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PRIVATE
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College Savings Accounts: Which One is Right for You?

For many families, saving for children's college is a financial priority, often topped only by retirement savings. And with college costing an average of $36,436 per student annually (including tuition and living expenses), the more you can save, the better.[1]

Saving for college can ensure your child has more choices when they're deciding where to go. Moreover, it can also prevent your child from taking on too much debt, which can become a financial burden after graduation.

Fortunately, there are multiple ways that parents and families can save for college, and many provide tax advantages for doing so. Consider the following four options on the following pages.

OPTION 1 529 College Savings Plans[6]

A 529 plan is a tax-advantaged investment account designed to save for higher education expenses. Additionally, eligible expenses for grades K-12 may also be funded by a 529 account up to $10,000 per year. The account allows you to contribute after-tax dollars that grow tax-free. You can then withdraw amounts tax-free for qualified education and other specified expenses, such as tuition and fees, books and supplies, and room and board. (IRS Publication 970).

Advantages

- The tax benefits of a 529 plan enable you to get more for your savings—you don't pay taxes on the account's investment growth or the money you withdraw for qualified education expenses.
- Some states offer deductions or a credit toward your state income tax.
- The plans vary by state and offer various contribution limits—often in the hundreds of thousands of dollars.
- The plans offer a wide range of investment options, which you can tailor to your financial needs and risk tolerance.
- 529 plans may be transferrable tax-free to your other children.
- Beginning in 2024, you can convert up to $35,000 of 529 plan savings into a Roth IRA, subject to annual Roth IRA contribution limits, meaning you can use unused education funds to save for retirement.

Considerations

- You can only use the 529 plan funds for specific expenses denoted by the plan. If you withdraw for other purposes, you face a penalty plus taxes on the growth of the funds.
- The accounts are considered an asset of the account owner—usually the parents—and are a factor in your student's financial aid calculations.
- Some plans only offer tax advantages, such as state income tax breaks, to in-state residents.
- Contributions to a 529 plan are considered a gift to the beneficiary of the plan. For 2025, the annual contribution limit for a donor is $19,000 per beneficiary to avoid any gift tax. Additionally, a 529 plan can be front-loaded with 5 years of the annual gift limit by making a one-time contribution of $95,000 ($19,000 x 5).

[6]Prior to investing in a 529 Plan investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free. Tax treatment at the state level may vary. Please consult with your tax advisor before investing.

OPTION 2

Coverdell Education Savings Accounts (ESAs)

Like a 529 plan, a Coverdell ESA is a tax-advantaged savings account that helps families save for education expenses. You can contribute up to $2,000 per year per beneficiary.[2] The contributions are made with after-tax dollars, but the account grows tax-free, and any withdrawals for education expenses are also tax-free. Moreover, you can use the funds for any education expenses, including K-12.

Advantages

- These plans provide tax-free growth of your investments and tax-free withdrawals when you use the funds for education.
- You can use the funds for K-12 education as well as college.
- You have multiple investment options for your funds.

Considerations

- The Coverdell ESA contribution limits are much lower than the 529 plans.
- The contributions are also per student, so the total of two or even three accounts can't exceed $2,000 per year.[3]
- The accounts have eligibility requirements based on income.

OPTION 3 Uniform Gifts to Minors Act/Uniform Transfers to Minors Act (UGMA/UTMA)

These custodial accounts enable adults to hold and manage assets on behalf of a minor. You can transfer the account's assets to your child once they turn 18. At that point, the assets in the account become the child's property, and they can use the funds for any purpose, including college expenses.

Advantages

- These accounts are simple and flexible.
- There are no contribution limits or maximums; you can contribute as much as you'd like.
- The beneficiary (your student) can use the funds for education expenses or whatever else they need—there are no restrictions.

Considerations

- There are no tax advantages to saving within a UGMA or UTMA account; you save after-tax dollars and pay taxes on the investment gains.
- The funds become the student's property, impacting how much your child receives in financial aid.

OPTION 4 **Roth IRAs**[7]

Though Roth IRAs are primarily designed for retirement savings, you can use them for college savings in certain circumstances. The accounts enable you to save after-tax dollars and benefit from tax-free growth of the investments in the accounts.

Advantages

- The tax-free growth and withdrawals are the primary benefit of these accounts.
- You can use the funds for certain qualified education expenses without incurring the 10% penalty on the amount withdrawn.[4]
- If you don't use the funds for college, you can use them for retirement expenses.

Considerations

- Roth IRAs have smaller contribution limits than 529 plans—you can't contribute more than $7,000 ($8,000 if you're age 50 or older) to all of your IRAs and Roth IRAs in 2025[5]
- If you are using a Roth to save for college, then you may be impeding your ability to use the account's tax advantage to save for retirement.

SUMMARY

There's no one right way to save for higher education costs, and it's NEVER too early to start saving. Each family has its financial circumstances and needs and those should be discussed with your Old National wealth advisor. Explore all the available options, and then take advantage of the savings vehicles that make sense for your college savings goals and life.

[7]A Roth IRA offers tax deferral on any earnings in the account. Qualified withdrawals of earnings from the account are tax-free. Withdrawals of earnings prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Limitations and restrictions may apply.

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