



Matt McKellar, CFP®
President & Co-Founder

10655 NE 4th Street, #704
Bellevue, WA 98004
(425) 562-ICON
Matt@ICONconsultingllc.com
www.iconconsultingllc.com

Saving for College

Can I Afford to Send My Child to College?

It's the question every parent dreads. Although the answer hopefully is yes, you'll have to plan ahead. Unless you are very well off financially, you can't expect to sit on the sidelines for years and then suddenly find the funds to pay for college when your child is ready to go. The best thing to do is to start saving as early as possible, even if you're able to save only a small amount at first.



- Having their child apply for financial aid (e.g., student loans, grants, scholarships, work-study)
- Having their child contribute a portion of his or her savings and/or investments
- Having their child obtain a part-time job during college

For the 2006/2007 academic year, the average annual cost of a four-year public college is \$16,357 and the average annual cost of a four-year private college is \$33,301. (Source: The College Board's Trends in College Pricing Report 2006)

How much will college cost in the future?

For the 2006/2007 academic year, the average annual cost of a four-year public college is \$16,357 and the average annual cost of a four-year private college is \$33,301. (Source: The College Board's Trends in College Pricing Report 2006) The total figures include five expense items: tuition and fees, room and board, books and supplies, transportation, and personal expenses.

It's a likely bet that costs will continue to rise, but by how much? Annual increases in the range of 5 to 8 percent would certainly be in keeping with historical trends. But keep in mind that the actual percentage increase in any year could be higher or lower, and the rate could vary from public to private college.

How will I pay for it?

Many parents save less than 100 percent of their child's education costs before college. Usually, they put aside enough money to make a down payment on the college bill. Then, at college time, parents can supplement this down payment by:

- Obtaining private loans (e.g., home equity loan, margin loan)
- Obtaining financial aid-related loans (e.g., PLUS loan)
- Tapping their own investments (e.g., mutual funds, 401(k) plan, IRA, cash value life insurance)

How much should I save?

You'll want to put aside as much money as possible in your child's college fund. The more money you put aside now, the less you or your child will need to borrow later. Start by estimating your child's costs for four years of college. Then decide how much of the bill you want to fund--100 percent, 75 percent, 50 percent, and so on. To meet your goal, you'll need to use a financial calculator to determine how much to put in your college fund each month.

In many cases, the amount of money you should contribute really boils down to how much you can afford to contribute. Every situation is different. You'll need to take a detailed look at your family's finances in order to determine what you can afford to add to your child's college fund each month. To increase the amount of money that you're able to squirrel away, consider these options:

- Cut back on nonessential spending
- Reduce your standard of living (e.g., own only one car, eat out less often)
- Add unanticipated windfalls like bonuses, raises, or an inheritance to your child's college fund
- Have a previously stay-at-home spouse return to the workforce
- Obtain a new job with better pay
- Ask grandparents to contribute to your child's college fund in lieu of gifts

Start a savings program as early as possible

Perhaps the most difficult time to start a college savings program is when your child is young. New parents face many financial strains that always seem to take over--the possible loss of one income, child-related spending, the competing need to save for a house or car, or the demands of your own student loans. Yet this is the time when you should start saving.

With many years to go until your child starts college, you have time to select investments that have the potential to outpace college cost increases (but keep in mind that investments that offer higher potential returns may involve greater risk of loss). In addition, you'll benefit from compounding, which is the process of earning additional funds on the interest and/or capital gains that your investment earns along the way. With regular investments spread over many years, you may be surprised at how much you may be able to accumulate in your child's college fund.



But don't feel bad if you can't put aside hundreds of dollars every month right from the start. Start with a small amount, say \$25 or \$50 a month, and add to it whenever you can. You'll have a head start, as well as peace of mind knowing you're doing the best you can.

With regular investments spread over many years, you may be surprised at how much you may be able to accumulate in your child's college fund.

The Best Ways to Save for College



In the college savings game, all strategies aren't created equal. Should you choose a 529 plan, a Coverdell education savings account, or an UGMA/UTMA custodial account in your child's name? Or would you rather put your money in a mutual fund in your own name? Ideally, you'll want to choose a savings vehicle that offers you the best combination of tax advantages, financial aid benefits, and flexibility while meeting your overall investment needs.

