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Compare these 3 ways to save

Then start a planning conversation with your financial advisor

	529 savings plan	Coverdell education savings account	UGMA/ UTMA account
Type of account	Education savings plan for a designated beneficiary; can be used for qualified education expenses, including certain college costs, private K–12 tuition ($10,000 per year), student loan payments ($10,000 lifetime cap) and certain costs of apprenticeship programs.[1]	Custodial account set up for a minor or special needs beneficiary but managed by an adult; designed to pay for certain education expenses, including college tuition and private K–12 tuition.	Custodial accounts created under the Uniform Gifts to Minors Act/Uniform Transfers to Minors Act (UGMA/ UTMA); can be used for any expenses that benefit a minor (purchase a car, pay for a wedding, etc.), including education.
How contributions and withdrawals are taxed	Contributions grow income tax-free; withdrawals are federal — and usually state — income tax-free if used for qualified higher education expenses.[1] More than 30 states offer state income tax deductions or credits for contributions to the state's plan. (A few states extend income tax benefits to any state's plan.)	Contributions grow income tax-free. Withdrawals are income tax-free if used for qualified education expenses.	In 2024, the first $1,300 in annual earnings is income tax-free; the next $1,300 is taxed at the child's income tax rate; further earnings are taxed at the parents' marginal tax rate.

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Maximum contribution	Any family member can contribute up to $90,000 to a single beneficiary's plan in one year ($180,000 for married couples electing to split gifts) under the five-year gifting provision.[2] No contributions may be made after the account balance reaches the 529 plan's maximum lifetime contribution limit, which may be as high as $500,000 or more (varies by state).	Up to $2,000 a year per beneficiary; to contribute, your modified adjusted gross income must be below $110,000, or $220,000 if married and filing jointly.	None. However, contributions are considered gifts. By sticking to the annual federal gift tax exclusion of $18,000 (in 2024), you can avoid paying federal gift taxes (provided you do not make any other gifts to the minor account holder) or reducing your federal gift and estate tax exemption.
Investment options	Vary by plan; usually include a wide range of professionally managed investment options consisting of underlying mutual funds and exchange-traded funds.	Few restrictions; include a wide range of investments, such as stocks, bonds, mutual funds and exchange-traded funds.	No restrictions (unless state law imposes them); however, the account custodian has a legal obligation to invest the funds prudently.

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Who controls the funds?	The account holder — a parent, grandparent or any other person who opens or is transferred ownership of the 529 account. The account holder can also be the designated beneficiary of the account.	Since it's a custodial account, parents/guardians retain control.	The custodian retains control of the account until the minor reaches the age of termination (typically 18 to 21, depending on the state). The custodian has the obligation to use the assets only for the benefits of the minor and to turn the assets over to the minor when they reach the termination age.
Potential effect on financial aid	On the Free Application for Federal Student Aid (FAFSA), assuming the parent establishes the account, only 5.64% of the funds count as parental assets in determining the Student Aid Index (SAI) — formerly the expected family contribution.	On the Free Application for Federal Student Aid (FAFSA), assuming the parent establishes the account, only 5.64% of the funds count as parental assets in determining the Student Aid Index (SAI) — formerly the expected family contribution.	Since UGMA and UTMA accounts are considered the child's assets on the FAFSA, 20% of the value counts toward the SAI, reducing aid eligibility more than 529 or Coverdell accounts do.

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What happens to unused funds?	Funds can remain in the 529 account and be used for future education costs (e.g., advanced degrees); you can also transfer the account to an eligible family member of the beneficiary or withdraw the money and pay income tax on the earnings, plus a 10% additional federal tax (which is waived in certain situations). Starting in 2024, unused funds can be rolled over into a Roth IRA, subject to limitations.	The account beneficiary can be changed if there are unused funds. The funds must be distributed once the beneficiary attains age 30. The earnings portion of assets not used for qualified education expenses will be subject to income taxes, plus a 10% additional federal tax (which is waived in certain situations).	The account beneficiary cannot be changed; your child can use the assets as they wish when they gain control upon reaching the termination age (typically 18 to 21).
The bottom line	When it comes to saving for education, 529s offer the most advantages: federal and often state income tax benefits, flexibility in how you spend the funds and ease of use.	Coverdells offer more investment freedom. But the low contribution limit means you may not be able to save enough in one to meet your education savings goals. Given the income limits, many families aren't even eligible to contribute.	Because UGMAs and UTMAs have a greater negative impact on financial aid and don't allow you to change beneficiaries, these accounts are better for non-education needs, such as buying a car or making a down payment on a home, than for education savings.

[1] To be eligible for favorable income tax treatment afforded to the earnings portion of a withdrawal from a Section 529 account, such withdrawal must be used for “qualified higher education expenses,” as defined in the Internal Revenue Code. The earnings portion of a withdrawal that is not used for such expenses is subject to federal income tax and may be subject to a 10% additional federal tax, as well as applicable state and local income taxes. The additional tax is waived under certain circumstances. The beneficiary must be attending an eligible educational institution at least half-time for room and board to be considered a qualified higher education expense, subject to limitations. Institutions must be eligible to participate in federal student financial aid programs. Some foreign institutions are eligible. You can also take a federal income tax-free distribution from a 529 account of up to $10,000 per calendar year per beneficiary from all 529 accounts to help pay for tuition at an eligible elementary or secondary public, private or religious school. Qualified higher education expenses may include expenses for fees, books, supplies and equipment required for the participation of a designated beneficiary in an apprenticeship program registered and certified with the Secretary of Labor under the National Apprenticeship Act and amounts paid as principal or interest on any qualified education loans of the designated beneficiary or sibling of the designated beneficiary, up to a lifetime maximum of $10,000 per individual. Distributions with respect to the loans of a sibling of the designated beneficiary will count towards the lifetime limit of the sibling, not the designated beneficiary. Such repayments may impact student loan interest deductibility. State income tax treatment may vary for distributions to pay for tuition in connection with enrollment or attendance at an elementary or secondary public, private or religious school, apprenticeship expenses and payment of qualified education loans.

[2] Contributions during 2024 between $18,000 and $90,000 ($36,000 and $180,000 for married couples electing to split gifts) made in one year can be prorated over a five-year period without subjecting the donor to federal gift tax or reducing your federal unified estate and gift tax credit by filing an election on a timely filed federal gift tax return, Form 709. If you contribute less than the $90,000 maximum ($180,000 for married couples electing to split gifts), additional contributions can be made without you being subject to federal gift tax, up to a prorated level of $18,000 ($36,000 for married couples electing to split gifts) per year. Gift taxation or the use of the account holder’s federal gift tax exemption may result if a contribution, combined with all other gifts qualifying for the annual gift tax exclusion in the year of contribution, exceeds the available annual federal gift tax exclusion amount remaining for a given beneficiary in the year of contribution. For contributions between $18,000 and $90,000 ($36,000 and $180,000 for married couples electing to split gifts) made in one year, if the account owner dies before the end of the five-year period, a prorated portion of the contribution may be included in the account owner’s their estate for federal estate tax purposes.