

Education Savings Plans

Three Types of Education Savings Plans

Type of Plan or Account	Investment Options	Contribution Limit	Withdrawal Criteria	Tax when Withdrawn
Custodial UGMA/UTMA	Unlimited	\$17,000 per year per donor	Benefit to the child	0 or parents' income tax rate ¹
529²	Plan options	\$17,000 per year per donor	Higher education or up to \$10,000 per year K-12 ³	None
IRAs	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 \$77,000 or earns \$2,300 (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 will cost approximately \$500,000 (public) or \$600,000 (private), starting in 18 years.

Financed today with savings of \$150,000 (public) or \$180,000 (private), or by saving \$1,000 (public) or \$1,500 (private) per month for 20 years.

Assumptions:

Private university tuition is \$60,000 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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¹ No tax if earnings are less than \$2,300 per year; otherwise taxed at parents' rate

² Can be transferred to another beneficiary

³ Also \$35,000 to Roth IRA if account opened more than 15 years ago on contributions made more than 5 years ago and all earnings