529 plans: college savings plans

There are two types of 529 plans--college savings plans and prepaid tuition plans. Though each is governed under Section 529 of the Internal Revenue Code (hence the name "529" plans), college savings plans and prepaid tuition plans are very different college savings vehicles.

A college savings plan is a tax-advantaged college savings vehicle that lets you save money for college in an individual investment account. Some plans let you enroll directly, while others require that you go through a financial professional. The details of college savings plans vary by state, but the basics are the same:

- You fill out an application--you are called the account owner or the participant. You name a beneficiary and a successor participant (who would assume control of the account at your death). You also choose one or more of the plan's pre-established investment portfolios for your contributions. Most plans offer a range of investment portfolios that vary in risk.
- You (or someone else) contribute money to the account, subject to plan limits.
- Your contributions go into the investment portfolios you've chosen--portfolios typically consist of groups of mutual funds.

- The financial institution that the state has designated to run its plan is solely responsible for managing the plan's investment portfolios; you have no control over how these portfolios are run.
- Your contributions grow tax deferred, which means you don't pay income tax on the account's earnings each year. Some states (but not the federal government) may also let you deduct your contributions.
- Money withdrawn to pay college expenses (a qualified withdrawal) is tax free at the federal level, and may also be tax free at the state level.
- If the money isn't used for college (a non-qualified withdrawal), you'll owe income tax and a 10 percent federal penalty on the earnings portion of the withdrawal.



Anyone can open a college savings plan account—your ability to contribute doesn't depend on your income or your status as a parent. Money in the plan can be used at any college in the United States or abroad that's accredited by the U.S. Department of Education. And, if your child decides not to go to college or gets a scholarship, the account can be transferred to a sibling or other qualified family member without penalty. Plus, if you're unhappy with your plan for any reason, you can switch (rollover) your funds to a different 529 plan (college savings plan or prepaid tuition plan) once every 12 months without penalty. Your state may even offer tax breaks too, like a deduction for contributions or tax-free withdrawals.

But college savings plans have drawbacks too. You relinquish some control of your money. Returns aren't guaranteed—you roll the dice with the investment portfolios you've chosen, and your account may gain or lose money. Also, there are fees typically associated with opening and maintaining an account (e.g., an annual maintenance fee, administrative fees, and investment expenses based on a percentage of total account value).



529 plans: prepaid tuition plans

Prepaid tuition plans are distant cousins to college savings plans—their federal tax treatment is the same, but just about everything else is different. A prepaid tuition plan is a tax-advantaged college savings vehicle that lets you prepay tuition expenses now for use in the future.

Prepaid tuition plans can be run either by states or colleges. For state-run plans, you prepay tuition at one or more state colleges; for college-run plans, you prepay tuition at the participating college(s). Although the details of prepaid tuition plans vary by state, the basics are the same:

- You fill out an application—you are called the account owner or the participant. You name a beneficiary and a successor participant (who would assume control of the account at your death).
- You (or someone else) purchase an amount of tuition credits or units in a lump sum or periodically, subject to plan rules and limits. Typically, the tuition credits or units are guaranteed to be worth a certain amount of tuition in the future, no matter how much college costs may increase.
- Your contributions are pooled together with those of other participants into a general fund, and the money is invested. At a minimum, the plan hopes to earn an annual return equal to the annual rate of college inflation for participating colleges.
- Your contributions grow tax deferred, which means you don't pay income tax on the account's earnings each year. Some states (but not the federal government) also let you deduct your contributions.

- Money you withdraw to pay college expenses (a qualified withdrawal) is tax free at the federal level, and may also be tax free at the state level.
- If the money isn't used for college (a nonqualified withdrawal), you'll owe income tax and a 10 percent federal penalty on the earnings portion of the withdrawal.



But prepaid tuition plans have drawbacks too. One major disadvantage is that your child is limited to the participating colleges--if your child attends a different college, plans differ on how much money you'll get back. Also, if the plan earns more than the relevant college inflation rate, you're not necessarily entitled to the difference. Keep in mind, too, that there are fees typically associated with opening and maintaining the account (e.g., an enrollment fee and administrative fees). Finally, some prepaid plans have been forced to reduce plan benefits after enrollment due to investment returns that have not kept pace with the plan's offered benefits.

