529 Plans compared to Coverdell Education Savings Accounts		
	529 Plans	CESA
Allowable contribution per beneficiary per year	None, subject to maximum accumulation ($200,000 or more; varies by plan)	$2,000
Income limits of donor	No limits	Allowable contribution phases out for adjusted gross income of $95,000 to $110,000 ($190,000 to $220,000 for married couples filing jointly)
Gift taxes	Up to $17,000 per year ($34,000 for married couples) may be contributed without gift tax	Allowable contribution is within the annual gift tax exclusion
Windfalls	Up to $85,000 in one year ($170,000 for married couples) may be contributed without gift tax, provided no additional gifts are made to the same beneficiary for five years	No provision
Financial aid impact	Considered an asset of the owner, not beneficiary	Considered an asset of the owner, not beneficiary
Qualified withdrawals	College-related expenses, including tuition and books Tuition for K-12	Education expenses for college or K-12
Age limits on beneficiary	None	Beneficiary must be under 18 or have special needs
Investments	Professionally managed portfolio	Account owner makes all investment decisions
Investment changes	Asset allocation may be changed twice each year	No limit on investment changes

Sources: Internal Revenue Code; IRS Publication 970

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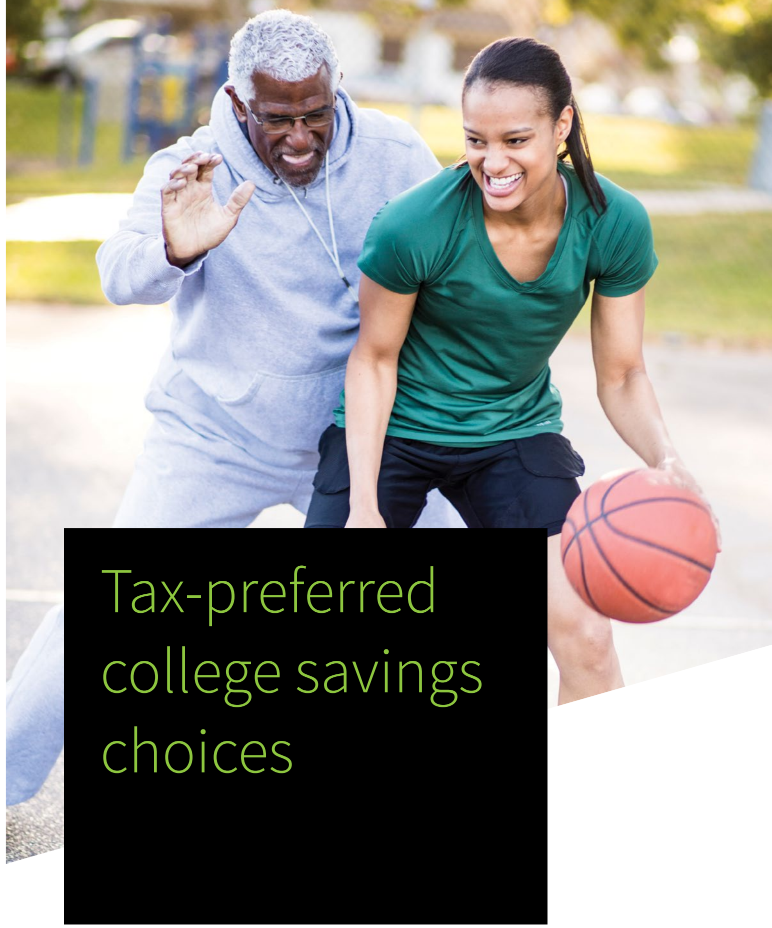

Tax-preferred college savings choices

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Tax-preferred college savings choices

Total student loan debt has reached roughly $1 trillion, and college costs continue to grow faster than inflation. Perhaps some level of education borrowing is inevitable in this environment, but the amount can be made more manageable if there is a pool of savings to be tapped.

Fortunately, there are tax-advantaged plans to give families a boost as they accumulate capital for meeting education expenses. With each plan, there's no tax deduction for setting money aside, but taxes *are* deferred on earnings. Withdrawals used for qualified education expenses, such as tuition and books, are completely free from federal income tax.

