College Savings

Get a head start with a Roth IRA, 529 plan or UGMA/UTMA account

College is expensive. Fortunately there are savings options which you might consider for higher education expenses – your own, or those of children and grandchildren. Some of the most commonly utilized savings options are Roth IRAs, 529 plans, and UGMA or UTMA accounts.

ROTH IRAS

A Roth IRA is not only a retirement savings vehicle, but also a college savings vehicle. It lends the account holder the flexibility to save money now and decide later how they'd like to use it.

In 2025, you can contribute up to $7,000 toward a Roth IRA. Those age 50+ may contribute up to $8,000. Contributions can be withdrawn anytime and for any reason – related to educational expenses or not – without tax or penalty. Roth IRA plan assets are not counted for financial aid purposes.

Once you reach age 59½, as long as you've held the account for at least five years, all withdrawals – both of contributions and any earnings – are tax-free "qualified withdrawals."

Qualified withdrawals from a Roth IRA are considered non-taxable income.

529 PLANS

A 529 plan is a savings vehicle specifically for qualified education expenses, including attendance at a four-year college or university. These plans are set up at the state level; you may enroll in your state's plan or in that of another state. It lends the planholder the flexibility to change the plan's beneficiary or beneficiaries within an approved list of family members, including yourself.

Contributions are not deductible on your federal taxes. Some states offer income tax deductions for contributions. 529 plans do not have any income, age, or annual contribution limits. Gift tax implications may apply, however, if you contribute too much in a given year.

Withdrawals – both of contributions and any earnings – can be made anytime and are tax-free, provided you use the money for qualified education expenses. If earnings are used for a non-qualified purpose, taxes and penalties apply.

Beginning with distributions made after December 31, 2023, a beneficiary of a Section 529 qualified tuition program is permitted to roll over a distribution from the 529 account to a Roth IRA for the beneficiary if certain requirements are met.

All 529 plans offer a relatively limited investment lineup. There are prepaid tuition vs. savings variations to consider.

UGMA & UTMA ACCOUNTS

Custodial accounts under the Uniform Gifts to Minors Act (UGMA) or Uniform Transfers to Minors Act (UTMA) allow you to save on behalf of a child.

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Anyone can open or contribute to a UGMA or UTMA account on a child's behalf, and there is no contribution limit. Contributions are made with after-tax dollars and thus are not tax deductible, but you can contribute up to $15,000 per year ($30,000 for a married couple filing jointly) without incurring a federal gift tax. All contributions are irrevocable, and the beneficiary cannot be changed.

Assets are held in the child's name. Upon reaching the age of majority – 18 or 21 in most states – they are entitled to the account and can use the assets as they see fit. There is no penalty if the assets are not used toward education. If the child is pursuing education, note the assets will weigh heavily in financial aid calculations.

Some or all of the account's investment income may be tax eligible at the beneficiary's rate. Investment income exceeding $2,200 may be taxed at the parents' tax rate.

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