College Funding Choices

Explore the different ways you can help finance the costs of higher education.

How can you help cover your child's future college costs? Saving early (and often) may be key for most families. Here are some college savings vehicles to consider.

529 college savings plans. Offered by states and some educational institutions, these plans allow you to save up to $15,000 per year for your child's college costs without having to file an I.R.S. gift tax return. A married couple can contribute up to $30,000 per year. However, an individual or couple's annual contribution to a 529 plan cannot exceed the yearly gift tax exclusion set by the Internal Revenue Service. You may be able to front-load a 529 plan with up to $75,000 in initial contributions per plan beneficiary—up to five years of gifts in one year—without triggering gift taxes.[1,2]

Remember, a 529 plan is a college savings play that allows individuals to save for college on a tax-advantaged basis. State tax treatment of 529 plans is only one factor to consider prior to committing to a savings plan. Also, consider the fees and expenses associated with the particular plan. Whether a state tax deduction is available will depend on your state of residence. State tax laws and treatment may vary. State tax laws may be different than federal tax laws. Earnings on non-qualified distributions will be subject to income tax and a 10% federal penalty tax.

If your child doesn't want to go to college, you can change the beneficiary to another child in your family. You can even roll over distributions from a 529 plan into another 529 plan established for the same beneficiary (or another family member) without tax consequences.[1,2]

Grandparents can also start a 529 plan or other college savings vehicle. In fact, anyone can set up a 529 plan on behalf of anyone. You can even establish one for yourself.[1,2]

Coverdell ESAs. Single filers with modified adjusted gross incomes (MAGIs) of $95,000 or less and joint filers with MAGIs of $190,000 or less can pour up to $2,000 into these accounts annually. If your income is higher than that, phaseouts apply above those MAGI levels. Money saved and invested in a Coverdell ESA can be used for college or K-12 education expenses.[3]

Contributions to Coverdell ESAs aren't tax-deductible, but the accounts enjoy tax-deferred growth, and withdrawals are tax-free, so long as they are used for qualified education expenses. Contributions may be made until the account beneficiary turns 18. The money must be withdrawn when the beneficiary turns 30, or taxes and penalties may occur.[3,4]

UGMA & UTMA accounts. These all-purpose savings and investment accounts are often used to save for college. They take the form of a trust. When you put money in the trust, you are making an irrevocable gift to your child. You manage the trust assets until your child reaches the age when the trust terminates (i.e., adulthood). At that point, your child can use the UGMA or UTMA funds to pay for college; however, once that age is reached, your child can also use the money to pay for anything else.[5]

Using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional who is familiar with the rules and regulations.

Imagine your child graduating from college, debt-free. With the right kind of college planning, that may happen. Talk to a financial professional today about these savings methods and others.

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. This information has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All indices are unmanaged and are not illustrative of any particular investment.

Citations

1. IRS.gov, March 5, 2021
2. FINRA.org, 2021
3. IRS.gov, March 5, 2021
4. TheBalance.com, April 27, 2021
5. Finaid.org, 2021