

ASHWORTH &amp; ASSOCIATES, P.C.

Newsletter

## College Savings Vehicles Compared

	<b>529 plans</b>	<b>Coverdell ESA</b>	<b>U.S. savings bonds</b>	<b>Custodial account</b>
<b>Participation restrictions</b>	No (though state-run prepaid tuition plans are generally limited to state residents)	Yes, income limit for contributions and \$2,000 maximum annual contribution per child*	No, but ability to exclude bond proceeds from federal income tax depends on income	No
<b>Investment control</b> <b>(of the underlying investments)</b>	No	Yes	Yes	Yes
<b>Federal tax-exempt withdrawals</b> <b>(if funds are used for qualified education expenses)</b>	Yes (withdrawals may also be exempt from state income tax, depending on state law)	Yes (withdrawals may also be exempt from state income tax, depending on state law)	Yes, but income limits and other requirements must be met (bond proceeds are generally exempt from state income tax)	No
<b>Penalties</b> <b>(if funds aren't used for qualified education expenses)</b>	Yes, a 10 percent federal penalty applies to the earnings portion of all nonqualified withdrawals (a state penalty may also apply)	Same as 529 plans	No, but the bond proceeds won't be exempt from federal income tax	No, but withdrawals from the account can only be made for the child's benefit
<b>Federal financial aid treatment</b> <b>(student assets are weighed more heavily than parent assets)</b>	Parent asset (if parent is account owner)	Parent asset (if parent is account owner)	Parent asset (if parent is owner of bonds)	Student asset
<b>Fees and expenses</b>	<b>College savings plan:</b> typically an annual maintenance fee, administration fees, and investment expenses based on	There may be fees associated with opening and/or maintaining an account, depending on	No fees or expenses, except for the possibility of brokerage fees if bonds are purchased	There may be fees associated with opening and/or maintaining an account,

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	a percentage of total account value	financial institution	through a broker	depending on financial institution
	<b>Prepaid tuition plan:</b> typically an enrollment fee and various administrative fees			

\*The provision of the Economic Growth and Tax Relief Reconciliation Act of 2001 that increased the annual contribution limit for Coverdell ESAs to \$2,000 is set to expire on December 31, 2010. Unless Congress acts, after that date, the annual contribution limit for Coverdell ESAs will revert to \$500, the limit that was in effect prior to January 1, 2002.

U.S. Savings Bonds are guaranteed as to the payment of principal and interest. The remaining types of college savings vehicles are not guaranteed (except for 529 prepaid tuition plans) and are more risky.

*Investors should consider the investment objectives, risks, charges and expenses associated with 529 plans before investing. More information about 529 plans is available in the issuer's official statement, which should be read carefully before investing. Also, before investing, consider whether your state offers a 529 plan that provides residents with favorable state tax benefits.*

The availability of the tax or other benefits mentioned above may be conditioned on meeting certain requirements.