

## **Coverdell Education Savings Accounts**

The Coverdell Education Savings Account is a great way to prepare in advance for high school and college tuition costs. The Coverdell Education Savings Accounts allow annual contributions up to \$2000 per child and the money grows tax-free until it is spent for education expenses. Unlike a regular savings account, the interest earned on money in a Coverdell Education Savings Account is not taxable. Here is an overview of the advantages of Coverdell Education Savings Accounts:

- ✓ Monies are saved on behalf of your child (up to 18 years of age)
- ✓ Annual contributions up to \$2000 per child can begin at birth
- ✓ All contributions grow tax-free until the beneficiary is 30 years of age
- ✓ Distributions are tax-free if money is used for qualified educational expenses (i.e. tuition and books)
- ✓ Distributions are tax-free if money is used toward an eligible educational institution (i.e. public, private or religious schools providing elementary, secondary or college education tuition)

We also provide some examples of the benefits of Coverdell Education Savings Accounts on the following pages.

For more information regarding Coverdell Education Savings Accounts, visit:

<http://finaid.org/savings/coverdell.phtml>

[http://www.savingforcollege.com/coverdell\\_asas/](http://www.savingforcollege.com/coverdell_asas/)

<http://www.irs.gov/taxtopics/tc310.html>

For a Coverdell Savings calculator visit:

<http://finance.yahoo.com/calculator/college-education/col-03>

For a tuition savings calculator visit:

[http://apps.collegeboard.com/fincalc/college\\_savings.jsp](http://apps.collegeboard.com/fincalc/college_savings.jsp)

**Example 1**

Saving \$2000 per year beginning when your child is 5 years old: by saving in a Coverdell ESA you would accumulate \$19,273.

**Savings Information And Assumptions – Coverdell ESA**

Annual savings amount: (limit \$2,000)..... **\$2000.00**  
 Number of years contributions are made: (limit 18)..... **7**  
 Assumed before tax return on savings: (%)..... **8%**  
 Assumed marginal tax bracket: (%)..... **25%**

Year	Savings Amount	Beginning Balance	Interest	Taxes	Coverdell ESA Ending Balance
1	\$2,000	\$2,000	\$160	\$0	\$2,160
2	2,000	4,160	330	0	4,490
3	2,000	6,490	509	0	6,999
4	2,000	8,999	700	0	9,699
5	2,000	11,699	902	0	12,601
6	2,000	14,601	1,116	0	15,717
7	2,000	17,717	1,343	0	<b>19,060</b>

**Example 2**

Saving \$1000 per year beginning when your child is 1 year old: by saving in a 12-month bank certificate of deposit, with an assumed rate of 5% each year, you would accumulate \$15,368 over a period of 12 years.

**Savings Information And Assumptions – Bank Certificate of Deposit**

Annual savings amount..... **\$1000.00**  
 Number of years contributions are made..... **12**  
 Before tax return on savings: (%)..... **5%**  
 Marginal tax bracket: (%)..... **25%**

Year	Savings Amount	Beginning Balance	Interest	Taxes	Taxable Account Ending Balance
1	\$1,000	\$1,000	\$50	\$13	\$1,037
2	1,000	2,038	102	25	2,114
3	1,000	3,114	156	39	3,231
4	1,000	4,231	212	53	4,390
5	1,000	5,390	269	67	5,592
6	1,000	6,592	330	82	6,840
7	1,000	7,840	392	98	8,134
8	1,000	9,134	457	114	9,477
9	1,000	10,477	524	131	10,870
10	1,000	11,870	593	148	12,315
11	1,000	13,315	666	166	13,815
12	1,000	14,815	741	185	<b>15,371</b>