Coverdell education savings accounts

A Coverdell education savings account (Coverdell ESA) is a tax-advantaged education savings vehicle that lets you save money for college, as well as for elementary and secondary school (K-12) at public, private, or religious schools. Here's how it works:

- You fill out an application at a participating financial institution and name a beneficiary. Depending on the institution, there may be fees associated with opening and maintaining the account. Keep in mind that the beneficiary of a Coverdell ESA must be under age 18 when the account is established (unless the beneficiary is a child with special needs).
- You (or someone else) make contributions to the account, subject to the maximum annual limit of \$2,000. This means that the total amount contributed for a particular beneficiary in a given year can't exceed \$2,000, even if the money comes from different people.

- You invest your contributions as you wish (e.g., stocks, bonds, mutual funds, certificates of deposit)--you have sole control over your investments.
- Contributions to your account grow tax deferred, which means you don't pay income taxes on the account's earnings each year.
- Money withdrawn to pay college or K-12 expenses (a qualified withdrawal) is tax free at the federal level, and typically at the state level too.
- If the money isn't used for college or K-12 expenses (a nonqualified withdrawal), you'll owe income tax (at the beneficiary's tax rate) and a 10 percent federal penalty on the earnings portion of the withdrawal.
- Any funds remaining in a Coverdell ESA must be distributed to the beneficiary when he or she reaches age 30 (unless the beneficiary is a person with special needs).

Unfortunately, not everyone can open a Coverdell ESA--your ability to contribute depends on your income. To make a full contribution, single filers must have a modified adjusted gross income (MAGI) of \$95,000 or less, and joint filers must have a MAGI of \$190,000 or less.



Custodial accounts

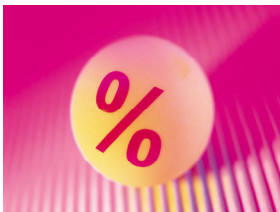
Before 529 plans and Coverdell ESAs, there were custodial accounts. A custodial account allows your child to hold assets that he or she ordinarily wouldn't be allowed to hold in his or her own name. The assets can then be used to pay for college or anything else that benefits your child (e.g., summer camp, braces, hockey lessons, a computer). Here's how a custodial account works:

- You fill out an application at a participating financial institution and name a beneficiary. Depending on the institution, there may be fees associated with opening and maintaining the account.

- You also designate a custodian to manage and invest the account's assets. The custodian can be you, a friend, a relative, or a financial institution. Keep in mind, though, that if a parent serves as custodian, the entire value of the account will be included in the parent's gross estate if the parent dies while serving as custodian.
- You (or someone else) contribute assets to the account. Whether your state has enacted the Uniform Gifts to Minors Act (UGMA) or the Uniform Transfers to Minors Act (UTMA) will determine the type of assets you are allowed to contribute (the UTMA allows more types of property than the UGMA, and most states have enacted the UTMA).
- The account earnings are taxed every year at your child's tax rate. Assuming your child is in a lower tax bracket than you, you'll reap greater tax savings than if you had held the assets in your name. This opportunity for tax savings is extremely limited for children under the age of 18, however, because the kiddie tax rules apply. Under the kiddie tax rules, any income over \$1,700 is taxed at your rate, not your child's rate.

Note: For 2008 (calendar year taxpayers), the kiddie tax rules also apply to children who are 18 years old and those who are full-time students over age 18 but under age 24 (unless the student earns more than half of the amount of his or her support).

Despite the potential for some tax savings, custodial accounts have a serious drawback: all gifts to a custodial account are irrevocable. When your child reaches the age of majority (either 18 or 21, depending on state law), the account terminates and your child gains control of the assets. Some children may not be able to handle this responsibility, or might decide to spend the money on something besides college.



Financial aid impact

Your college saving decisions impact the financial aid process. Come financial aid time, your family's income and assets are run through a formula at both the federal level and the college (institutional) level to determine how much money your family should be expected to contribute to college costs before you receive any financial aid. This number is referred to as the expected family contribution, or EFC.

In the federal calculation, your child's assets are treated differently than your assets. Your child must contribute 20 percent of his or her assets each year, while you must contribute 5.6 percent of your assets.

