Education Planning

Which option is right?

529 Plan	UTMA (Uniform Transfer to Minors Act)	ESA (Education Savings Account)	Investment Account

529 College Savings Plan*

Investment growth is tax-free. The money needs to be spent on education, but distributions aren't limited strictly to college. The definition for withdrawals is very broad. The downside to the account type is the rigidity - if the money is not used for education, you'll pay taxes and a 10% penalty on the growth. The parent acts as custodian of the account and the child is the beneficiary. The account can easily be passed down to younger children or even a parent for educational purposes. There is no annual contribution limit, but you must be aware of the annual gift tax limit per contributor.

Education Savings Account (ESA)

Similar to the 529 plan, your investment grows tax-free if used for approved educational expenses. It is also funded with post-tax money.

There are some disadvantages of this account type. (1) There is a $2,000 annual contribution limit per child. (2) Once the child reaches age 18, you can no longer contribute. (3) If your Modified Adjusted Gross Income (MAGI) is above $110,000 (single filer) or $220,000 (married filer), you cannot contribute.

UTMA Investment Account

Upon withdrawal, investment growth is taxed as normal. The upside to this account type is greater flexibility. Money can be used on anything that benefits the child. The downside is that the child will gain control of the funds at the age of majority and you have no tax benefit. The child is the account owner and a parent is the custodian.

Investment Account in the Parents' Names

As with a UTMA, growth will be taxed as normal when funds are withdrawn. This account is very flexible. The upside is that you retain control. The downside is gifting limits when turning the money over to the child.
