



CollegeBound 529

Understanding your college savings options

There are several ways to save for college — understanding the basics is an important first step in the selection process.

Today's most popular options differ when it comes to taxes, eligibility and flexibility

Stuffing money underneath your mattress may not be the best way to save for your children's college education. Why? Because the cost of college is rising quickly, and many families need their money to grow in order to keep up. Fortunately, there are several types of college savings solutions available.

However, selecting the right college savings plan for your family can sometimes be overwhelming. With several choices available – each with its own unique set of rules, features and benefits – understanding the basics is an important first step in the selection process. Below, we highlight important differences among several popular college savings options.

Types of college savings plans

Each plan type has its own unique set of rules, features and benefits.



529 plans

Operated by a state or educational institution, 529 plans can make it easy to save for education for a child, grandchild or other designated beneficiary. There are two types of 529 plans: pre-paid tuition plans, which lock in costs and have residency and other restrictions, and savings plans, which don't lock in costs but are much more flexible. While certain withdrawals are subject to federal, state and local taxes, 529 savings plans are tax-advantaged savings plans that have high contribution limits and allow earnings to grow tax-free when used for education expenses. Many states also offer additional tax incentives.



Coverdell Education Savings Accounts (CESA)

These accounts are used to pay the education expenses of a designated beneficiary. They offer tax-free growth and tax-free withdrawals when the funds are used for qualified education expenses. Withdrawals can be used for qualified elementary and secondary education expenses, as well as for college. However, the maximum annual contribution is low at only \$2,000 per beneficiary, and they are only available to families with income below a certain level.



Custodial accounts (UGMA/UTMA)

Custodial accounts are used by parents or grandparents to invest in a child's education, while taking advantage of the child's generally lower tax rate. These accounts also have no maximum investment limit. Because minors can't directly own an investment or bank account, an adult custodian must manage and use the funds for the benefit of the minor child, as prescribed under the state's Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA).



Taxable accounts (savings accounts)

These accounts are set up and owned by individuals with after-tax dollars to save for college or other goals. All earned income is taxable annually at the account owner's federal and state income tax rate and dividends and capital gains are taxed at a lower rate.

For 529 plans and CESAs, earnings on non-qualified withdrawals may be subject to federal income tax and a 10% federal penalty tax.

The chart on the next page describes the features of these college savings options.

Comparing the plans

The following chart summarizes and compares the features of 529 plans, CESAs, UGMAs/UTMAs and taxable savings accounts.



2019 rules	529 Plan	Coverdell Education Savings Account (CESA)
Federal income tax	Contributions made with after-tax dollars; earnings grow tax-free and are free from federal income tax when used for qualified higher education expenses ^{1,2}	Contributions made with after tax dollars; earnings grow tax-free and are free from federal income tax when used for qualified higher education expenses and/or qualified K-12 expenses ¹
Federal gift tax treatment	Contributions are treated as gifts; annual gift tax exclusion of up to \$15,000 per donor (\$30,000 if married, filing jointly) per beneficiary. A contribution in excess of the annual gift tax exclusion amount up to \$75,000 (\$150,000 if married, filing jointly) can be prorated over five years and treated as a gift in each of those years	Contributions are treated as gifts; annual gift tax exclusion of up to \$15,000 per donor (\$30,000 if married, filing jointly) per beneficiary
Federal estate tax treatment	Value removed from donor's gross estate; partial inclusion up to \$75,000 if contributor's death occurs during the five-year election period (\$150,000 if married, filing jointly)	Value removed from donor's gross estate
Maximum investment	Established by the program; many in excess of \$300,000 per beneficiary	\$2,000 per beneficiary per year combined from all sources
Qualified expenses	Tuition, fees, books, computers and related equipment, supplies, special needs; room and board (including off campus housing) for minimum half-time students; may be allowed for qualified K-12 education according to state statute	Tuition, fees, books, supplies, equipment, special needs; room and board for minimum half-time students; additional categories of K-12 expenses
Ability to change beneficiary	Yes, to another member of the beneficiary's family; see plan's program description for beneficiary change information and restrictions	Yes, to another member of the beneficiary's family; see plan's program description for beneficiary change information and restrictions
Time/age restrictions	None unless imposed by the program	Contributions before beneficiary reaches age 18, the balance of the account must be distributed 30 days after the beneficiary reaches age 30 ³
Income restrictions	None	Ability to contribute phases out for income between \$95,000 and \$110,000 (single filers) or \$190,000 and \$220,000 (married, filing jointly)
Federal financial aid	If the parent is the owner, it counts as an asset of the parent and is assessed up to 5.6%.	If the parent is the owner, it counts as an asset of the parent and is assessed up to 5.6%
Investments	Menu of investment strategies as offered by the program	Broad range of securities and certain other investments
Use for non-qualifying expenses	Non-qualified withdrawals may be subject to federal income tax and a 10% federal tax penalty, as well as state and local income taxes	Non-qualified withdrawals may be subject to federal income tax and a 10% federal tax penalty, as well as state and local income taxes

Source: Savingforcollege.com

¹ Earnings on non-qualified withdrawals may be subject to federal income tax and a 10% federal penalty tax, as well as state and local income taxes.

Tax and other benefits are contingent on meeting other requirements and certain withdrawals are subject to federal, state, and local taxes.

² Some states also offer state tax deductions and credits. Contact your tax advisor for more information.



UGMA/UTMA

Earnings and capital gains are taxed at the minor's tax rate⁴

Gifts and transfers to the minor are treated as completed gift; \$15,000 (single filers) or \$30,000 (married, filing jointly) as annual gift exclusion

Value removed from donor's gross estate unless donor remains as custodian

No limit

No restrictions

No; represents an irrevocable gift to the child

Custodianship terminates when minor reaches age of majority established under state law (generally 18 or 21).

None

Counted as student's assets and assessed at 20%

Investments are chosen by the custodian until the child reaches the age of majority

Funds must be used for benefit of the minor

Taxable account (i.e., savings account)

Fully taxable at the account owner's tax rate

Each individual's tax situation is different. Please consult your tax advisor

Each individual's tax situation is different, please consult your tax advisor

Not applicable, funds can be used for any purposes the account owner deems appropriate

No limit

Not applicable

None

None

Counted as assets of the account owner and assessed at up to 5.64% if owned by the parent

Investments are chosen by the account owner

As chosen by the account owner

To learn more about starting a CollegeBound 529 for your child, visit collegebound529.com

³ The balance in the account generally must be distributed within 30 days after the earlier of the following events: the beneficiary reaches age 30, unless the beneficiary is a special needs beneficiary; or the beneficiary's death.

⁴ The first \$1,050 of a child's unearned income is tax exempt; income over \$2,100 is taxed at parents' rate if child is under 18, or a full-time student under age 24. If child is 19 or older at the end of the tax year and is not a full-time student, all investment income is taxed at the child's rate.

It's never too late to start saving

Your financial professional can help you get started and stay on course with the most appropriate investment choices for your family and your time horizon. In addition, your financial professional can explain implications for taxes and financial aid eligibility, offer guidance about qualified expenses and withdrawals, and help you maximize the benefits of saving for college in a CollegeBound 529 account.

To learn more about starting a CollegeBound 529 plan for your child, visit collegebound529.com.

NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE

Before you invest, consider whether your or the beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in that state's qualified tuition program.

For more information about CollegeBound 529, contact your financial advisor, call 877 615 4116, or visit collegebound529.com to obtain a Program Description, which includes investment objectives, risks, charges, expenses, and other important information; read and consider it carefully before investing. Invesco Distributors, Inc. is the distributor of CollegeBound 529.

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