For example, \$10,000 in your child's bank account would equal an expected contribution of \$2,000 from your child ($\$10,000 \times .20$), but the same \$10,000 in your bank account would equal an expected \$560 contribution from you ($\$10,000 \times .056$).

Under the federal rules, an UGMA/UTMA custodial account is classified as a student asset. By contrast, 529 plans and Coverdell ESAs are considered parental assets if the parent is the account owner (so accounts owned by grandparents or other relatives or friends don't count at all). And distributions (withdrawals) from 529 plans and Coverdell ESAs that are used to pay the beneficiary's qualified education expenses are not classified as parent or student income on the federal government's aid form, which means that the money is not counted again when it's withdrawn. On a related note, most colleges treat 529 plans as parental assets--if the parent is the account owner--and withdrawals as student income.

Other investments you may own in your name, such as mutual funds, stocks, U.S. savings bonds, certificates of deposit, and real estate, are also classified as parental assets under the federal aid rules.

A word of caution

The provision of the Economic Growth and Tax Relief Reconciliation Act of 2001 that increased the annual contribution limit for Coverdell ESAs to \$2,000 is scheduled to expire on December 31, 2010. Unless Congress acts, after this date, the annual contribution limit for Coverdell ESAs will revert to \$500, the limit that was in effect prior to January 1, 2002.

Also, please note that with respect to 529 plans, investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about specific 529 plans is available in each issuer's official statement, which should be read carefully before investing.

529 College Savings Plans

Definition



A college savings plan is a type of qualified tuition program under Section 529 of the Internal Revenue Code that allows you to save money

for a beneficiary's college and graduate school expenses in a federally tax-advantaged individual investment account. Contributions to the account grow income tax deferred, and earnings are income tax free at the federal level if used to pay the beneficiary's qualified education expenses.

Note: Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about specific 529 plans is available in each issuer's official statement, which should be read carefully before investing.

Prerequisites

- An individual to name as beneficiary
- The required minimum contribution to open an account

Key strengths

- Federal and state tax-deferred growth
- Earnings free from federal income tax if withdrawals are used for the beneficiary's qualified education expenses
- Favorable federal gift and estate tax treatment
- Possible state tax advantages
- Available to all income levels
- High lifetime contribution limits
- Professional money management
- Trend toward more flexibility in investment options
- Variety of college savings plans to choose from

Key tradeoffs

- Returns are not guaranteed
- Earnings portion of withdrawals not used for the beneficiary's qualified education expenses are taxed and will be subject to a 10 percent federal penalty
- Plan's investment portfolios are managed exclusively by the plan's money manager
- Fees and expenses are typically associated with opening and/or maintaining a college savings plan account (e.g., annual maintenance fee, administration fees, and investment expenses based on a percentage of your total account value)

Variations from state to state

- College savings plans vary by state (though all must follow the guidelines set forth in Section 529 of the Internal Revenue Code)

How is it implemented?

- Choose a specific college savings plan
- Complete an application
- Name a beneficiary
- Make the required minimum cash contribution to open the account
- Select one or more of the plan's investment portfolios in which your contributions will be invested

529 Prepaid Tuition Plans

Definition

A prepaid tuition plan is a type of qualified tuition program under Section 529 of the Internal Revenue Code. You use the plan to purchase college tuition at participating colleges at today's prices for use by a beneficiary in the future. States or colleges may sponsor prepaid tuition plans. Contributions to the account grow tax deferred, and earnings are income tax free at the federal level if used to pay the beneficiary's qualified education expenses.

Note: Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about specific 529 plans is available in each issuer's official statement, which should be read carefully before investing.

