EXPLORING THE VARIOUS WAYS OF FUNDING A COLLEGE EDUCATION

College for a child or grandchild is a worthy goal, and thanks to many financial solutions, an achievable one, as well.

RAYMOND JAMES®

Before your child was even born, you were planning. What will we name him? What color should we paint her room? What is the best childcare alternative?

But with all the demands and decisions that new parents face, one important aspect is often unintentionally overlooked in those early stages – college. However, with tuition rates rising, it should be at the top of every parent's planning list ... no matter what the child's age.

What's more, saving for a child's education doesn't necessarily have to rest entirely with parents. With the flexibility and convenience of today's savings plans, many alternatives make good sense for grandparents, aunts and uncles, other family members and friends.

You have big dreams for the child in your life. Don't let a lack of planning sidetrack those aspirations. As Raymond James financial advisors, we're here to assist. Our knowledge and professional guidance can help you give your child the opportunity for the bright future he or she deserves.

START PLANNING TODAY.

Although it is best to start the college investment process when your child is young, it is never too late to begin. No matter your child's age, what's important is that you plan now. It is easy to put off thinking about these expenses, hoping that your child will receive scholarships or financial aid. But don't count on them. While these awards do help with college funding, they are not guaranteed, not always comprehensive and not available to everyone.

INVESTING FOR A YOUNGER CHILD'S EDUCATION

If your child is young, then time is on your side. By starting early, you may be able to invest less money now and, thanks to the potential impact of compounding returns, let your savings do much of the work for you.

INVESTING FOR AN OLDER CHILD'S EDUCATION

Don't panic if your child is already in high school. While you may need to invest more money in a shorter time frame, you should still be able to afford at least a portion of college costs.

Take a close look at options without specific contribution limits, as they may be more appropriate for you now.

Also, talk to your child about specific goals. What schools is he or she interested in? Is college an option, or does your child have his or her sights set on a vocational school? Some plans limit the beneficiary's choices, so it is important to understand your child's expectations.

WHICH PLAN IS RIGHT FOR YOU?

With many new college savings alternatives available, it is critical to choose the one that's appropriate for you. Selecting the wrong plan – or not investing properly within the right one – can prohibit you from maximizing your savings. However, with the help of our experienced guidance, choosing the right alternative can be easy.

WHAT TO CONSIDER BEFORE SELECTING A PLAN:

What are the tax benefits?

Who controls the funds?

How much risk is involved?

Are there contribution limits that may hinder my ability to meet savings goals?

Are large contributions subject to gift taxes?

What investment options are available?

KEY

Tax

Flexible

Control

Protection

529 SAVINGS PLANS

These state-sponsored plans offer flexible, tax-deferred ways to save.

BENEFITS

529 savings plans offer several advantages over other savings plans.

- States may allow contribution deductions from state income taxes
- In most states, earnings are free from state taxes if used for qualified higher education expenses
- You choose the investment strategy that is right for you and your student
- Contributions are typically excluded from your taxable estate and may not be subject to gift taxes

- Your child may choose any accredited college, university or vocational school
- The account may be transferred to another family member
- You – rather than your child – remain in control of the funds
- Generous contribution limits exist, regardless of income level
- Some states may provide creditor protection. It is important to review each plan and state laws to determine if they allow creditor protection
- You can contribute to a 529 savings plan and a Coverdell Education Savings Account during the same calendar year

CONSIDERATIONS

While 529 savings plans offer many benefits, there are potential drawbacks.

- Earnings are taxed and subject to a 10% penalty when withdrawn for uses other than qualified higher education expenses
- The portfolio allocations may only be changed twice per year or upon a change in beneficiary

Investors should consider before investing, whether their home states offer state tax or other benefits only available for investments in their home state's 529 plans. 529 plans offered outside their resident state may not provide the same tax benefits as those offered within their state.

KEY: Tax Flexible Control Protection

529 PREPAID PLANS

These plans allow you to purchase a certain amount of tuition over time that is guaranteed to be equivalent to the same percentage of tuition in the future. Raymond James does not offer 529 prepaid plans. However, we can assist you in determining if a 529 prepaid plan is available in your state.

BENEFITS

With tuition rates rising, these plans may be appropriate for some families.

- States may allow contribution deductions from state income taxes
- Value of contract is free from federal taxes if used for qualified higher education expenses
- Locks in tuition at a known rate
- Funds are not subject to market volatility

CONSIDERATIONS

Consider these plans carefully since there are limitations.

- Earnings are taxed and typically penalties will apply if the funds are not used for higher education
- Your child may have limited school choices
- Refunds may be limited to original contribution only, less fees

UGMA/UTMA CUSTODIAL ACCOUNTS

(UNIFORM GIFTS/TRANSFERS TO MINORS ACT)

This act allows you to transfer ownership of assets to your child without needing to establish a more costly trust.

BENEFITS

While not specifically designed for education funding, these accounts can be advantageous as they allow you to accumulate funds in your child's name.

