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Advantages and Disadvantages of Coverdell Education Savings Accounts



Advantages and Disadvantages of Coverdell Education Savings Accounts

Advantages

- Withdrawals that are used to pay the beneficiary's qualified education expenses are completely income tax free at the federal level
- Qualified education expenses include elementary and secondary school expenses
- You have complete freedom to choose the investments you put in the account
- You can change the beneficiary without penalty if certain conditions are met
- You can contribute to a 529 plan and a Coverdell ESA in the same year for the same beneficiary without triggering a penalty
- A Coverdell ESA is considered an asset of the parent for federal financial aid purposes and assessed at a rate of 5.6 percent (distributions aren't counted as parent or student income)

Disadvantages

- You can contribute a maximum of only \$2,000 each year
- Your ability to contribute depends on your income--to make the full \$2,000 contribution, single filers must have a modified adjusted gross income (MAGI) less than \$95,000 (a partial contribution is allowed if MAGI is between \$95,000 and \$110,000) and joint filers must have a MAGI less than \$190,000 (a partial contribution is allowed if MAGI is between \$190,000 and \$220,000)
- Contributions aren't allowed after the beneficiary reaches age 18, unless the beneficiary has special needs
- The account must be closed after the beneficiary reaches age 30, unless the beneficiary has special needs
- Withdrawals from a Coverdell ESA that are not used for the beneficiary's qualified education expenses are taxed and penalized (the earnings portion of the withdrawal is subject to a 10 percent federal penalty and is taxed at the rate of the person who receives the withdrawal)
- Depending on the financial institution, there may be fees associated with opening and/or maintaining the account

This material does not constitute the rendering of investment, legal, tax or insurance advice or services. It is intended for informational use only and is not a substitute for investment, legal, tax, and insurance advice. State, national and international laws vary, as do individual circumstances; so always consult a qualified investment advisor, attorney, CPA, or insurance agent on all investment, legal, tax, or insurance matters. The effectiveness of any of the strategies described will depend on your individual situation and on a number of other factors.

Advisory Services Offered Through Select Portfolio Management, Inc.

A Registered Investment Advisor

Securities Offered Through Securities Equity Group

Member FINRA www.finra.org , SIPC www.sipc.gov

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