

### Education Savings Plans

### Three Types of Education Savings Plans

Type of Plan or Account	Investment Options	Contribution Limit	Withdrawal Criteria	Tax when Withdrawn
<b>Custodial UGMA/UTMA</b>	Unlimited	\$15,000 per year per donor	Benefit to the child	0 or parents' income tax rate <sup>1</sup>
<b>529<sup>2</sup></b>	Plan options	\$15,000 per year per donor	Higher education or up to \$10,000 per year K-12	None
<b>IRAs</b>	Unlimited	Depends on income	Higher education	Income tax rate

#### Terms Defined

**UGMA/UTMA:** Uniform Gift to Minors Act/Uniform Transfer to Minors Act allows a custodian to open an account for a minor until they reach adulthood (age 18–25)

**529:** Education plan operated by state or educational institution

**IRA:** Individual Retirement Account

#### Strategy

**IRA:** Max out retirement savings to take advantage of tax deduction and shelter

**Custodial:** Contribute to UGMA/UTMA until it has \$70,000 or earns \$2,100 (3%)

**529:** For excess contributions, since they can only be used for higher education

#### Example

*New parents want to pay for their child to attend college.*

Education (public or private) will cost approximately \$500,000, starting in 18 years.

Financed today with savings of \$150,000 or by saving \$1,000 per month for 20 years

#### Assumptions:

Private university tuition is \$40,000 and grows at 3.5%

Public university tuition is \$20,000 and grows at 7%

Room and board cost \$20,000 and grow at 3.5%

7% investment return

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<sup>1</sup> No tax if earnings are less than \$2,100 per year; otherwise taxed at trust & estate rate

<sup>2</sup> Can be transferred to another beneficiary