

COMPARISON OF TAX-ADVANTAGED EDUCATION SAVINGS VEHICLES

	Prepaid Tuition Plan	Qualified Savings Plan	Educational Savings Account
Summary	<p>State sponsored plans that allow individuals to prepay future college expenses at today's prices by purchasing credits applied to future expenses. If the student attends a participating school, the investor is guaranteed a return equivalent to the rate of tuition inflation at that school.</p> <p>Generally restricted to residents of the sponsoring state, and the student must attend a participating school to receive full benefits.</p> <p>Only 19 states offer Prepaid Tuition Plans. MA is only New England state to offer Prepaid Plan.</p>	<p>Tax-advantaged investment vehicles to save exclusively for a beneficiary's higher education expenses. Assets grow tax-deferred and qualified distributions are tax-free.</p> <p>Distributions may be used at any accredited college of university (undergraduate and graduate) in the country, as well as many foreign institutions.</p> <p>All 50 states sponsor a Qualified Savings Plans, and most plans are available to non-residents.</p>	<p>Trusts or custodial accounts created exclusively for the purpose of paying the qualified higher education expenses of a designated beneficiary.</p> <p>These accounts may be opened for any beneficiary who is under the age of 18.</p> <p>Beginning in 2002, individuals may contribute up to \$2,000 annually, per designated beneficiary (subject to AGI restrictions).</p>
Income limits	None.	None.	<p>Participation is subject to Modified Adjusted Gross Income limits of the parents:</p> <ul style="list-style-type: none"> ▪ \$95,000 to \$110,000 for single filers. ▪ \$190,000 to \$220,000 for MFJ.
Income tax treatment	<p>Contributions are not deductible for federal income tax purposes, although certain states offer a state income tax deduction.</p> <p>Earnings are tax-deferred, and qualified distributions are tax-free. The earnings attributed to non-qualified distributions are subject to federal income tax, as well as applicable state income tax.</p> <p>Non-qualified distributions are subject to a 10% penalty.</p>	<p>Contributions are not deductible for federal income tax purposes, although certain states offer a state income tax deduction.</p> <p>Earnings are tax-deferred, and qualified distributions are tax-free. The earnings attributed to non-qualified distributions are subject to federal income tax, as well as applicable state income tax.</p> <p>Non-qualified distributions are subject to a 10% penalty.</p>	<p>Contributions are not deductible for federal income tax purposes.</p> <p>Earnings are tax-deferred, and qualified distributions are tax-free. The earnings attributed to non-qualified distributions are subject to federal income tax, as well as applicable state income tax.</p> <p>Non-qualified distributions are subject to a 10% penalty.</p>
Estate and gift tax treatment	<p>Contributions are deemed to be completed gifts, and the annual gift tax exclusion applies.</p> <p>Contributor may elect to prorate contribution over a 5 year time period.</p> <p>Assets are removed from contributor's estate. If 5-year proration is elected and contributor dies during the 5-year period, assets are included in contributor's estate ratably.</p>	<p>Contributions are deemed to be completed gifts, and the annual gift tax exclusion applies.</p> <p>Contributor may elect to prorate contribution over a 5 year time period.</p> <p>Assets are removed from contributor's estate. If 5-year proration is elected and contributor dies during the 5-year period, assets are included in contributor's estate ratably.</p>	<p>Contributions are deemed to be completed gifts, and the annual gift tax exclusion applies.</p> <p>Assets are removed from contributor's estate.</p>

