529 College Savings Plans vs. other investment vehicles

	529 College Savings Plan	UGMA/UTMA	EE or I Savings Bonds	Coverdell Education Savings Account (formerly Education IRA)	Qualified Prepaid Tuition Plan	Regular Investment Account
Federal taxation of account earnings	Tax-exempt when used for qualified higher education expenses. The availability of tax or other benefits may be contingent on meeting other requirements.	Taxable	Tax exempt to the extent qualified higher education expenses equal or exceed the redemption amount	Tax exempt when used for qualified education expenses (including primary, until 2010, and secondary education expenses)	Tax exempt when used for qualified higher education expenses at designated institutions. The availability of tax or other benefits may be contingent on meeting other requirements.	Taxable
Income limits	None	None	Tax exclusion above phased out for taxpayers above certain adjusted gross income levels	Eligibility phases out at $110,000 for single filers and $220,000 for joint filers	Varies by state	None
Maximum account balance	Depends on state plan	None	None	Limited by $2,000 annual contribution limit	Varies by state	None
Control of assets	Account owner retains control of assets and can choose to change the account beneficiary or revoke the assets through a nonqualified withdrawal*	Custodian controls the assets until the beneficiary reaches the age of majority	Registered owner controls assets	Controlled by the responsible individual named on the account, but must be used for the benefit of the named minor. Assets will be transferred to the beneficiary at age 30.	Account owner controls assets	Account owner controls assets
Ability to change beneficiaries	Can be changed but, in order to prevent a nonqualified distribution, the new beneficiary must be a qualified family member of the current beneficiary	No	Can be used for any dependent's education tax free if other requirements met.	Can be changed to a member of the family of the current beneficiary if the right to do so is established when the account is opened	Can be changed to a qualified member of the family of the current beneficiary without adverse federal tax consequences	Yes
Revocability of assets	Assets are revocable* (see below for treatment of nonqualified distributions)	Assets are irrevocable	Assets are revocable (see below for treatment of nonqualified withdrawals)	Assets must be used for the beneficiary. Any remaining balance will be transferred to the beneficiary at age 30, subject to taxes and penalty.	Assets are revocable (see below for treatment of nonqualified distributions)	Account owner has discretion over assets
Investment options	Typically multiple investment options available, from conservative to aggressive, including both asset allocation and customized portfolio options	Can include any tangible asset or registered security	EE bonds	May invest in any registered security with the exception of life insurance contracts	Varies by plan	Can invest in any registered security
Penalty for nonqualified withdrawals	Earnings withdrawn subject to federal and possibly state income tax and a 10% federal penalty tax	Not applicable	Loss of exclusion from federal income tax if not used for qualified higher education expenses	Earnings withdrawn subject to federal and possibly state income tax and a 10% penalty	Subject to federal and possibly state income tax and a 10% penalty on earnings	Not applicable
Estate planning benefits	Account assets are removed from account owner's taxable estate	Assets are removed from donor's estate if donor does not act as custodian	None	Assets are generally removed from donor's estate	Contributions are generally removed from the account owner's estate	None
Impact on federal needs-based student aid	Treated as assets of account owner, not the beneficiary (if the parent is account owner, assessed at 5.64% maximum)	Assets considered to be student's (where student is the beneficiary); assessed at 20%	Treated as assets of the bond owner, not the beneficiary (if the parent is account owner, assessed at 5.64% maximum)	Treated as assets of the account owner, not the beneficiary (if the parent is account owner, assessed at 5.64% maximum)	Treated as assets of the account owner, not the beneficiary (if the parent is account owner, assessed at 5.64% maximum)	Assets in parent's name assessed at 5.64% maximum
Federal gift tax treatment	Qualifies for the annual $13,000 gift tax exclusion and for federal gift tax exclusion on up to $65,000 ($130,000 for married couples filing jointly), provided the donor is approved for front-loaded gifting. No other gifts may be given to the beneficiary over the following five years. Donor must survive the ensuing five years or a prorated amount will be included in the donor's taxable estate.	Qualifies for the annual $13,000 gift tax exclusion	Not applicable	Qualifies for the annual $13,000 gift tax exclusion	Qualifies for the annual $13,000 gift tax exclusion and for federal gift tax exclusion on up to $65,000 ($130,000 for married couples filing jointly), provided the donor is approved for front-loaded gifting. No other gifts may be given to the beneficiary over the following five years. Donor must survive the ensuing five years or a prorated amount will be included in the donor's taxable estate.	Qualifies for the annual $13,000 gift tax exclusion

* Not applicable for accounts opened under an UGMA/UTMA registration.

