Education Savings Plans Compared

Benefit or Feature	"529" Prepaid Tuition Plan[1]	"529" Higher Education Savings Plan[1]	Coverdell Education Savings Account
Basic concept	Buy tomorrow's tuition at today's prices.	Tax-advantaged savings account to accumulate funds for higher education.	Tax-advantaged savings account to accumulate funds for education.
Federal income tax treatment	Contributions are not deductible; growth is tax-deferred; withdrawals for qualified higher education expenses are exempt from tax.	Contributions are not deductible; growth is tax-deferred; withdrawals for qualified higher education expenses are exempt from tax.	Contributions are not deductible; growth is tax-deferred; withdrawals for qualified education expenses are exempt from tax.
State or local income tax treatment	Varies. Some states follow federal income tax law, while others do not.	Varies. Some states follow federal income tax law, while others do not.	Varies. Some states follow federal income tax law, while others do not.
Level of investment risk	Generally a low level of risk. Sponsoring state or organization typically promises to invest funds to match tuition increases. Later contributions may be required.	Varies, depending on the underlying investments. An investment manager typically manages the funds. Both gains and losses are possible.	Varies, depending on the underlying investment. A wide range of self-directed investments is available. Both gains and losses are possible.
Where to purchase	Directly from the state or private institution involved.	Investment brokers, banks, credit unions, insurance companies, or directly from the state involved.	Investment brokers, banks, credit unions, and insurance companies.
Who can contribute?	Generally, anyone. Residency restrictions may apply.	Generally, anyone. Residents in one state can often invest in another state's plan.	Generally, anyone.

[1] "529" refers to Section 529 of the Internal Revenue Code, the section of federal law which authorizes these plans.

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How much can be contributed?	Contributions must be in cash and may not exceed what is needed to fund the beneficiary's higher education expenses. The program sponsor will specify the maximum amount.	Contributions must be in cash and may not exceed what is needed to fund the beneficiary's higher education expenses. The program sponsor will specify the maximum amount.[1]	Contributions must be in cash and may not exceed $2,000 per beneficiary per year.
Beneficiary age limits for contributions?	None	None	Before age 18 unless a special needs student.
How are payments made?	In a lump-sum or periodic payments.	In a lump-sum or periodic payments.	Typically, in periodic payments.
Do income limitations apply to the donor?	No	No	Yes. Contribution is phased out for donors whose AGI exceeds certain limits.[2]
Who controls the funds?	Generally, the donor.[3] If the account is a custodial account, the beneficiary becomes the owner when he or she reaches age 21 (18 in some states).	Generally, the donor.[2] If the account is a custodial account, the beneficiary becomes the owner when he or she reaches age 21 (18 in some states).	Generally, the donor.[2] If the account is a custodial account, the beneficiary becomes the owner when he or she reaches age 21 (18 in some states).

[1] In some higher education savings programs, more than $250,000 may be contributed for a single beneficiary.

[2] For unmarried individuals, the contribution is phased out when adjusted gross income (AGI) is between $95,000 - $110,000. For married couples filing jointly, the phase-out range is an AGI of $190,000 - $220,000.

[3] With a "529" prepaid tuition plan or a "529" savings plan, if the assets are not used for higher education they may be returned to the donor. In a Coverdell Education Savings Account, if the assets are not used for higher education, they will ultimately become the property of the beneficiary.

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What expenses are covered?[1]	All plans cover tuition and fees. Some plans include a room and board option or allow excess tuition credits to be used for other qualified expenses.	Generally, most costs required to attend a qualified post-high school educational institution. Such costs may include tuition, fees, books, supplies and equipment, and computers, software and internet access. Reasonable costs for room and board also qualify if the student is attending school at least half time.	A wide range of expenses is allowed, to attend Kindergarten thru 12th grade, as well as post-high school educational institutions. May include tuition, fees, books, supplies, and equipment, as well as reasonable costs for room and board.
What schools may the beneficiary attend?	Prepaid tuition plans typically limit attendance to same-state post-high school institutions.	Funds accumulated in the savings plan of one state may usually be used at institutions of higher education throughout the U.S. Some foreign schools also qualify.	For K-12, any school that qualifies under state law, including public, private, or religious schools. For post-high school, most institutions in the U.S. qualify.
Effect on financial aid?	Generally reduces financial aid. Account owned by student penalized more than parent-owned account.	Generally reduces financial aid. Account owned by student penalized more than parent-owned account.	Generally reduces financial aid. Account owned by student penalized more than parent-owned account.
May account be rolled-over to other family members?	Yes	Yes	Yes

[1] Technically, under IRC Sec. 529, the same definition of "qualified higher education expenses" applies to both prepaid tuition plans and higher education savings plans. In practice, however, for prepaid tuition plans, the sponsoring entity will limit the use of the funds to the types of expenses shown above.