KissTrust®

College Savings Success Guide

for Parents

1 529 Plan

A 529 plan is a state or educational institution sponsored plan that helps families save for their student's future college expenses. *Ever wondered why it is called a 529 plan?* Well, it was created as a result of Section 529 of the IRC in 1996. 529 plans are not nationally uniformed, so each state or institution operates these plans differently. Savingforcollege.com lets parents verify the eligibility of their student's anticipated college related to 529 plans and Coverdell ESAs.

The Good

- Most 529 plans offer federal tax benefits
- Some 529 plans offer state tax benefits, as well
- The donor, or *account owner*, controls the assets until they are distributed
- No income, age, or contribution limits

The Bad

- Contributions are not tax deductible
- If the donor withdraws the funds for non-qualified withdrawals, a 10% penalty tax will be incurred on capital gains
- Investments can only be changed twice per calendar year
- High hidden fees as the state that sponsors the plan assess an annual fee
- Loss of education tax credits
- Reduces student financial aid opportunities

2 UGMA/UTMA Account

UGMA/UTMA accounts allow adults to transfer assets and securities to a minor. Their names are often interchangeable, but there are some key differences between the two. UGMA accounts are derived from the Uniform Gift to Minors Act and limits the type of assets that can be gifted to minors, such as bank deposits, securities, and insurance policies. UTMA accounts are derived from the Uniform Transfer of Minors Act which allows parents to transfer bank deposits, securities, and insurance policies, like UGMA, as well as real estate and practically any other type of asset.

The Good

- Minors can own assets and securities
- Income produced by these assets are taxed based on the child's, often lower, tax bracket
- Assets are removed from the donor's gross estate

The Bad

- Cannot change the beneficiary once a gift has been made
- No restrictions on the use of assets once the beneficiary reaches the distribution age
- Funds can only be used for the benefit of the minor
- Reduces student financial aid opportunities

3 Coverdell Education Savings Account

What was formerly referred to as the Education IRA, the name was changed in 2002 to the Coverdell Education Savings Account. The redefining of the Education IRA to the Coverdell ESA brought a number of new benefits for parents with the intent to save for their child's education expenses (yes, not just college expenses). Coverdell ESAs benefit a niche subset of individuals in the realm of education savings, but for those who qualify, these accounts can be more alluring than 529 plans and UGMA/UTMA accounts.

The Good

- Funds can be used for certain "qualified expenses" during K-12 and college expenses
- Operates similarly to an IRA, specifically for contribution purposes (contributions can be made up to April 15 each taxable year)
- In most cases, income is tax-free
- Beneficiaries can make contributions to the ESA

The Bad

- There are more stringent eligibility requirements for Coverdell ESAs (parents must earn less than $190,000 combined in modified adjusted gross income)

- Only up to $2000 can be contributed per child annually
- Contribution cannot be made once the beneficiary reaches age 18
- The account must be dissolved by the time the beneficiary reaches age 30 to avoid additional taxes and penalties
- The remainder of funds after the beneficiary's college expenses have been paid are unrestricted and can be used for any purpose
- Withdrawals may hurt the student's eligibility for financial aid
- Some student tax credits (particularly the Hope and Lifetime Learning Credit) may instigate taxation of Coverdell ESA withdrawals by reducing the leniency of qualified expenses
- Maximizing the benefits of Coverdell ESAs can require extensive planning and professional guidance
- Reduces student financial aid opportunities

4 Education Trust

An education trust is a name that's given to an irrevocable trust with the primary purpose of providing for the beneficiary's college expenses, but an education trust can do much more. These trusts are comparable to other education savings accounts, though education trusts don't have contribution limitations, tax penalties, or eligibility requirements. Education trusts are created for the sole benefit of the beneficiary, so each trust is entirely unique and fits the needs of the family. Since education trusts are not confined by legislated state or federal restrictions, the Grantor can create an education trust to benefit the beneficiary far beyond college for just about anything. *How does it work?* The Grantor creates the education trust through an attorney or online using TrustWare™. During the creation process, the Grantor chooses everything from who the beneficiaries will be, the age (or an event) that permits the distribution of funds from the trust, how the trust funds will be invested, and much more.

The Good

- No contribution limitations, tax penalties, or eligibility requirements
- The grantor can completely customize the terms of the trust
- Cash, securities, insurance policies, real estate, and more can be put into an education trust
- Assets in the trust are protected by creditors
- Can be used for college expenses, first home purchases, and much more, like even saving for the beneficiary's retirement
- Avoids probate after the Grantor's death
- Anyone can gift into an education trust
- Assets in the trust are considered to be owned by the trust
- Can maximize student financial aid eligibility
- Trust income is often taxed in lower tax bracket
- Multiple beneficiaries can benefit from one trust
- Does not reduce student financial aid
- Preserves Education Tax credits

The Bad

- Assets in the trust are irrevocable