Frequently asked questions

What is a 529 plan?

Created under section 529 of the Internal Revenue Code (IRC) and sponsored by individual states, 529 plans are tax-advantaged education savings vehicles. In 2002, changes to the Internal Revenue Code rendered these plans superior to many other savings vehicles in tax treatment of withdrawals used for qualified higher education expenses.

Who is eligible to open a 529 plan account?

Any legal U.S. resident can open a 529 plan account, regardless of income or state of residency.

Who can be the beneficiary of my 529 plan account?

There are no age or family relationship limits on 529 plan beneficiaries. Any legal U.S. resident can be a beneficiary of a 529 plan account. You can even open an account with yourself as the beneficiary, to help with your own higher education expenses.

Can a beneficiary have more than one 529 plan account?

Yes. Provided that the combined total of all accounts for the same beneficiary in a given state does not exceed that state's maximum contribution limit, a beneficiary can have more than one account under different account owners.

Can I change my plan account's beneficiary?

Yes, with certain limitations. A change in beneficiary is permitted and can be done without federal income tax or penalty, provided that the new beneficiary is a qualified member of the current beneficiary's extended family. A change in beneficiary could trigger gift taxation.

Can I open more than one account for different beneficiaries?

Yes. Maximum account balances are imposed per beneficiary rather than per account owner. In other words, each beneficiary is eligible for the maximum account balance.

What expenses are considered "qualified" under the plan?

As defined by the IRC, qualified higher education expenses include tuition, fees, room, board, books, supplies and equipment required for enrollment in or attendance at an eligible educational institution.

What if the beneficiary of my account decides not to go to college?

If the designated account beneficiary elects not to attend college, a new beneficiary can be chosen, provided that the new beneficiary is a member of the current beneficiary's extended family (as defined by the IRC). Any change in beneficiary to a person who is not a qualified family member of the current beneficiary is treated as a nonqualified withdrawal, and may be subject to a 10% penalty and ordinary income tax. UGMA/UTMA 529 plan account assets must be used for the benefit of the minor/beneficiary.

What if my beneficiary receives a scholarship or I need the money for expenses other than those related to higher education?

Assets held in a 529 plan can be withdrawn at the discretion of the account owner. However, earnings on withdrawals to cover expenses other than qualified education expenses will be subject to taxes as ordinary income and, in most cases, a 10% federal penalty. In the event the account beneficiary receives a scholarship, the account owner is allowed to withdraw up to the amount of the scholarship without federal penalty, though the earnings on this withdrawal would be subject to federal and possibly state income tax. Remaining funds can be used for educational expenses not covered by the scholarship, or a new beneficiary can be named.

Can my plan beneficiary attend college anywhere in the United States?

Yes. Withdrawals can be used at any eligible institution in the country. Eligible institutions include 2-year and 4-year public and private universities, graduate and professional programs, and even some vocational programs. A list of eligible institutions can be found at www.fafsa.ed.gov.

How does investing in a 529 plan affect the beneficiary's chances of qualifying for financial aid?

Guidance from the U.S. Department of Education says that a 529 plan is treated as an asset of the parent or other account owner in determining eligibility for federal financial aid. Since assets held by the parents have less impact on federal needs-based student aid eligibility than those held by the child, a 529 plan may affect this student aid eligibility less than would assets held in the child's name or in a custodial account.*

* Source: http://ifap.ed.gov/dpcletters/GEN0402.html

Please consider the investment objectives, risks, charges and expenses associated with 529 plan investments before investing. Contact your financial advisor for an official statement, which contains this and other important information. Read it carefully before investing. You should consider, before investing, whether the investor's or designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's qualified tuition program. Columbia Management Distributors, Inc., member FINRA and SIPC, is the distributor and underwriter for 529 plans available through Columbia Management.

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Please remember there's always the potential of losing money when you invest in securities.

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