

## Tips for Choosing College Savings Options

### 1. Understand the Tax Benefits

A number of college savings options offer tax-advantaged ways to save. Taking advantage of these savings options may greatly affect how much you can accumulate for your child's college education. In addition to the federal tax benefits of many college savings options, there may also be state tax benefits. Savings bonds are usually exempt from state and local taxes. Many states allow you to deduct some or all of your contributions to a 529 plan if you're a resident of the state sponsoring the plan. In addition, states may offer other tax advantages for 529 plans. Because of these state tax benefits, you might want to check out your own state's 529 plan before considering other plans.

Everyone's tax situation is different, and state and federal tax law can be complex. You may want to consult with your tax adviser about which college savings options are best for you.

### 2. Examine Fees and Expenses

All of the college savings options discussed above involve various fees and expenses. A college saving option with higher costs must perform better than a low-cost option to generate the same returns for you. Even small differences in fees and expenses can translate into a large difference over time.

While we explain the various expenses involved with many 529 plans, that does not mean that other college savings options don't have fees and expenses. If you invest in mutual funds through an ESA or custodial account, you should check the fee table in the prospectus to see how the costs of a mutual fund add up over time. If you invest in stock, make sure you understand how much in commissions you must pay and factor this into any gain you may make.

### 3. Know the Risks As Well As the Rewards of Your College Savings Options

Compared to saving for retirement, your college saving timeline is relatively short. At most it may be 18 years. And for many people, it's a lot less. This can impact your ability to weather a market decline and increases your risk.

Before investing in any college saving vehicle, carefully evaluate it and its investment options. Investment options with higher rates of return may take risks that are beyond your comfort level and are inconsistent with your goals. To learn more about the investment strategy of investment options you are considering and their risk, you should read the following materials:

- **529 Plans.** Read the offering circular or prospectus. It usually contains the investment strategy and risks of a 529 plan and its investment portfolios. Most 529 plans provide this document on their Web sites.
- **Mutual Funds.** Read the prospectus and shareholder reports. Prospectus and shareholder reports are usually available from mutual fund companies or your financial professional.

- **Stocks and other securities.** Read a company's registration statement or annual (Form 10-K) and quarterly (Form 10-Q) reports. These are typically available in the SEC's EDGAR database. For companies that don't file in EDGAR, email the SEC's Office of Investor Education and Advocacy, or call (202) 551-8090, to see whether the company has filed any documents with the SEC.

#### 4. Understand Your College Savings Plan's Limitations and Restrictions

What happens to your college savings if your child decides not to go to college, you have another child or you lose your job? These events and many others could dramatically impact your college savings strategy. Unfortunately, most college savings options have various restrictions and limitations that may impact your ability to react to a changing situation. Review carefully any college saving options you're considering to make sure they have the flexibility and control you feel you need.

Our College Savings Plan Comparison Chart will help you understand and compare the various restrictions and limitations of each option.

### College Savings Plan Comparison Chart

	College Savings Plan	Prepaid Tuition Plan	ESA	Custodial Accounts	Savings Bonds
<b>Ownership/Control</b>	Contributor	Contributor	Contributor	Custodian until child reaches age of majority	Contributor
<b>Investment Choices</b>	Typically, plans provide several investment options.	None	No restrictions	No restrictions	Savings bonds
<b>Age Limits</b>	None	Plan may set age or grade limits.	Except for special needs children, no contributions can be made after a child reaches age 18, and withdrawals must be made before beneficiary reaches age 30.	Minor child	Owner must be at least 24 before the bond's issue date (not purchase date).
<b>Expenses Covered Besides Tuition and Fees</b>	Qualified education expenses for post-secondary education	With a few exceptions, only tuition and mandatory fees for post-secondary education are covered.	Qualified elementary and secondary education expenses or qualified higher education expenses	No restrictions on types of expenses	Tuition and mandatory fees for post-secondary education and contributions to 529s and ESAs
<b>Contribution Limit</b>	Varies from plan to plan. Majority of plans permit total contributions in excess of \$200,000 per beneficiary.	Fixed by terms of contract you purchase	<i>Contributor:</i> \$2,000 per beneficiary per year <i>Beneficiary:</i> \$2,000, does not matter how many ESAs are set up.	No limit	No limit

<b>Federal Tax Advantages</b>	Earnings grow tax-deferred and are tax-free if used for qualified education expenses.	Earnings grow tax-deferred and are tax-free if used for qualified education expenses.	Earnings grow tax-deferred and are tax-free if used for qualified education expenses.	\$850 in earnings are tax-free.	Interest grows tax-deferred and is tax-free if used for qualified education expenses.
<b>State Tax Advantages</b>	Varies from state to state, but some states provide tax deduction for contributions, tax-free earnings growth and tax-free withdrawals for qualified education expenses.	Varies from state to state, but some states provide tax-deduction for contributions, tax-free earnings growth and tax-free withdrawals for qualified education expenses.	None	None	Interest is usually tax-exempt from state and local taxes.
<b>Income Phase-Out</b>	None	None	Single filers: \$95,000 - \$110,000  Joint filers: \$190,000 - \$220,000	None	Single Filers: \$65,600 - 80,600  Joint Filers: \$98,400 - 128,400
<b>Penalties for Non-Qualified Withdrawals</b>	Earnings are taxed as ordinary income and may be subject to 10% penalty.	Earnings are taxed as ordinary income and may be subject to 10% penalty.	Withdrawals that exceed the beneficiary's education expenses for the year may be taxable.	None	Interest earned is taxed as income.