College Savings/Custodial Accounts- Things to consider

1. ***529 accounts***
    a. Money going into account is tax deductible and comes out tax free when pulled out for qualified expenses
    b. Some states have additional benefits if you live in that state, use the plan that state offers and your child goes to a school in that state
    c. You are not required to utilize the plan your state offers.
    d. Money is designated for a specific child
    e. Money can be used for many educational expenses including K-12 tuition
    f. Parent/account owner maintains control of this account
    g. These funds are generally considered to be outside of the owner's assets but may impact the beneficiary's student financial aid or other asset dependent calculations
    h. Funds can be rolled over into a Roth IRA account with the following rules
        i. There is a $35,000 total rollover limit
        ii. Yearly maximum contribution limits apply
        iii. The account must be open for 15 years
        iv. Funds must be in account for 5 years before rollover
    i. Investment options are limited and can only be changed in limited intervals.
    j. Beneficiaries can be changed to a different family member.
2. ***UTMA/UGMA***
    a. UTMA accounts allow for a wide variety of assets. UGMA accounts only allow for monetary assets.
    b. The assets put into these accounts transfers to the ownership of the minor and can't be reversed.
    c. The custodian manages the account until the age of majority in their state (generally 18-25 years of age). At this age the account comes under the full management of the named minor on the account.
    d. There are some tax savings.
        i. In 2023, the first $1250 was untaxed and the next $1250 was taxed at the minor's tax rate. After that it is taxed at the parent's tax rate. No tax deduction.
        ii. Taxes will need to be paid on earnings.
    e. No income, contribution or withdrawal limits.
    f. No early withdrawal penalties.
    g. These are the assets of the minor and can impact financial aid or any asset based calculations.

3. ***Custodial Roth***
    a. Child must have earned income equal to or greater than the yearly contribution amount, but the child doesn't have to make the contribution.
    b. Parent maintains control of account until the child reaches the age of majority (18-25 years old, depending on the state)
    c. Funds can be used for qualified expenses, including college tuition, down payment on a house (up to $10,000), or a few other circumstances (some medical, adoption, birth costs, certain emergencies and disabilities). Any earnings distributions may be subject to taxes but not penalties if they are qualified expenses.
    d. Contributions can be withdrawn at any time with no taxes or penalties, but earnings can only be withdrawn based on a qualified expense or they incur penalties and taxes.
    e. Yearly contribution limits exist (2024=$7,000 limit)
    f. These accounts are considered the asset of the child and may impact financial aid if the funds are used for education expenses, but may not be factored into financial aid if the account is left intact during college years.
4. ***Traditional investment account in parent's name***
    a. No tax benefits
    b. Parent maintains full control of the account
    c. Parent has full flexibility with how account is invested and used
5. ***Traditional Roth IRA in parent's name***
    a. No tax benefits for contributions
    b. No yearly increase in taxes due to earnings
    c. Parent maintains control of the account
    d. Flexibility with investment options
    e. Contributions can be withdrawn at any time with no penalty or additional taxes, earnings would incur taxes and penalties if withdrawn early.
    f. Parents have the benefit of additional retirement planning and earnings grow tax free if used for retirement.
    g. Yearly contribution limits (2024=$7,000 limit)- each parent could contribute the full amount in their respective accounts.
    h. Once contributions are withdrawn, they reduce retirement earning potential for the future.