Making Sense of Education Savings: What's Right for You?

Decisions around education savings can feel overwhelming, but they don't have to be! Whether you're saving for college, graduate school or some other educational credential, working alongside an advisor who understands the ins and outs of the available savings vehicles and their rules helps ensure that every decision you make is in the best interest of your goals and in concert with your overall financial plan.

If you're in the process of deciding on an education savings path, let this help guide your next conversation with your financial advisor. A 529 account or Coverdell Education Savings Account (CESA) is likely the way to go.

Do you plan on saving more than \$2,000 a year?

A custodial account – Uniform Gift to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) – or basic brokerage account would be better. These allow parents and grandparents to invest money with full control until their child is an adult and transfer those assets without establishing a trust. Keep in mind, though, that these types of accounts may negatively affect need-based financial aid calculations.

Do you want each contribution you make to be like a gift to the future student?

Then a CESA may be right for you. One of its biggest benefits is that unlike 529 plans, a CESA offers an unlimited menu of investment options. The biggest downside of CESAs is that contributions are capped and they have income limits.

Is your modified adjusted gross income (MAGI) less than \$90,000 (\$190,000 if filing jointly)?



You are eligible for the full \$2,000 contribution. Note that this is the *total* contribution limit per beneficiary.

Ask your advisor for information about how and where to set up a CESA.

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Your contribution limit may be reduced. If your MAGI is between \$95,000 and \$110,000 (\$190,000 and \$220,000 if filing a joint return), the \$2,000 limit for each designated beneficiary is gradually reduced. If your MAGI is \$110,000 or more (\$220,000 or more if filing a joint return), you cannot contribute to a CESA. In that case, a 529 account might be your best option.

NO

Be sure to read the fine print. Prepaid 529 plans run by a state are often meant to be used only for tuition and fees at public schools in that state. Although funds can be withdrawn for use at private or out-of-state schools, the process can be complicated and/or costly. Also, some prepaid 529 plans are guaranteed or backed by the state, and others are not. Speak with your advisor if you have questions about your state's prepaid 529 plan.

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Would you rather "prepay" for semesters or class credits at a discount, understanding that this type of account is meant to be used at public colleges and universities in the state that runs the plan? (It is possible to withdraw funds for private or out-of-state schools, but the process can be complicated and/or costly.)

- NO -

Do you want to invest money with the goal for it to grow faster than tuition inflates?

INVEST

YES -

YES

Remember, you can do both, but there are limits to contributions and limits to account balances (in the case of savings plans). One reason some opt to do both is that prepaid plans usually cover only tuition and fees, not room, board, books, etc.

PREPAY

Ilf you would rather "prepay" for future semesters/credits at current prices, a **529 Prepaid Tuition Plan** is likely to be your best option.

Does the would-be account owner or beneficiary live in one of the states that offers a prepaid 529 plan?

Those would be Florida, Maryland, Massachusetts, Michigan, Mississippi, Nevada, Pennsylvania, Texas and Washington (other states have plans but are not accepting new applications).

> The Private College 529 Plan does not have any residency requirement, so it could be an option, but please understand that it is intended for use at participating private colleges.

If you'd rather invest, that would entail a 529 College Savings Plan. Does your state offer a generous tax benefit, reasonable costs and evidence-based investment options? YES Your best option is likely to be a 529 savings plan administered by your home state. Connect with your advisor to learn how to open an account.

As you can see, there are a lot of variables when it comes to making an informed decision about saving for education expenses — your circumstances, your overall goals, your location, and many more. But when all the options are carefully considered, the outcome is an important first step in achieving one of life's most important goals. Remember, college planning involves much more than the choice of funding vehicle. When your child or grandchild reaches middle or high school, your advisor can help identify schools that are likely to prepare your student for a successful, fulfilling life as affordably as possible.

NO -

