AZ**CollegePlanning.com**

College Savings Accounts: Pro's and Con's

Non Tax-Qualified Mutual Funds And Stocks

Pros: Unlimited upside gains, can be sold at any time

Cons: Not guaranteed. Unlimited downside losses. Any growth is taxed when sold, or each year if there are short term capital gains which the income will be reported on the tax return. Depending on how they are registered, they can count against the student toward financial aid eligibility anywhere from 5.6 – 20%

529 College Savings Plan

Pros: Tax deferred growth and tax-free withdrawals for qualified expenses. Unlimited upside potential on underlying investments (mutual funds).

Cons: Unlimited downside potential on underlying investments (mutual funds). Counted as an asset of the owner.

Certificates of Deposit (CD's)

Pros: FDIC insured up to $250,000. Guaranteed interest rate.

Cons: Possible penalties for withdrawing before maturity. Counted in the financial aid formula depending on registration.

Money market and bank savings accounts (these are lumped together since they have virtually all the same features).

Pros: It is FDIC insured up to $250,000. Typically has a minimal guaranteed interest rate. There are no penalties for withdrawing for college or any other reason.

Cons: The interest is usually low and probably doesn't keep pace with inflation. Also, with the problems in the current banking industry and banks going out of business, FDIC insurance could be slow to provide any guarantees up to $250,000. It is counted in the financial aid formula.

Non-Tax Qualified Fixed Annuities

Pros: Principle and interest rate guaranteed. Usually higher than a savings or bank account interest. Value is not counted in financial aid formulas. Growth is tax-deferred.

Cons: Possible penalties for pulling out before 59 ½ and maturity on. Taxes owed on any gain distribution

info@AZCollegePlanning.com – 1-888-238-2087 ext. 2

College Savings Accounts: Pro's and Con's

Tax-Qualified Retirement Accounts

Pros: Unlimited upside potential. Account value is out of Federal financial aid formula

Cons: Unlimited downside potential, penalties and tax consequences with pulling out before age 59 ½, limited contributions per year. Contributions to such accounts are included back into the financial aid formulas.

Treasury Bills

Pros: Considered by many the safest place to park money in the world. Backed by U.S. Government.

Cons: Very low current returns. Penalties for pulling out before maturity. Counted in the financial aid formula. No guarantees on principle if sold before maturity. Possible Treasury Bond Bubble forming that could pop if interest rates rise.

Municipal Bonds including Tax-Free Muni's and Bond Funds

Pros: Guaranteed interest rate. Can be tax-free. Relatively safe.

Cons: No guarantees on the principal. Can be taxed. Included in financial aid formula. Could be penalties for pulling out before maturity.

Cash Value Life Insurance

Pros: Guarantees on the principal. Consistent returns. Growth is usually better than any fixed bank savings account. Cash value is not included in the financial aid formulas. Tax deferred growth and potentially tax free withdrawals.

Cons: Could be some penalties for distributions (withdrawal) of gains taken out before 59 ½ years of age.

Any money that is under a retirement umbrella is potentially sheltered from the financial aid formula. This includes 401k, IRA, Roth, SEP, annuities and cash value life insurance.

info@AZCollegePlanning.com – 1-888-238-2087 ext. 2