Prerequisites

- An individual to name as beneficiary
- An enrollment fee and the required minimum contribution (if any) to open the account

Key strengths

- Ability to control college inflation by locking in college costs
- Federal and state tax-deferred growth
- Earnings are free from federal income tax if withdrawals are used for the beneficiary's qualified education expenses
- Favorable federal gift and estate tax treatment
- Possible added state tax advantages
- Available to all income levels
- High lifetime contribution limits

Key tradeoffs

- Some states may not be able to meet promises, despite guarantees given in prepaid contract
- Beneficiary receives maximum benefits only by attending a participating college

- Room-and-board expenses or graduate school expenses generally aren't considered a qualified education expense
- Beneficiary may need to use funds within a certain period of time
- Earnings portion of withdrawals not used for the beneficiary's qualified education expenses are taxed and will be subject to a 10 percent federal penalty
- Fees and expenses are typically associated with opening and/or maintaining a prepaid tuition plan account (e.g., an enrollment fee and administrative fees)

Variations from state to state

- Prepaid tuition plans vary by state (though all must follow the guidelines set forth in Section 529 of the Internal Revenue Code)

How is it implemented?

- Complete an application
- Name a beneficiary
- Pay the enrollment fee
- Make the required minimum cash contribution to open the account



Coverdell Education Savings Accounts

Definition

A Coverdell education savings account (formerly known as an education IRA) is a tax-advantaged educational savings account that you can establish for any child under the age of 18 (this age limit does not apply to beneficiaries with special needs).

Contributions to a Coverdell ESA can total up to \$2,000 each year. Contributions are made with after-tax dollars, but distributions used to pay qualified education expenses are income tax free at the federal level. States may also exempt such distributions from state income tax.

Note: The provision of the Economic Growth and Tax Relief Reconciliation Act of 2001 that increased the annual contribution limit for Coverdell ESAs to \$2,000 is scheduled to expire on December 31, 2010. Unless Congress acts, after this date, the annual contribution limit for Coverdell ESAs will revert to \$500, the limit that was in effect prior to January 1, 2002.



Prerequisites

- Your modified adjusted gross income for the year is less than \$110,000 or \$220,000 if married filing jointly
- Other individuals have not already contributed the maximum annual amount to a Coverdell ESA for the benefit of the same beneficiary
- The beneficiary is under age 18 (this age limit does not apply to beneficiaries with special needs)

Key strengths

- Qualifying distributions (including any earnings) are not included in income at the federal level, and possibly the state level

- Funds in a Coverdell ESA can be rolled over without penalty into another Coverdell ESA for a qualifying family member
- The beneficiary can take tax-free distributions from a Coverdell ESA in the same year that the Hope credit or Lifetime Learning credit is claimed, as long as the distribution and credit don't cover the same expenses
- Qualified education expenses include expenses incurred at elementary and secondary schools (K-12), including public, private, and religious schools

Key tradeoffs

- Your ability to contribute is limited if your modified adjusted gross income is between \$95,000 and \$110,000 or between \$190,000 and \$220,000 if married filing jointly
- After-tax dollars are contributed
- Distributions of earnings not used for education expenses are subject to tax and penalty
- Funds must be distributed within 30 days of the designated beneficiary reaching age 30 (this age limit does not apply to beneficiaries with special needs)

Variations from state to state

- None

How is it implemented?

- Establish a Coverdell ESA with a bank or other financial institution approved by the IRS
- Depending on the institution, there may be fees associated with opening and/or maintaining a Coverdell ESA
- Contributions can be made up until April 15 of the year following the tax year for which the contribution is being made

Custodial Accounts (UGMA/UTMA)

Definition

A custodial account is an account established at a financial institution for the benefit of a minor child and managed by the parent or another designated custodian. A custodial account is established under a particular state's Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA).



Any money placed in a custodial account is gifted irrevocably to your child. While the child is a minor under a certain age, generally 18 or 21 (depending on state law), the money is controlled by the custodian and can

be used only for the benefit of the child. Any income earned by the account is taxed to the child (unless the kiddie tax rules apply). When the child reaches the relevant age, the child receives the money.

Prerequisites

- Your child must be the relevant age (generally under 18 or 21, depending on the state) in order for you to open a custodial account

Key strengths

- Relatively simple to establish and maintain
- Opportunity for some tax savings

Key tradeoffs

- The custodianship ends and the child gains control of the funds when he or she turns 18 or 21 (depending on the state)
- There is no requirement that your child use the money for college expenses
- The kiddie tax rules diminish opportunity for tax savings
- May negatively impact financial aid

Variations from state to state

- State law determines the age of majority (18 or 21), which is when the assets of the custodial account are transferred outright to the child
- Whether the state has enacted UGMA or UTMA will affect the type of assets that may be transferred to the custodial account (e.g., cash, securities, insurance policies, real estate, etc.)