COMPARISON OF TAX-ADVANTAGED EDUCATION SAVINGS VEHICLES

	Prepaid Tuition Plan	Qualified Savings Plan	Educational Savings Account
Contribution limits	State specific, but typically the full cost of education at current price levels.	Varies by state, but typically exceed \$200,000.	\$2,000 per year <u>per student</u> , subject to AGI limits. Excess contributions subject to a 6% excise tax.
Qualified expenses	Plan specific. Tuition and fees at participating schools are typically included. Coverage for room and board, books, and supplies varies by state. Typically restricted to undergraduate education.	Tuition, fees, books, and supplies. Room and board if student status is at least ½ time. Expenses for special needs services incurred in connection with enrollment or attendance.	Tuition, fees, books, and supplies. Room and board if student status is at least ½ time. Expenses for special needs services incurred in connection with enrollment or attendance. Certain expenses associated with public and private K-12. This includes tuition, room and board, supplies, uniforms, and computer equipment.
Eligible education institutions	Limited to the schools participating in the particular plan. The Massachusetts Prepaid Tuition Plan (U-Plan) includes 81 participating schools.	Accredited, postsecondary educational institutions offering credits towards a bachelor's degree, associate's degree, a graduate level of professional degree, or another recognized postsecondary credential. Almost every accredited college and university in the United States is considered an eligible institution.	Accredited, postsecondary educational institutions offering credits towards a bachelor's degree, associate's degree, a graduate level of professional degree, or another recognized postsecondary credential. Almost every accredited college and university in the United States is considered an eligible institution. In addition to postsecondary education institutions, tax-free distribution may be made for qualified expenses associated with K-12 expenses.
Financial aid treatment	Treated as an available resource similar to a grant or scholarship. Financial aid is reduced dollar for dollar.	Treated as an asset of the account owner (typically the parent). Financial aid calculations assume that 5.6% of the parents' assets are available for meeting education expenses, as opposed to 35% of the student's assets. Distributions are considered income of the student, 50% of which is considered available for meeting education expenses.	Treated as an asset of the student, 35% of which is considered available for meeting education expenses. Distributions are considered income of the student, 50% of which is considered available for meeting education expenses.
Investment flexibility	None. Contributions earn a fixed rate of return that is typically tied to education inflation within the sponsoring state. If not used at a participating school, the earnings are	Limited. Account owner is typically offered 3-5 portfolios in which to invest. These portfolios often include an age based allocation, as well as fixed stock/bond	Very flexible. Account owner/Custodian retains discretion over investment options, and can typically choose from the funds offered by the financial institution

COMPARISON OF TAX-ADVANTAGED EDUCATION SAVINGS VEHICLES

	Prepaid Tuition Plan	Qualified Savings Plan	Educational Savings Account
	typically reduced or restricted. MA credits accounts that are used at non-participating schools with contributions + CPI.	allocations. A handful of states have begun offering plans that allow investors to allocate their contributions among a list of mutual funds.	offering the plan (such as Schwab, Fidelity, Vanguard, or TD Waterhouse). Investment restricted to preclude insurance and use as collateral.
Age restrictions	Specific to each plan.	No statutory age restrictions, although certain states may impose their own restrictions.	Account must be opened on or before the beneficiary's 18 th birthday. Contributions may not be made after the beneficiary's 18 th birthday (waived for special needs beneficiary). The account must be fully distributed within 30 days of the beneficiary's 30 th birthday (waived for special needs beneficiary).
EGTRRA	No substantive changes.	Substantial enhancements: <ul style="list-style-type: none"> ▪ Qualified distribution became tax-free. ▪ Account may be rolled over tax-free to another state's plan once every 12 months. ▪ Tax-free beneficiary changes expanded to include the beneficiary's cousin. ▪ Consideration for expenses incurred by special needs beneficiaries. ▪ Coordination with Coverdell Education Savings Account. ▪ Coordination with education tax credits. 	Substantial enhancements: <ul style="list-style-type: none"> ▪ Increased contribution limits. ▪ Tax-free beneficiary changes expanded to include the beneficiary's cousin. ▪ Qualified distributions expanded to include K-12 expenses. ▪ Consideration for expenses incurred by special needs beneficiaries. ▪ Coordination with Qualified Savings Plans. ▪ Coordination with education related tax credits.
Contribution deadline	Specific to each plan.	None.	April 15 or tax filing deadline (not adjusted for extensions).
Asset protection	Some states provide asset protection.	Some states provide asset protection.	Generally not exposed to contributor's creditors. Level of protection similar to IRA.