UBS

A smarter way to save for education

Understanding the differences between 529s and Coverdells

With college costs on the rise, financing education can be a real challenge. That's why it's never too early to start saving, especially when there are programs designed to let you do so on a tax-advantaged basis.

What are 529s and Coverdells?

529s and Coverdell Education Savings Accounts (CESAs) are tax-advantaged savings vehicles that let you save money for the qualified education expenses of a named beneficiary, such as a child, grandchild or godchild. 529s are sponsored by individual states. These plans are two of the most popular ways to save for college. But which savings option is right for you?

Comparing the differences between plans

	529	CESA
Qualification to contribute	No income restrictions	Individuals below certain Adjusted Gross Income (AGI) limits described below
Maximum contribution	No annual maximum, but annual contributions over $15,000 may be subject to gift tax. Each state determines the maximum lifetime limit.	$2,000[1] per beneficiary (under age 18 or special needs beneficiary) for individuals below certain AGI limits: Single filers: $95,000 Joint filiers: $190,000 Phased-out contribution between: Single filers: $95,000 – $110,000 Joint filers: $190,000 – $220,000
Tax deduction on contributions	State tax deduction may be available depending on state allowance.	None
Contribution due date	Depending on your states' rules, either year-end or on your tax return due date.	Due date of contributor's tax return (generally April 15).
Non-qualified distributions	Earnings taxed as ordinary income and may be subject to a 10% penalty.[2]	Earnings taxed as ordinary income and may be subject to a 10% penalty if not distributed by beneficiary's 30th birthday.[2]
Eligible investment	Generally, mutual funds available through state-sponsored plan.	More flexible. Choose any investment option(s) through CESA's custodian or trustee's plan.
Qualified educational expenses	Primary and secondary[3] (limited to $10,000 per year) as well as college and graduate school.	Primary and secondary education as well as college and graduate school.
Transfer/rollover ability	Both direct transfers and indirect rollovers limited to one per beneficiary per 12 months. Additionally, funds can be rolled over to a new beneficiary who is a family member of the current beneficiary.	Unlimited direct transfers; indirect rollovers limited to one per beneficiary per 12 months. Additionally, funds can be rolled over to a new beneficiary who is a family member of the current beneficiary.

Highlighting the similarities between 529s and CESAs	
Federal estate planning and gift tax treatment	Annual gift tax exclusion of up to $15,000 per donor, per beneficiary. However, an accelerated gifting feature exists for 529s.[4]
After-tax contributions	Permit after-tax contributions that grow tax-free until distributed. Distributions are free from federal and in most cases state income taxes when used properly at an eligible institution.
Control of account	The owner controls the account, including naming the beneficiary, contribution amount, and when and how to distribute. You can even choose to make contributions to both a 529 and a CESA on behalf of the same beneficiary during the same tax year.
Fees/expenses	Plans charge fees and expenses to cover investment expenses and the administration of your account.
Taxes on withdrawals for non-qualified educational expenses	Earnings are subject to a federal income tax rate of the person who receives the withdrawal and a 10% additional tax. If you deducted your original contributions on your state income tax return, you will generally have to report additional state "recapture" income.

Helpful hints

An important factor to understand about 529 plans is that they are sponsored by individual states. Those states determine the maximum contributions, eligible investments and tax advantages for their programs. Therefore, state plans vary greatly in their tax benefits, investment options, costs and features.

Also keep in mind that you're not required to invest in your own state's 529 plan but may want to consider it if a state tax benefit exists. And the distributions do not need to be used to pay for schools within your state of residence. You may also contribute to more than one state's 529 plan.

Let's have a conversation

The best way to prepare for education expenses is to become familiar with your savings options and determine how each can address your specific needs. Let's discuss 529s, CESAs and other education savings alternatives.

Your life today is much bigger than your investments. And achieving your life's goals is being challenged in new ways. By the realities of a longer retirement. The demands of caring for aging parents. The threat of online identity theft. And the financial burden of long-term healthcare. Your UBS Financial Advisor can help you understand how all the moving parts of your life can fit together to help you pursue what's important—including the role that 529s and Coverdells can play in your overall financial plan. It's what we call: Advice. Beyond investing.

[1] Regardless of where contributions come from, taxes on a contribution exceeding the $2,000 annual contribution limit would be paid by the account owner.

[2] The 10% penalty dœs not apply on account of death, disability, scholarship or rolling to a new beneficiary who is a family member of the current beneficiary. If you take a non-qualified distribution you may also have to pay back the state's tax benefits.

[3] The addition of primary and secondary school costs as qualified educational expenses was included in the Tax Cuts and Jobs Act of 2017. Individual state laws may need to be amended to conform with the federal rule.

[4] Under the accelerated gifting feature, you may contribute five years of gifts in the first year for a total of $75,000 per individual ($150,000 for married couples filing jointly) without paying gift tax. Taking advantage of this option allows you to make significant contributions early and benefit from the tax deferred growth. The accelerated gifting election is made on IRS Form 709 and filed with your federal tax return in the first year the accelerated gift is given. You cannot use the annual exclusion for gifts to this individual before the end of five calendar years but subsequent rounds (i.e., every five years) of accelerated gifting are permitted.

* Investing involves risks, including the potential of losing money or the decline in value of the investment. Performance is not guaranteed.

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Education Savings Account
UBS Financial Services Inc. is in the business of establishing Education Savings Accounts for clients and we get paid administrative fees such as account maintenance fees and also fees on investments in the account. For more information on how we get paid, please refer to our Understanding our fees, charges and other compensation booklet available at **ubs.com/understandingourfees**, or ask your UBS Financial Advisor for a copy.

529 plans
529 plans are sold with program descriptions that contain details of the risks, fees and charges associated with the particular investment, which you should read carefully before investing. Even though individuals are not required to invest in their in-state plan, some states do provide tax or other advantages exclusively to residents who invest in their own state's plan. For example, many states offer a state income tax deduction for contributions and/or state income tax exemption for qualified withdrawals. States may impose state tax liability on withdrawals and/or earnings from out-of-state 529 plans. In addition, some states offer prepaid tuition plans. Investors should be aware that the markets have risks and the value of their investments may change from day to day. Therefore, an investment's return and principal value will fluctuate so that an investor's shares, when redeemed or sold, may be worth more or less than their original cost.

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