How is it implemented?

- Establish an account at a financial institution
- Depending on the institution, there may be fees associated with opening and/or maintaining a custodial account
- Contribute assets to the account

Any money placed in a custodial account is gifted irrevocably to your child.



Series EE Bonds

Definition

A Series EE bond is a type of savings bond issued by the federal government. It can be purchased from most neighborhood banks and savings institutions, or directly from the government. A Series EE bond is available in face values ranging from \$50 to \$10,000. You may purchase the bond in electronic form at face value or in paper form at half its face value. For example, if you want to buy a \$50 bond, you pay \$25 for it.

If the bond is used to pay qualified higher education expenses and other requirements are met (including income limitations), you pay no federal income tax on the bond's earnings.



Prerequisites

For the earnings of a Series EE bond to be exempt from federal income tax, you must meet all of the following requirements:

- The bond proceeds must be used for qualified higher education expenses (generally tuition and fees, not room and board)
- The bond must be issued in 1990 or later
- The bond must be issued in the name of one or both parents (not the child's name)
- Married taxpayers must file a joint return
- The owner (purchaser) of the bond must be at least 24 years old
- The bond must be redeemed (cashed in) by the owner in the year it's used to pay the education expenses of the owner, his or her spouse, or his or her dependent(s)
- The owner must fall within established income restrictions

Even if you don't meet all of the above requirements, you can still purchase Series EE bonds to save for

your child's college education. You will just have to pay federal tax on the bonds' earnings.

Key strengths

- Earnings may be exempt from federal income tax in some cases
- Earnings are exempt from state and local income taxes
- Bonds are backed by the full faith and credit of the federal government
- Easy to purchase and redeem

Key tradeoffs

- Limit on amount of bonds you can buy in one year
- Relatively low yield
- Penalty for early redemption
- Minimum waiting period before redemption allowed

Variations from state to state

- None

How is it implemented?

- Purchase at your local bank or savings institution, or directly from the government

A Series EE bond is available in face values ranging from \$50 to \$10,000. You may purchase the bond in electronic form at face value or in paper form at half its face value. For example, if you want to buy a \$50 bond, you pay \$25 for it.

College Savings Vehicles Compared

	529 Plans	Coverdell ESA	U.S. Savings Bonds	Custodial Account
Participation restrictions	No	Yes, income limit for contributions and \$2,000 maximum annual contribution per child*	No, but ability to exclude bond proceeds from federal income tax depends on income	No
Tax-exempt withdrawals (exempt from federal income tax if used for qualified education expenses)	Yes (withdrawals may also be exempt from state income tax, depending on state law, for those who invest in the state plan where they reside)	Yes (withdrawals may also be exempt from state income tax depending on state law)	Yes, income limits and other requirements must be met (bond proceeds are generally exempt from state income tax)	No
Penalties (if funds aren't used for qualified education expenses)	Yes, a 10 percent federal penalty applies to the earnings portion of all nonqualified withdrawals (a state penalty may also apply)	Same as 529 plans	No, but the bond proceeds won't be exempt from federal income tax	No, but withdrawals from the account can only be made for the child's benefit
Federal financial aid treatment (assets attributed to student are weighed more heavily, resulting in less financial aid)	Parental asset (if parent is account owner); distributions do not count as parent or student income	Parental asset (if parent is account owner); distributions do not count as parent or student income	Parental asset (if parent is owner of bonds)	Child's asset
Fees and expenses	College savings plan: typically an annual maintenance fee, administration fees, and investment expenses based on a percentage of total account value Prepaid tuition plan: typically an enrollment fee and various administrative fees	Depending on the financial institution, there may be fees associated with opening and/or maintaining a Coverdell ESA	No fees or expenses, except for the possibility of brokerage fees if bonds are purchased through a broker	Depending on the financial institution, there may be fees associated with opening and/or maintaining a custodial account

*The provision of the Economic Growth and Tax Relief Reconciliation Act of 2001 that increased the annual contribution limit for Coverdell ESAs to \$2,000 is set to expire on December 31, 2010. Unless Congress acts, after that date, the annual contribution limit for Coverdell ESAs will revert to \$500, the limit that was in effect prior to January 1, 2002.

