HOW DO THE EDUCATION SAVINGS ACCOUNT AND THE 529 PLAN COMPARE?

Issue	**Education Savings Account**	**Section 529 Plan**
How much can be contributed?	$2,000 a year until the child is 18 for years beginning after 12/31/01.	Maximum depends on state plan, age of child and investment chosen. The California ScholarShare program allows lifetime contributions of up to $174,000 per child.
What is the AGI limit?	No contribution allowed when AGI reaches $110,000 single or head of household, $220,000 married joint.	None.
Who controls the distribution of the money?	The child has control of the money when he or she turns 18.	The donor retains control until the money is disbursed.
Who controls the investment of the money?	The investment can be moved from one fund to another as investment philosophy changes.	The investment is named when the money is contributed to the plan from a choice provided by the plan manager. The money can be rolled to another investment or plan once each 12 months.
How do gift tax limits apply?	The $2,000 contribution is counted into the annual $12,000 gifting limit.	The contribution is counted into the year's total gifts, but special rules allow the donor an election to contribute $60,000 in one year and use 5 years of annual gifting limits.
What are counted into qualified education expenses?	Can be used for tuition, tutoring, books, supplies, room and board and computer equipment for K through 12 as well as for college.	Can be used only for post secondary expenses. Computer equipment is not included in the definition of qualified education expenses.
How do the funds affect financial aid calculations?	Counts as the student's asset in the financial aid formula.	Counts as the donor's asset in the financial aid formula.

PROS AND CONS OF SECTION 529 AT A GLANCE

PROS	CONS
Income and growth are tax free as long as withdrawals are used for qualified higher education expenses.	**No deduction is allowed for contributions.**
The donor retains control to disburse the money. The donor can change the beneficiary.	**No investment control.** Funds are managed by the trust. TIAA-CREF manages the California ScholarShare plan.
The donor can take the money back (and pay taxes and penalties.)	**Trust will be in conservative investments** not necessarily those that a donor would choose.
If money remains after beneficiary graduates, it can be used for grad school or transferred to another family member.	**Contribution applies against annual and lifetime gifting** amounts where direct payment of tuition does not
No AGI limitation for donors.	**Financial aid may be impacted** by amounts in the plan.
Estate planning can include transfers to 529 plans.	**Only cash can be contributed.** Other assets must be liquidated if they are used to fund the plan.
Students may attend any accredited school in the nation. School does not have to be named when the account is opened.	**Penalties apply** if funds are not used for college.
Trust can be used for most college expenses including tuition, fees. books, supplies and room and board.	Some tax advantages are due to **expire in 2010.**

More Information Available on the Web

Several websites provide information on the various state plans and also include calculators for college expenses and links to federal financial aid sites. See www.savingforcollege.com for general information on 529 plans and for comparative analysis of the various state plans. See www.scholarshare.com for information and online enrollment for the California ScholarShare plan.