

Children’s Savings Accounts Account Vehicle Options

Type of Account Vehicle	Pros	Cons
529 College Savings Accounts	<ul style="list-style-type: none"> • Contributions to 529s are deductible from state income tax in some states • Some states provide additional match or credits to supplement savings in 529s • Provide federal tax benefit • Less likely to be counted in asset tests • Allow opportunity for significant interest earnings over time • Penalties and "lag time" for withdrawals may dissuade withdrawals for non-asset uses 	<ul style="list-style-type: none"> • Only allowable use is postsecondary education or job training • Deposits must be made by mail or electronically; no "bricks-and-mortar" bank • Minimum deposit requirements may apply • Accountholders and families must make investment decisions; may require additional financial education
Coverdell Education Savings Accounts	<ul style="list-style-type: none"> • Provide federal tax benefit • Less likely to be counted in asset tests • Allow opportunity for significant interest earnings over time • Penalties and "lag time" for withdrawals may dissuade withdrawals for non-asset uses 	<ul style="list-style-type: none"> • Only allowable use is education (secondary, postsecondary, or job training) • Deposits limited to \$500 per year • Accountholders and families must make investment decisions; may require additional financial education
Individual Retirement Accounts (IRAs)	<ul style="list-style-type: none"> • Most flexibility in eligible uses, including postsecondary education, homeownership, and retirement • Receive the most advantageous treatment from a financial aid perspective • Provide federal tax benefit • Less likely to be counted in 	<ul style="list-style-type: none"> • Deposits to IRAs must be made from income earned by the account owner. Therefore, IRAs are not appropriate for children too young to work, or for older children who do not have a job • Accountholders and families must make

	<p>asset tests</p> <ul style="list-style-type: none"> • Allow opportunity for significant interest earnings over time • Penalties and "lag time" for withdrawals may dissuade withdrawals for non-asset uses 	<p>investment decisions; may require additional financial education</p>
<p>Investment Accounts (UGMA/UTMA)</p>	<ul style="list-style-type: none"> • Allow for unlimited flexibility of uses • Allow opportunity for significant interest earnings over time • "Lag time" for withdrawals may dissuade withdrawals for non-asset uses 	<ul style="list-style-type: none"> • No federal or state tax benefits • More likely to be counted in asset tests • Deposits must usually be made by mail or electronically; no "bricks and mortar" bank • Minimum deposit requirements may apply • Account holders and families must make investment decisions; may require additional financial education
<p>Regular Savings Accounts</p>	<ul style="list-style-type: none"> • Allow for unlimited flexibility of uses • Participants have easy access to "bricks-and-mortar" banks • Familiar product that is easy to understand 	<ul style="list-style-type: none"> • Significantly lower earning potential than other account options • More likely to be counted in asset tests • No federal or state tax benefits • No "lag time," so non-asset withdrawals are easier to make • More challenging to manage in large-scale programs