U.S. savings bonds are guaranteed as to the payment of principal and interest. The remaining types of college savings vehicles discussed are not guaranteed and are more risky.

Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans before investing. More information about specific 529 plans is available in each issuer's official statement, which should be read carefully before investing.

The availability of the tax and other benefits mentioned above may be conditioned on meeting certain requirements.

Summary of Tax-Advantaged College Savings Options

Federal tax-deferred-growth and tax-free earnings when withdrawals are used for qualified education expenses:

529 Plans

529 college savings plan: You open an individual investment account and direct your contributions to one or more pre-established investment portfolios offered by the plan. Typically, there are fees and expenses associated with opening and/or maintaining a college savings plan account (e.g., annual maintenance fee, administrative fees, and investment expenses based on a percentage of total account value).

529 prepaid tuition plan: You prepay college tuition now at a participating college for use by your child in the future. Your contributions are pooled into the plan's general investment fund, and you are generally guaranteed a certain rate of return (or a certain amount of tuition). Typically, there are enrollment and administrative fees associated with opening and/or maintaining a prepaid tuition plan account.

State tax benefits may also apply for those who invest in the state plan where they reside.

Coverdell Education Savings Account (ESA)*

Allows saving for elementary and secondary school (K-12), as well as college. You establish an individual investment account and select the underlying investments for your contributions (i.e., stocks, mutual funds). Depending on the financial institution, there may be fees associated with opening and/or maintaining a Coverdell ESA. Income limits restrict who can open an account, and the maximum contribution allowed per year is \$2,000.

State tax benefits may also apply.

U.S. Savings Bonds (Series EE and Series I)

For the bond's earnings to be exempt from federal income tax, you must meet income limits in the year you redeem the bond (the proceeds are added to your income for this determination). The earnings on federal savings bonds are always exempt from state income tax. Typically, there are no fees and expenses, except for the possibility of brokerage fees if the bonds are purchased through a broker.

Earnings taxed at the child's tax rate:

Custodial Accounts

Uniform Gifts to Minors Act (UGMA) and Uniform Transfers to Minors Act (UTMA) custodial accounts are established for the benefit of a minor child and managed by you or another custodian you designate. The exact type of property that can be held in the account, although generally quite broad, depends on whether your state has enacted UGMA or UTMA.

Assets transferred to the account are irrevocable gifts to the child, and withdrawals can be used only for the child's benefit. When the child reaches age 18 or 21 (depending on state law), the custodianship ends and the child receives full control of the remaining assets.

The first \$1,700 of investment income (in 2007) is taxed at the child's rate. But under the kiddie tax rules, any income over this amount for children age 17 and younger is taxed at the parents' rate. And starting in 2008, the kiddie tax rules will be expanded to apply to children age 18 and to full-time students over age 18 but under age 24 (unless the student earns more than half of his or her support).

Depending on the financial institution, there may be fees associated with opening and/or maintaining a custodial account.

*The provision of the Economic Growth and Tax Relief Reconciliation Act of 2001 that increased the annual contribution limit for Coverdell ESAs to \$2,000 is set to expire on December 31, 2010. Unless Congress acts, after that date, the annual contribution limit for Coverdell ESAs will revert to \$500, the limit that was in effect prior to January 1, 2002.

Investors should consider the investment objectives, risks, charges, and expenses associated with 529 plans carefully before investing. More information about 529 plans is available in the issuer's official statement, which should be read carefully before investing.

The availability of the tax or other benefits mentioned above may be conditioned on meeting certain requirements.



Matt McKellar, CFP®
President & Co-Founder

10655 NE 4th Street, #704
Bellevue, WA 98004
(425) 562-ICON
Matt@ICONconsultingllc.com
www.iconconsultingllc.com

Information contained in this publication is not intended to provide specific advice or recommendations for any individual.

For specific advice regarding investment, retirement, tax, and other planning needs, please reach us to conduct your own personal consultation which will address those needs.

Securities offered through Linsco/Private Ledger member FINRA/SIPC. Fee based consulting and advisory services offered through ICON Consulting LLC, an independently owned and operated Registered Investment Advisor.