- Earnings from these investments may be taxed at your child's lower rate (certain limits apply)
- There are no annual contribution limits, but keep in mind that gifts into the account are subject to annual gifting rules
- Transferring assets may lower the value of your portfolio, thus allowing you to avoid higher taxes
- You may invest the funds on behalf of your child. We can provide investment advice that suits your goals for your child
- As a custodian, you have many investment choices to choose from, including stocks, bonds and other investments

CONSIDERATIONS

These accounts are not specific college savings plans, and there are several noteworthy issues to think about.

- You lose control of the funds when the child reaches the age of majority
- Contributions to the account are irrevocable
- Your child may use the funds for any purpose

KEY: Tax Flexible Control Protection

COVERDELL EDUCATION SAVINGS ACCOUNTS

Formerly known as the "Education IRA," this savings alternative is a trust or custodial account used for education expenses. Raymond James does not offer Coverdell Education Savings Accounts as a custodian. However, we are contracted to offer these accounts through certain mutual fund companies.

BENEFITS

Coverdell Education Savings Accounts (ESAs) offer several advantages.

- Earnings are free from federal taxes when withdrawn for qualified education expenses
- Unlike most other education savings accounts, funds can be used for primary and secondary education in addition to higher education
- You can contribute to a Coverdell Education Savings Account and a 529 savings plan during the same year
- You have full investment control
- Unused portions of the account may be transferred to another family member

CONSIDERATIONS

Before investing in a Coverdell Education Savings Account, consider these points:

- Total contributions are limited to $2,000 per year
- Earnings are taxed and subject to a 10% penalty if not used for qualified primary, secondary or higher education purposes
- Income limitations may prohibit some individuals from contributing
- When the beneficiary turns 18, contributions can no longer be made, and at age 30 the account needs to be closed

OTHER WAYS TO SAVE

While 529 plans and Coverdells are specifically designed for higher education planning, other strategies also exist. While not intended specifically for this purpose, these alternatives can help you pay for expenses. Talk to us before implementing any of these strategies to find out how they may affect your overall investment plan.

IRAS

You can withdraw funds from your IRA to pay qualified higher education expenses. While this may seem like a viable savings option, remember that you will be spending your retirement savings. In addition, amounts withdrawn may count as income and affect eligibility for need-based financial aid.

The 10% penalty tax for withdrawals is waived when funds are used for higher education purposes, but the money may still be subject to income taxes.

Typically, if you own a traditional IRA, the full amount will be taxed, while Roth IRAs allow tax-free withdrawals in certain circumstances. Discuss this issue with us to determine if your withdrawal will be subject to taxation.

COMPANY-SPONSORED RETIREMENT PLANS

If additional money is needed to pay college expenses, you may be able to borrow from your 401(k) or 403(b) plan. Typically, these loans charge a percentage point or two above the prime lending rate. Interest charged does get deposited into your retirement account, but you will lose the benefit of compounding interest. In addition, the loan must be repaid in five years, and if employment is terminated, the loan may be due immediately.

LIFE INSURANCE

While the main purpose of life insurance is to provide money to your family after your death, it can also be used to fund higher education expenses. While it is inappropriate to buy a policy for the sole purpose of college savings, the cash value of your whole, variable or universal policy can be used to pay for such expenses. Talk to us for specific guidelines before withdrawing funds, and remember that life insurance is not a college savings plan by nature. Other alternatives can better help you save for these expenses.

The chart on the following page will allow you to directly compare features of the various college savings alternatives. We'll be glad to review your options with you to help determine a plan that best suits your family's needs.

EDUCATION ACCOUNT COMPARISON

The following breakdown compares the 529 plans to other education-savings possibilities.

