

College Savings Plan Alternatives: A Comparison

Features	Custodial Accounts	Coverdell Education Savings Account (ESA)	529 Savings Plan	Taxable Account
Description	Custodial account managed for the benefit of a minor. The account is an irrevocable transfer of assets in a child's name.	Tax-advantaged education savings vehicle for qualified K-12 and higher education expenses.	State-sponsored investment account allows money to accumulate tax-deferred for a child's college or graduate school education.	Taxable Account established at a financial institution.
Eligibility	No Restrictions	An investment account available to contributors who earn less than \$95k - \$110K (for single filers) and \$190K - \$220K (for joint filers)	No Restrictions	No Restrictions
Offered By	Brokerages, mutual fund companies, banks	Brokerages, mutual fund companies, banks	States (usually with help from a financial services companies)	Brokerages, mutual fund companies, banks
Account Ownership	The adult who sets up the account manages the assets for the benefit of a minor. All funds placed in the account become an irrevocable gift, so the assets belong to the child. Child gains access to the account at age 18 or 21 (depending on state).	The adult who sets up the account manages the assets. When the child turns 18, the adult may transfer ownership to the child. In most states, account assets become property of the student at age 18 or 21 (depending on state).	The contributor owns the account. If the beneficiary elects not to attend college, the owner can name another family member or even take funds back, subject to penalty. In most states, control of account will always remain with contributor.	The adult who sets up the account manages the assets.
Tax Advantages: Earnings	Earnings may be taxable.† Income earned is taxed to the child (but if under 14, kiddie tax rules apply).	Earnings are federally tax-deferred.	Earnings are federally tax-deferred.	Taxable
Tax Advantages: Withdrawals	Withdrawals are taxed subject to certain limitations. Consult your tax advisor.	Withdrawals are tax-free at the federal level when used for qualified education expenses.	Withdrawals are tax-free at the federal level when used for qualified education expenses.	None
Qualified Expenses	Not Applicable – Assets may be used for education or any other purpose.	Tuition, room, board, fees, supplies, and special needs related to the attendance of a qualified elementary, secondary, or post-secondary institution	Tuition, fees, room, and board at qualified higher-education institutions	Not Applicable – Assets may be used for education or any other purpose.
Penalty for Non-Qualified Withdrawals	None	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	None
Tax Advantages: Gift Tax Exclusion	No gift tax on amount placed in account up to \$12,000 (\$24,000 per couple) per beneficiary in a single year.	Not Applicable	Gift tax is excluded up to \$60,000 (\$120,000 per couple) per beneficiary in a single year if contributor elects to recognize that gift over 5 years for tax purposes, and makes no other gifts to the beneficiary during that period.	None



Features	Custodial Accounts	Coverdell Education Savings Account (ESA)	529 Savings Plan	Taxable Account
Tax Deductibility	None	None	Some states allow contributions to be partially or completely deductible. CO – Completely deductible in state plan.	None
Contribution Limits	No limit. (Gift Tax Exclusion applies)	\$2,000 per year†	Depends on plan -- varies from \$100,000 to \$305,000. (Gift Tax Exclusion applies)	No limit.
Investment Flexibility	Wide range of investment options. Assets can be invested in stocks, bonds, mutual funds, and cash equivalents. Investments can be bought and sold as often as desired.	Wide range of investment options. Assets can be invested in stocks, bonds, mutual funds, and cash equivalents. Investments can be bought and sold as often as desired.	Assets are professionally managed. Depending on the plan, participants can choose from two to almost 30 mutual fund-type investments. Investment choice may be changed once every 12 months.	Wide range of investment options. Assets can be invested in stocks, bonds, mutual funds, and cash equivalents. Investments can be bought and sold as often as desired.
Ability to Transfer Account	Transfers are irrevocable gifts.	Account may be transferred to other brokerage or mutual fund, or to a 529 plan, subject to fees and penalties. Can be rolled into another ESA for same beneficiary or a family member of beneficiary.	May transfer to another 529 plan once every 12 months. Account owners can change plan beneficiary if new one is family member of old beneficiary.	Not Applicable
Impact on Financial Aid	Assets are considered to be property of the student, which means a large portion of the assets will be considered in the financial aid calculation.	Account is considered an asset of the account custodian, typically the parent.	Assets are considered to be property of the account owner, which -- unless the owner is also the beneficiary -- means only a small portion of the assets will be considered in the financial aid calculation.	
Contribution Deadline	No restriction	Tax-filing deadline for the year of the contribution	Depends on the plan	No restriction

†Taxability and tax rates vary depending on the amount of earnings and the age of the beneficiary.