PLANNING TO SAVE FOR HIGHER EDUCATION
ROTH IRA VS. 529 PLAN

Benefits of a Roth IRA

1. Roth IRAs are NOT included as an asset on the FAFSA (Free Application for Student Aid) form. Most other assets, including the amount in 529 plans, are included when calculating your EFC (expected financial contribution).
2. Roth IRAs are more flexible. You can earmark as much or little as you want for higher education expenses, but those funds DON'T NEED to be used for qualifying education expenses. With a 529 plan, if you don't use those funds for higher education, or if you do not roll over remaining 529 dollars into a Roth IRA ($35,000 limit), you will owe income taxes on the gains and the 10%penalty on distributions.
3. Roth IRAs may provide the same tax-free treatment for distributions. If you are over age 59½ at the time you take distributions from your Roth IRA and you've had any Roth IRA for five years or longer, then *anything* you take out of your Roth IRA will be tax and penalty free. Even if you aren't age 59½ at the time education-related expenses must be paid, you can still utilize Roth IRA contributions tax and penalty free.

Benefits of a 529 Plan

1. 529 plans benefit from special tax breaks. As long as 529 plan distributions are used to pay qualified education expenses, distributions are 100% tax free (in some states, you may also be entitled to a state income tax deduction). Note that with the 2018 changes to the tax law, 529 distributions can now also be used for private K-12 educational expenses.
2. A 529 plan comes without income restrictions on who can contribute (unlike a Roth IRA's earned income requirement). There are no federal contribution dollar limits and while individual state limits vary, those limits are much higher than the tax-year Roth IRA contribution limits of $6,500 or $7,500 (if over age 50).
3. And while not a 529 plan, Coverdell Education Savings Accounts (ESAs) also have important benefits. Tax-free distributions may be taken for primary and secondary education expenses. These include tuition, fees, tutoring and special needs services incurred in connection with enrollment of the designated beneficiary at a public or private school.

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