

A Quick Study of College Funding Options

They grow so fast, don't they? College costs, that is. For the 2005–06 school year, tuition costs at four-year public universities were up an average of 7.1 percent over the prior year.¹

If you have a child or grandchild with college aspirations, there are a number of tax-advantaged options available to help fund his or her higher education.

Coverdell Education Savings

Accounts. The tax-favored ESA is a popular alternative for college savings. Up to \$2,000 can be contributed per child every year. Funds accumulate tax deferred and are free of federal tax if used for qualified education expenses. ESAs also offer investment flexibility, allowing you to choose your investments.

Section 529 plans. Section 529 plans are state-sponsored plans that allow tax-free withdrawals for approved education-related expenses (tuition, fees, room and board, and supplies).

Contributions are made after tax, but any earnings grow tax deferred. Contribution limits are also higher than ESAs.

As with other investments, there are generally fees and expenses associated with participation in an ESA or a 529 savings plan. In addition, there are no guarantees regarding the performance of the underlying investments.

The tax implications of a 529 savings plan should be discussed with your legal and/or tax advisors because they can vary significantly from state to state. Also note that most states offer their own 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers. The tax-free qualified withdrawal provision of these plans is scheduled to expire after December 31, 2010, unless new legislation is enacted by Congress.

As college costs continue to climb, these tax-advantaged investment vehicles may help you send your child or grandchild to school. Call today for college funding information.

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1) The College Board, 2005

The More You Know...

College itself is an investment that, on average, enjoys a healthy return in median annual income.



Source: The College Board, 2006