



Homestead Funds'

# helpful tips

## Saving for Education

Next to retirement, education is the most popular savings goal. If you are investing to pay for tuition, consider accounts that offer tax breaks. Two popular education accounts with such tax advantages are the **Education Savings Account** (also called a Coverdell account) and the **UGMA/UTMA account** (named for the Uniform Gifts/Transfers to Minors Act). Both types of accounts provide tax benefits to help your savings grow faster. The table inside helps you compare the accounts.

### Compare your options

The choice of which type of account is best for you may depend in part on how much you plan to invest and how you'll be making contributions: all at once or over time.

One of the most valuable gifts a parent can give a child is a good education.

But with tuition costs rising and so many other demands on the family dollar, it's hard to set money aside.

Here's some information that has helped others plan for their children's education.

It may help you, too.



*Alexandra Lee, Homestead Funds' Client Service Associate*

You can trust Homestead Funds because **you already know us**—we're part of the NRECA family. Homestead Funds was created in 1990 to provide NRECA members with professional and affordable money management.

Another important consideration is how much control you think you need over how account dollars are spent. For example, according to IRS rules, money from an Education Savings Account must be used for educational expenses. But that's not the case for assets held in UGMA/UTMA accounts.

### You don't have to be a parent to contribute

Grandparents, aunts, uncles and even non-family members can fund an Education Savings Account or UGMA/UTMA account on behalf of a child. Before funding an Education Savings Account, check with the child's parent or guardian to make sure the gift will not exceed the total \$2,000 annual limit from all contributors. A parent or guardian must sign the application.

### Make sure you consider the impact on financial aid

Money held in an Education Savings Account or UGMA/UTMA account may influence a student's chances to qualify for need-based financial aid or the amount of aid awarded. If you are a non-parent donor to either of these accounts, be sure to discuss your contributions with the family first.

### Using retirement accounts for educational expenses

The primary purpose of an Individual Retirement Arrangement (IRA) is to accumulate savings for retirement. However, a parent can tap

## Two ways to save for education expenses: ESAs and UGMAs/UTMAs

	Education Savings Account (ESA)	UGMA/UTMA account
How the savings can be used	To pay for both elementary and secondary school expenses (kindergarten through grade 12), as well as college expenses.	Must be used for the benefit of the child. Once the child reaches the age of majority, he/she has control over the account.
Maximum contribution per year*	Total combined contribution from all sources must be no more than \$2,000.	Each contributor may invest up to \$13,000 (for a single return) or \$26,000 (joint return) before triggering the federal gift tax.
Who may contribute*	Anyone can contribute on behalf of a child until he/she reaches age 18.  <b>Income restrictions of contributors:</b> To be eligible to make the full contribution, your modified adjusted gross income must be under \$95,000 (single return) or \$190,000 (joint return).	Anyone can contribute on behalf of a child until he/she reaches the age of majority (usually 18 or 21, but varies by state).
Tax benefits*	Savings compound tax-deferred and withdrawals are tax-free when used to pay for eligible education expenses; however, contributions are not tax-deductible.	For children under age 18, the first \$950 per year of investment earnings is tax-free; the next \$950 is taxed at the child's tax rate; the remainder is taxed at the parent's rate.  Contributions are not tax-deductible.
Potential disadvantages*	The total contribution of \$2,000 a year may not be enough to pay for your child's educational needs.  Withdrawals for unqualified educational expenses are subject to income tax and a 10% penalty. Generally, money must be withdrawn before the student reaches age 30 or a 10% penalty will apply.	The child has control over the account with no restrictions on how the money can be spent once he/she reaches the age of majority. Thus, parents concerned that their adult children may not make the best spending decisions may not find this account an appropriate choice.

Note: Contributions to these plans are not federal income tax-deductible.

*\*Updated for 2009*

his or her IRA before reaching 59½ and avoid the 10% early withdrawal penalty under certain circumstances. If your IRA distribution is used for qualifying higher education expenses—such as tuition, fees, books and supplies for a qualifying family member—it is not subject to the 10% premature distribution penalty.

### Investing for education with Homestead Funds is easy

Invest for the future of a child with a Homestead Funds Education Savings Account or UGMA/UTMA account. It's never too soon to get started. The earlier you begin, the more time your money has to benefit from the power of tax-deferred compounding. Plus, there's no minimum initial deposit if you choose to make regular investments transferred directly from your bank account or paycheck.

Just call us at 1-800-258-3030 to speak with one of our friendly client service associates and to request a prospectus.

Investors are advised to consider fund objectives, risks, charges and expenses carefully before investing. The prospectus contains this and other information. Read the prospectus carefully before you invest or send money.

## We have helpful tips on **other investment topics, too!**

For a complimentary fact sheet about any of the following topics, download them from our website at [www.homesteadfunds.com](http://www.homesteadfunds.com) or call one of our friendly associates at 1-800-258-3030:

- ▶ Building your retirement savings
- ▶ Simplifying account management
- ▶ Understanding mutual fund costs
- ▶ Handling investment risk
- ▶ Simplifying tax time for investors
- ▶ Deciding what to do with your 401(k)
- ▶ Taking your required minimum distribution
- ▶ Managing your savings in retirement