

Advantages of Coverdell ESAs

As a result of a U.S. Department of Education memorandum issued in 2004, Coverdell ESAs are now an attractive asset for middle and upper middle class parents looking to save money for their child's higher education. To be specific, the government views 5.6% of parents' assets as "fair game" in determining eligibility for financial aid on the FAFSA (Free Application for Federal Student Aid) form. However, the corresponding figure for students' assets is 35%.

Since Coverdell ESAs are generally owned by the parent for the benefit of a child, Coverdell assets are deemed to be assets of the parents for financial aid purposes. In other words, assets held in ESAs now receive favorable treatment with regard to the distribution of financial aid.

Tax-deferred 529 Savings Plans are also considered assets of the parent. Qualified distributions from 529s and Coverdells are NOT treated as income (to parent or student) and, therefore, do not reduce financial aid eligibility. As a result, both Coverdell ESAs and 529 Savings Plans are excellent vehicles for parents who will be seeking financial aid.

Assets held in an UGMA account (Uniform Gifts to Minors Account) are considered the student's and are, therefore, unfavorable for financial aid planning purposes. Additionally, 529 Prepaid Tuition Plans reduce aid eligibility dollar for dollar.

Questions about 529s or Coverdells? Looking for the right solution? Call....

If you have any questions please contact:

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