Coverdell Education Savings Accounts

Up to $2,000 per beneficiary per year may be set aside in a Coverdell Education Savings Account (CESA). One may be the beneficiary of several CESAs, but the total contributions to all such accounts may not exceed $2,000 in one year. Contributions may start when the child is born and continue to age 18. The funds must be drawn down by the time the child reaches age 30 in order to avoid paying taxes and penalties. Alternatively, a different family member may be named as a successor beneficiary. Note that different rules apply to a special needs beneficiary.

Unfortunately, there are restrictions on who may contribute to the CESA, based upon the donor's income. Singles with modified adjusted gross income (MAGI) of $95,000 and marrieds filing jointly with MAGI up to $190,000 are permitted to make full contributions.

Over an 18-year period, up to $36,000 may be set aside in a CESA. If the funds earned 6%, the account could grow to $65,519 over that period. The table above shows accumulations for different rates of return and savings periods.

Tax-preferred accumulations

Year	Total contributions	Accumulation at 3% total return	Accumulation at 6% total return	Accumulation at 10% total return
5	$10,000	$10,937	$11,951	$13,431
10	$20,000	$23,616	$27,943	$35,062
15	$30,000	$38,314	$49,345	$69,899
18	$36,000	$48,234	$65,519	$100,318

Rates of return are for illustration only and do not represent any particular investment.

Funds in a CESA also may be used for K-12 education expenses. However, a drawdown for these expenses will compromise the amount left for paying for college.

Investments in CESAs are handled as they are in IRAs and Roth IRAs. Mutual funds are the most likely choice, as they offer diversification and ease of trading. The owner may make investment changes to the CESA as often as desired.

Although transfers to a CESA are taxable gifts, the annual contribution limit falls well under the $16,000 annual gift tax exclusion. Unless there have been other substantial gifts made in the same year to the same beneficiary, the federal gift tax should not be a concern.

529 college savings programs

Section 529 college savings programs offer flexibility. There are no income limits as to who may contribute and no age limits on the beneficiaries. Every state now offers a 529 plan. You are not obligated to use the plan offered by your home state, but you may secure additional state income tax breaks by doing so.

There is no annual limit on the amount that may be contributed to a 529 plan, but the federal gift tax may apply to transfers of more than the annual exclusion from the federal gift tax. That amount is $17,000 in 2023. Married couples can double that, to $34,000. Also, there is an option for accelerating funding, contributing $85,000 in one year and reporting the gift over the next five years. (Married couples could contribute $170,000.) No other taxable gifts are allowed during the five-year period. Thus, the 529 plan can be an especially good choice for earmarking a lump sum, such as an inheritance, for educational purposes.

The amount that may be accumulated for each beneficiary varies from state to state, but it can exceed $200,000. The donor stays in control of the assets in the 529 plan, deciding when withdrawals will be made and for what purpose. If withdrawals are not used for qualified education expenses, income taxes and generally a 10% penalty tax will be due. Naming other family members as plan beneficiaries may avoid this issue.

The assets in the 529 plan are managed by a professional investment company or the state treasurer's office. Generally, the plan will offer a range of investment choices, and if the plan permits, the choice may be changed twice each year.

The table on the next page compares CESAs and 529 plans. However, one need not choose one or the other. Contributions may be made both to CESAs and 529 plans in the same year (subject to a $16,000 gift tax cap on combined contributions).

Before investing in a 529 plan, investors should carefully consider whether the investor's or beneficiary's home state offers any state tax or other benefits available only from that state's 529 plan. Investors should consider the investment objectives, risks, charges and expenses associated with municipal fund securities before investing. This information is found in the issuer's official statement and should be read carefully before investing.

The Roth IRA option

Roth IRAs are intended for retirement, of course. However, some people are looking to Roth IRAs to do double duty, as a supplemental source for education funding. Contributions to a Roth IRA may be withdrawn without taxes or penalties. Earnings withdrawn before age 59½ to pay certain education expenses would be subject to income tax, but no penalty tax may be due.

Roth IRAs have a higher contribution limit than the CESA, and the limit applies on a per donor basis. If the money is needed for education, it is there; if not, it can remain in place for retirement.

Start today

The most important factor in achieving success in meeting financial goals, such as building an adequate college fund, is putting time on your side by starting early. Don't let doubt or uncertainty lead to indecision. Wondering which plan is right for your future scholar? Worried about making the right investment decisions? Let us help you sort through your choices and plan with a sense of confidence.