

Comparison of leading Methods of Saving for College

	1	2	3	4	5	6	7
	Section 529 Plans	Series EE & I Savings Bonds	Education IRA	Classic and Roth IRAs	Borrowing from 401(k)	UGMA/UTMA	Mutual Funds
Tax Benefit	Earnings federal and state income tax deferred and withdrawals are federal tax-free, if used for qualified higher education expenses.	Earnings state and local income tax exempt, federal income tax deferred. For qualified taxpayers, earnings fully or partially excludable from federal income tax, if used for qualified higher education expenses.	Earnings exempt from federal income tax, if used for qualified elementary, secondary, and higher education expenses.	Classic IRA may be tax-deductible and entire proceeds taxed at the owner's rate. Earnings on Roth IRA tax-exempt if taken out after the owner turns 59 1/2.	No special tax benefits. Loan amount not subject to tax, unless owner defaults on loan.	When child is under 14, first \$750 of unearned income is tax exempt, next \$750 taxed at child's rate, the rest at parents' rate. After child turns 14, all earnings taxed at the child's rate.	No special tax benefits. Earnings are taxed in the year realized.
	The value of the account is removed from the account owner's taxable estate.	The value of the account is included in the bond owner's taxable estate.	The value of the account is removed from the account owner's taxable estate.	The value of the account is included in the account owner's taxable estate.	The value of the account is included in the account owner's taxable estate.	The value of the account is included in the custodian's taxable estate if custodian dies before the funds are turned over to the child at age of majority (18 or 21).	The value of the account is included in the account owner's taxable estate.
How Much Can Be Invested?	Varies by state. Some states may allow account balance limits as high as \$250,000/beneficiary	Up to \$30,000/\$15,000 per year for I/EE bonds.	Up to \$2,000 per year per beneficiary.	Up to \$5,000 per year (by 2008).	The lesser of \$50,000 or half of vested amount can be borrowed.	No limit.	No limit.
	Tuition, fees, books, supplies, room and board, and equipment.	Tuition and fees only.	Same as (1).	Same as (1).	Any expense.	Any expense.	Any expense.
Financial Aid Treatment	Savings plans: parent's assets; prepaid plans may reduce aid dollar-for-dollar.	Parents' assets if education expenses are for a child. Student's assets if education expenses are for oneself.	Student's assets.	Not considered in the expected family contribution (EFC) calculation.	Same as (4).	Student's assets.	Parents' assets

	State sponsor with input from program manager.	Guaranteed returns.	Owner.	Owner.	Owner.	Custodian before the child turns 18 or 21; after that, the child.	Owner.
Income Restriction	No.	No.	Yes.	Yes.	No.	No.	No.
	Yes.	Yes.	Yes.	No.	No.	No.	No.
Flexibility	Earnings on non-qualified withdrawals taxed at owner's rate plus a 10% penalty.	Can be redeemed after 6 months. A 3-month earnings penalty applies to redemption within 5 years of issuance.	Earnings on non-qualified withdrawals taxed at owner's rate. 10% penalty on earnings.	No penalty on early withdrawals if used for higher education expenses. For Roth IRAs, earnings of early withdrawals taxed at the owner's rate.	Money can be borrowed almost any time for any purpose.	Money can be withdrawn anytime for the benefit of the child.	Money can be withdrawn any time for any purpose.