Education Savings Plans Compared

Benefit or Feature	529 Prepaid Tuition Plan[1]	529 Education Savings Plan[1]	Coverdell Education Savings Account
Basic Concept	Buy tomorrow's tuition at today's prices.	Tax-advantaged savings account to accumulate funds for higher education.	Tax-advantaged savings account to accumulate funds for education.
Federal income tax treatment	Contributions are not deductible; growth is tax-deferred; withdrawals for qualified higher education expenses are exempt from tax.	Contributions are not deductible; growth is tax-deferred; withdrawals for qualified higher education expenses are exempt from tax.	Contributions are not deductible; growth is tax-deferred; withdrawals for qualified education expenses are exempt from tax.
State or local income tax treatment	Varies. Some states follow federal income tax law, while others do not.	Varies. Some states follow federal income tax law, while others do not.	Varies. Some states follow federal income tax law, while others do not.
Level of investment risk	Generallyalowlevelofrisk. Sponsoring state or organization typically promisestoinvestfundsto matchtuitionincreases. Later contributions may be required.	Varies, depending on the underlying investments. An investment managertypically manages the funds. Both gainsand losses are possible.	Varies, depending on the underlying investments. A wide range of self-directed investments is available. Both gains and losses are possible.
Where to purchase	Directly from the state or private institution involved.	Investment brokers, banks, credit unions, insurance companies, or directly from the state involved.	Investment brokers, banks, credit unions, and insurance companies.
Who can contribute?	Generally, anyone. Residency restrictions may apply.	Generally, anyone. Residents in one state can often invest in another state's plan.	Generally, anyone.

[1] 529 refers to Section 529 of the Internal Revenue Code, the section of federal law which authorizes these plans.

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CAPITAL MANAGEMENT

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How much can be contributed?	Contributions must be in cash and may not exceed what is needed to fund the beneficiary's higher education expenses. The program sponsor will specify the maximum amount.	Contributions must be in cash and may not exceed what is needed to fund the beneficiary's higher education expenses. The program sponsor will specify the maximum amount.[2]	Contributions must be in cash and may not exceed $2,000 per beneficiary per year.
Beneficiary age limits for contributions?	None	None	Before age 18 unless a special needs student.
How are payments made?	In a lump-sum or periodic payments.	In a lump-sum or periodic payments.	Typically, in periodic payments.
Do income limitations apply to the donor?	No	No	Yes. Contribution is phased out for donors whose AGI exceeds certain limits.[3]
Who controls the funds?	Generally, the donor.[4] If the account is a custodial account, the beneficiary becomes the owner when he or she reaches age 21 (18 in some states).	Generally, the donor.[4] If the account is a custodial account, the beneficiary becomes the owner when he or she reaches age 21 (18 in some states).	Generally, the donor.[4] If the account is a custodial account, the beneficiary becomes the owner when he or she reaches age 21 (18 in some states).
What expenses are covered?[5]	Tuition and fees for primary, secondary, and post-secondary education are covered. Some plans include a room and board option or allow excess tuition credits to be used for other qualified expenses.	For primary and secondary schools, tuition and fees are covered. For post-secondary education, costs such as tuition, fees, books, supplies, computers, software, and internet access are covered. Reasonable costs for room and board also qualify is the student is attending school at least half time.	A wide range of expenses is allowed to attend K-12 as well as post-high school educational institutions. May include tuition, fees, books, supplies, and equipment, as well as reasonable costs for room and board.

[2] In some higher education savings programs, more than $250,000 may be contributed for a single beneficiary.
[3] For unmarried individuals, the contribution is phased out when adjusted gross income (AGI) is $95,000 - $110,000. For married couples, filing jointly, the phase-out is an AGI of $190,000-$220,000.
[4] With a 529 prepaid tuition plan or a 529 savings plan, if the assets are not used for higher education, they may be returned to the donor. In a Coverdell Education Savings Account, if the assets are not used for higher education, they will ultimately become the property of the beneficiary.
[5] Technically, under IRC Sec 529, the same definition of "qualified higher education expenses" applies to both prepaid tuition plans and education savings plans. In practice, however, for prepaid tuition plans, the sponsoring entity will limit the use of the funds to the types of expenses shown above.

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What schools may the beneficiary attend?	Prepaid tuition plans typically limit attendance to same-state schools or colleges.	Funds accumulated in the savings plan of one state may usually be used at institutions of higher education throughout the US. Some foreign schools also qualify.	For K-12, any school that qualifies under state law, including public, private, or religious schools. For post-high school, most institutions in the US qualify.
Effect on financial aid?	Generally reduces financial aid. Account owned by student penalized more than parent-owned account.	Generally reduces financial aid. Account owned by student penalized more than parent-owned account.	Generally reduces financial aid. Account owned by student penalized more than parent-owned account.
May account be rolled-over to other family members?	Yes	Yes	Yes

Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about specific 529 plans is available in each issuer's official statement, which should be read carefully before investing. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. Prior to investing in a 529 plan, investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, or protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.