

SAVINGS VEHICLE	FEATURES	TAX CONSIDERATIONS	CURRENT TREATMENT UNDER FEDERAL FINANCIAL AID FORMULA
<p>Coverdell Education Savings Account</p> <p>For more information check out the following sites:</p> <p>www.savingforcollege.com/coverdell_esas/</p> <p>www.irs.gov/pub/irs-pdf/p970.pdf</p>	<ul style="list-style-type: none"> Accounts must be set up for children <u>under</u> age 18 and all contributions made before age 18 (unless the beneficiary meets the special needs designation which allows for later contributions) Total maximum contribution per year per child = \$2,000 Contribution eligibility currently phases out at \$110,000 of AGI for singles and \$220,000 for married, joint filers Withdrawals can be used for many elementary and secondary school expenses as well as higher education expenses Beneficiary can be changed to another family member 	<ul style="list-style-type: none"> Earnings are exempt from federal income taxes until disbursed; withdrawals are tax free if used to cover qualified elementary, secondary or higher education expenses at an eligible institution 10% penalty on earnings if not used to cover qualified education expenses (in addition to taxation on earnings at normal income tax rate) 	<ul style="list-style-type: none"> Considered the asset of the account owner (not the beneficiary) and subject to the parent asset rules under the formula unless owned by someone outside the student's household*
<p>Section 529 Plans (Prepaid Tuition and College Savings Plans)</p> <p>For more information check out the following sites:</p> <p>www.collegesavings.org</p> <p>www.savingforcollege.com</p> <p>www.collegechoiceplan.com</p>	<ul style="list-style-type: none"> Two types: <ol style="list-style-type: none"> Prepaid Tuition Plans – purchase of tuition units today to cover tuition in the future; some states' plans limit purchase of tuition to in-state colleges; offered by states and some private colleges College Savings Plans – money invested to cover qualified higher education expenses at <u>any</u> qualified college or university for beneficiary in the future Most states have Section 529 plans and individuals can select a home state plan or open an account in another state; typically administered by third-party money managers; (Note: Compare fees carefully from plan to plan as they can vary tremendously.) There are no household AGI limits restricting who can contribute to such accounts Anyone can establish an account for a given student and anyone can contribute to that account; the aggregate total of all account values for a given beneficiary is subject to the maximum contribution limit designated by each state's plan Beneficiary can be changed to another family member 	<ul style="list-style-type: none"> Earnings and distributions are not subject to federal income tax if withdrawn to cover qualified higher education expenses at eligible institutions; earnings and withdrawals also are exempt from state income tax in many states Some states provide a tax deduction or credit for contributions if you invest in your home state's plan(s) Contributions/gifts subject to federal gift tax rules; <u>however</u>, there is a one-time individual gift exception of up to \$65,000 (subject to certain provisions) Typically, one annual rollover (for example, from one state's plan to another) is allowed without penalty 10% penalty on earnings if not used for qualified higher education expenses (in addition to taxation on earnings at normal income tax rate) 	<ul style="list-style-type: none"> Considered the asset of the account owner (not the beneficiary) and subject to the parent asset rules under the formula unless owned by someone outside the student's household*
<p>Uniform Gifts to Minors Act (UGMA) / Uniform Transfer to Minors Act (UTMA) Accounts</p>	<ul style="list-style-type: none"> Established for minors by adults who act as custodians of accounts until the age of majority (18 or 21 depending on state) At age of majority, student is entitled to trust (no change in beneficiary allowed) and money is available for use at student's discretion 	<ul style="list-style-type: none"> Tax liability lies with minor – “kiddie tax rules” apply Subject to federal gift tax rules 	<ul style="list-style-type: none"> Considered a student asset (even if access is restricted until age 21) and is subject to corresponding student asset rules under formula* Trusts restricted by court

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<p>U.S. Series EE and I Savings Bonds</p> <p>For more information check out the following site: www.savingsbonds.gov</p>	<ul style="list-style-type: none"> • Only Series EE and Series I bonds issued January 1990 and later are eligible for this special tax treatment under the Education Bond Program • There are maximum limits on Series EE and I bond purchases in a calendar year • Interest bearing maximum = 30 years 	<ul style="list-style-type: none"> • Interest is excluded from federal income tax when used to cover qualified higher education expenses incurred by the bond owner, his/her spouse or his/her dependent (based on tax exemption) at an eligible institution or if used to make contributions to a Coverdell ESA or Section 529 Plan in the year of redemption; interest is exempt from state and local income taxes • Both principal and interest from bonds must be used for qualified higher education expenses to avoid tax on interest • Savings Bonds (Series EE and I) – phases out between \$100,650 and \$130,650 of modified AGI (MAGI) for married, joint filers and between \$67,100 and \$82,100 for single filers • Bond owner must be at least 24 years old on the first day of the month in which the bond is issued to get preferential tax treatment listed above 	<ul style="list-style-type: none"> • Considered the asset of the bond owner and subject to the corresponding parent asset rules under the formula if the bonds are in the parent(s) name(s); subject to the student asset rules if bonds are in the student’s name* • <u>Current</u> value of bonds reported at time of FAFSA filing
<p>Standard Savings & Investment Plans (Savings Accounts, Mutual Funds, Stocks, Bonds, Etc.)</p>	<ul style="list-style-type: none"> • Accounts can be set up for ownership and use according to contributor’s specifications • No maximum contribution limits • Can be invested and used at the owner’s discretion 	<ul style="list-style-type: none"> • Earnings subject to federal, state and local income tax and capital gains regulations 	<ul style="list-style-type: none"> • Considered the asset of the owner(s) and subject to corresponding asset rules* • Interest income may affect the adjusted gross income (AGI) of the account owner(s)

*** Important Information Regarding Current Asset Treatment Under the Federal Financial Aid Formula:**

- Parents are given an asset protection allowance based on the number of parents in the household (1 or 2) and the age of the older parent. Only parent assets **above** the parent asset protection allowance are considered under the federal formula. For exposed assets (those above the asset protection allowance), the “worst case” contribution is approximately 5.6% in calculating the **Expected Family Contribution (EFC)**.

- For students, the contribution expected under the federal formula is 20% of all current student assets in calculating the EFC.

Note: The list is not exhaustive, and the highlights, tax tips and financial aid notes provided in each section represent some important features (but certainly not all) that you should know. Be sure to consult your accountant or financial planner before making any final investment decisions