (such as first year tuition) can only be made from one account.	Tax-free growth at all income levels. No federal tax on contribution; however, may owe state taxes. Withdrawals are not subject to federal income tax if funds are used for qualified educational expenses. May be a benefit to contribute to own state's plan as some states do not allow tax breaks on withdrawals from other state's plans.	Contributors select investment options; investments may be moved to more conservative funds as beneficiary approaches age 18. Consider purchasing a direct-sold plan to save management and commission fees.	Tuition, fees, books, supplies and equipment; room and board if student is more than part-time. Amounts of a scholarship can be withdrawn without a penalty and taxed at owner's rate. Beneficiary can be changed to another person but there may be a small fee.	Contributor decides on time of withdrawal and purpose of use; grandparent may switch funds to another grandchild or take money back with 10% penalty on gains if designated child does not go to college.	Funds in an account opened by grandparents do not count towards income on financial aid application. Funds opened by parents remain under parents' control and are not usually counted as child's assets in determining financial aid.	Funds left after child finishes school may be used by the contributor for their own education, transferred to another family member, or withdrawn (with a 10% penalty on the unused portion plus income taxes owed on the gains).
529 Plan: Pre-paid tuition plans	Not presently available in Ohio; some states allow non-residents to purchase their plans.							
Savings Bonds: I and EE/E	Anyone.	$5,000 per individual per year.	Exempt from state and local taxes; may be able to exclude all or part of the interest earned from eligible EE and I Bonds issued after 1989 when paying qualified higher education expenses.	Available in various denominations; Interest rate on I Bonds is determined by a fixed rate and a semiannual inflation rate. EE bonds have a fixed rate when purchased after May 2005.	Bonds must be held at least five years to redeem without penalty.	Owner.	If owner is the child, up to 35% of the value counts as income for financial aid purposes; 5.6% if parent is owner.	Not applicable.

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