

**Q.** I would like to start saving for my child's college education. Which savings plan should I use?

**A.** There are a few different options to help you plan for college. Let's take a look at each of these options including the pros and cons.

### Parents Investment Account

#### Pros:

- The owner maintains control of the assets and decides when withdrawals will be made.
- Account can be used for anything
- Unlimited investment options
- No penalties for withdrawals not pertaining to college
- There are no contribution limits

#### Cons:

- Dividends and interest are taxed at the owner's applicable rate and capital gains are taxed at capital gains tax.
- You can move your assets as often as you like, but each transfer will cause a taxable event
- There are no tax advantages to this plan

### UGMA/UTMA

#### Pros:

- No income or contribution limits
- There are some income tax advantages if eligible for income to be taxed at child's rate
- Can be used for anything benefiting the child

#### Cons:

- Beneficiary assumes control at 18. At this point the money is theirs and they can spend it as they wish
- Assets can be moved, but each time a taxable event occurs
- Beneficiary cannot be changed

**WorkInvest is a program by RSG Partners Financial & Insurance Services, Inc.**

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## Coverdell Savings Account

### Pros:

- Earnings can grow free from tax, and withdrawals for qualified elementary, secondary, and higher education expenses are free from federal tax
- Can change investment options as often as you like without incurring taxes
- Can change beneficiary

### Cons:

- Ability to contribute is based on income.
- The maximum you can contribute is \$2000/year
- Beneficiary may assume control at age 18
- Ordinary income taxes and a 10% tax penalty on earnings may be incurred if not used for qualified purchase

## 529 Plan

### Pros:

- No income limits. Anyone can contribute
- Contribution limits are \$250,000 per beneficiary
- Earnings grow tax free and withdrawals for qualified higher education expense are free from tax
- Owner maintains control of account
- Can change investment options at any time without causing a taxable event
- Can change the beneficiary at any time

### Cons:

- Ordinary income taxes and 10% penalty on earnings if withdrawn for non qualifying purpose.

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