	529 Savings Plan	529 Prepaid Plan	UGMA/UTMA	Coverdell ESA	ROTH IRA
Contributions and Deductions					
Contribution limit	Contributions allowed until you reach maximum account size, varies by program over $400,000. $70,000 per beneficiary in the first year of a five-year period to avoid gift-tax consequences ($140,000 per married couple).	Varies by type of contract.	$14,000 per beneficiary per year to avoid gift tax consequences ($28,000 per married couple).	$2,000 per year per beneficiary; contributions stop when child turns 18.	The lesser of $5,500 or 100% of earned income plus $1,000 for those age 50+.
Limitations on income to contribute	None	None	None	Single filers: $95,000-110,000 Married filers: $190,000-220,000	Single filers: $116,000-$131,000 Married filers: $183,000-$193,000. Account owner must have earned income to contribute.
Age limitation to contribute	None	None	None	Contributions stop when child turns 18.	None
Tax-deductible contributions	No federal deduction; state tax deduction varies by the account owner's state of residence and the plan.	Same as 529 savings plan	No	No	No
Withdrawal and Taxation					
Control of withdrawals	Account owner/participant	Same as 529 savings plan	Transfers to child upon age of majority or later if state law permits.	Account owner/participant; beneficiary has the legal right to be named as account owner at age of majority.	Account owner
Use of proceeds	Expenses[1] from college/postsecondary program in the U.S. and some foreign locations.	Often limited to tuition/fees from in-state postsecondary programs.	Limited to any types of expenses for child's benefit (cannot be used for parents' expenses).	Expenses from any accredited college/postsecondary program in the U.S. and some foreign programs and expenses from elementary and high school.[5]	Expenses[1] from any accredited postsecondary program in the U.S. and some foreign programs.
Taxation – account earnings	Tax-deferred		Taxable. Kiddie Tax: Under age 19, any investment income over $2,000 taxed at parent's federal tax rate. Expanded Rule: Full-time student under age 24 is now included.	Tax-deferred	Withdrawal of contributions are tax-free. 10% penalty on earnings is waived for qualified higher education expenses. Earnings taxed as ordinary income unless you meet certain other requirements.[6]
Taxation – qualified withdrawals	State: Varies by the account owner's state of residence.[7]	Same as 529 savings plan		Tax-free	
Taxation – nonqualified withdrawals	Federal and state: Distributed earnings (prorata) taxed at account owner's or beneficiary's rate depending on to whom the 529 plan provider directs and reports the distribution.	Same as 529 savings plan		Distributed earnings (prorata) taxed at account owner's rate.	
Penalties – nonqualified	10% penalty on earnings	Same as 529 savings plan	None	10% penalty on earnings	
Other					
Ownership and federal financial aid impact	Account owner asset; aid is reduced by 2.6% to 5.64% of the 529 value.[2]	Same as 529 savings plan	Student asset; aid is reduced by 20% of the UTMA/UGMA value.	Account owner asset; aid is reduced by 2.6% to 5.64% of account value if the parent is account owner.[2]	Withdrawals for education are treated as income, for federal financial aid.
Ability to change beneficiary?	Yes[3]	Typically yes, see specific plan rules.	No	Yes[3] (beneficiary must be under age 30)	Yes
Funds removed from the donor's estate?	Yes[4]	Typically yes, see specific plan rules.	Typically yes, unless the donor dies while acting as custodian.	Yes	No
Investment options	Varies per plan; typically portfolios of mutual funds, fixed income options may also be available depending on the 529 provider.	Prepayment of tuition units.	UGMA: cash, bank accounts, stocks, bonds, mutual funds; UTMA options may also include real estate, LPs, fine art, patents and royalties.	Wide range of securities (limit may be set by provider).	Wide range of securities (limit may be set by provider).

[1]Tuition, fees, books, supplies and equipment required as a condition of enrollment, and room and board (amount set by the institution) as long as the student attends at least half time.

[2]In most cases, if the student's grandparent is account owner, the asset will not be included in the financial aid formula, but withdrawals from a grandparent-owned 529 may affect the income portion of the formula. This pertains to the federal student aid formula. Other types of financial aid may have different rules.

[3]There are no tax implications as long as the "new" beneficiary is a member of the original beneficiary's family and from the same generation. A family member of a designated beneficiary is a son, daughter, grandson, granddaughter, stepson, stepdaughter, brother, sister, stepbrother, stepsister, father, mother, stepfather, stepmother, niece, nephew, aunt, uncle, first cousin, son-in-law, daughter-in-law, father-in-law, mother-inlaw, brother-in-law, sister-in-law, spouse or the spouse of any of the foregoing individuals. For this purpose, a child includes a legally adopted child, and a brother or sister includes a brother or sister by half blood. If the new beneficiary is a family member from a younger generation, the transaction may subject the original beneficiary to gift taxes and generation-skipping transfer taxes. The beneficiary may be changed to a non-family member; however, this is not a tax-free transaction.

[4]If the contributor front loads the contribution (e.g., $70,000 contribution in a single year), then dies within the five-year period, a prorated portion of the contribution may be included in the contributor's estate.

[5]Tuition, fees, academic tutoring, special needs services, books, supplies and other expenses which are incurred in connection with the enrollment or attendance at a public, private or religious school and expenses for the purchase of computer technology or equipment or Internet access to be used by the beneficiary during any years the beneficiary is in school.

[6]Tax-deferred. Tax-free only if the 5-year requirement is met and the withdrawal is for death, disability, attainment of age 59½ or first-time homebuyer. If not, earnings and possibly conversion amounts withdrawn are taxable at the account owner's rate. 10% penalty on earnings and any conversion amounts withdrawn unless some other exception to the penalty applies. Distributions from a Roth IRA come out of the account in the following order: contributions, conversion amounts, earnings. Exceptions to the 10% penalty are: death, disability, attainment of age 59½, first-time home buyer, qualified higher education expenses, substantially equal payments, medical bills greater than 7.5% of AGI, and medical insurance premiums after losing a job.

[7] Favorable state tax treatment for investing in a Section 529 college savings plan may be limited to investments made in a Section 529 plan offered by your home state.

PUT YOUR CHILD'S FUTURE FIRST

Your child's education is important to you. And because of that, it's also important to us. Raymond James financial advisors listen to your objectives and provide personalized solutions to help you reach them. By putting your investment needs first, we can help you properly plan for a bright future.

The time to plan for your child's future is today. Contact us for a no-obligation analysis of your college planning alternatives.

LIFE WELL PLANNED.

RAYMOND JAMES®

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