



**FILLING THE PIGGYBANK:  
COLLEGE SAVINGS OPTIONS**



**NASFAA**

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

# COLLEGE SAVINGS OPTIONS

The following chart describes savings options that may be used to plan financially for college. Use it to compare the features, advantages, and disadvantages of the various options, and to select the savings method that best meets your needs.

Savings Option	Description	Annual Limits	Advantages	Disadvantages	FAFSA
<b>Traditional Savings Accounts</b>	An account in a financial institution to keep funds for various planned and unplanned expenses	Unlimited	<ul style="list-style-type: none"> <li>• Convenient</li> <li>• Protected by Federal Deposit Insurance Corporation (FDIC) insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Low rates of return</li> <li>• College planning services not available</li> <li>• Interest earned may be taxable</li> </ul>	<ul style="list-style-type: none"> <li>• Value reported as part of cash, savings and checking accounts</li> </ul>
<b>Savings Bonds</b>	Moderately priced federal securities	\$25,000 (maximum purchase according to bond type: \$10,000 in Series EE, \$10,000 in Electronic Series I, and \$5,000 in Paper Series I)	<ul style="list-style-type: none"> <li>• Reliable, low-risk option backed by the federal government</li> <li>• May be used for a variety of expenses</li> </ul>	<ul style="list-style-type: none"> <li>• Low rates of return</li> <li>• Long maturation period</li> <li>• Lose some interest earnings if redeemed in less than 5 years</li> <li>• Low annual contribution limit</li> </ul>	<ul style="list-style-type: none"> <li>• Value reported as part of net worth of investments</li> </ul>
<b>Traditional Individual Retirement Arrangements (IRAs)</b>	Retirement account not sponsored by an employer	\$6,000 < age 50 \$7,000 ≥ age 50 (Combined total annual contribution for IRAs and Roth IRAs cannot exceed this amount)	<ul style="list-style-type: none"> <li>• Contributions within annual limits are tax deductible</li> <li>• Distributions made before age 59 and a half which are used to pay qualified higher education expenses do not incur additional tax penalty</li> </ul>	<ul style="list-style-type: none"> <li>• Low annual contribution limit</li> <li>• Designed to be used as retirement income</li> <li>• Impact eligibility for financial aid</li> </ul>	<ul style="list-style-type: none"> <li>• Value of account not reported</li> <li>• Annual contributions reported as untaxed income</li> </ul>
<b>Roth IRAs</b>	Retirement account not sponsored by an employer	\$6,000 < age 50 <sup>1</sup> \$7,000 ≥ age 50 (Combined total annual contribution for IRAs and Roth IRAs cannot exceed this amount)	<ul style="list-style-type: none"> <li>• Distributions before age 59 and a half not taxable if used to pay for qualified higher education expenses</li> <li>• Earnings not taxed if withdrawn after age 59 and a half</li> </ul>	<ul style="list-style-type: none"> <li>• Contributions not tax deductible</li> <li>• Low annual contribution limit</li> <li>• Designed to be used as retirement income</li> </ul>	<ul style="list-style-type: none"> <li>• Value of account not reported</li> </ul>

<sup>1</sup> Ability to contribute affected by modified adjusted gross income (AGI)

Savings Option	Description	Annual Limits	Advantages	Disadvantages	FAFSA
<b>Section 529 Prepaid Tuition Plans</b>	Purchase of tuition credits or certificates for beneficiary	None. Contributions from a single contributor to beneficiary that exceed annual gift maximum, \$17,000, are subject to taxation.	<ul style="list-style-type: none"> <li>Federal and state tax benefits</li> <li>Can “lock in” the cost of tuition</li> <li>States and/or colleges typically bear investment risk</li> <li>Some plans have a form of state backing</li> <li>Can typically apply towards private or out-of-state colleges</li> </ul>	<ul style="list-style-type: none"> <li>Not offered by every state</li> <li>Some plans are no longer accepting new accounts</li> <li>Plans may increase the cost of tuition credits or certificates for future purchases</li> <li>Contributions not deductible on federal tax return</li> </ul>	<ul style="list-style-type: none"> <li>Value reported as part of investments (always the asset of the owner, not the beneficiary except when the owner is a dependent student, in which case the owner is the parent)</li> </ul>
<b>Section 529 Education Savings Plans</b>	An investment account designed to pay higher education expenses	None. Contributions from a single contributor to beneficiary that exceed annual gift maximum, \$17,000, are subject to taxation.	<ul style="list-style-type: none"> <li>Federal and state tax benefits</li> <li>Investment options</li> <li>High maximum plan value</li> <li>Educational programming resources</li> <li>Can use towards eligible trade and technical schools</li> </ul>	<ul style="list-style-type: none"> <li>Contributions not deductible on federal tax return</li> <li>Participant bears investment risk (this could also be an advantage depending on investment performance)</li> </ul>	<ul style="list-style-type: none"> <li>Value reported as part of investments (always the asset of the owner, not the beneficiary except when the owner is a dependent student, in which case the owner is the parent)</li> </ul>
<b>Coverdell Education Savings Accounts (ESAs)</b>	Savings accounts designed to encourage saving for education	\$2,000 per beneficiary <sup>2</sup>	<ul style="list-style-type: none"> <li>May be used for K-12 and post-secondary education expenses</li> <li>Distributions not taxed if use for qualified educational expenses</li> <li>May transfer account over to another family member</li> </ul>	<ul style="list-style-type: none"> <li>Contributions not tax deductible</li> <li>Low annual contribution limit</li> <li>Distributed funds that exceed qualified educational expenses are taxable</li> <li>Funds must be distributed when beneficiary reaches age 30, unless special needs beneficiary</li> <li>Funds distributed at age 30 are subject to an additional 10% tax</li> </ul>	<ul style="list-style-type: none"> <li>Value reported as part of net worth of investments</li> </ul>
<b>Uniform Gifts to Minors Act and Uniform Transfers to Minors Act (UGMA and UTMA)</b>	Allows the establishment of an account for gifts of cash/property without the expense of creating a trust.	Unlimited	<ul style="list-style-type: none"> <li>Account is managed by an adult custodian until the beneficiary comes of age</li> <li>Account is subject to special tax treatment</li> </ul>	<ul style="list-style-type: none"> <li>Owner of the account is the minor. Could possibly reduce eligibility for financial aid</li> </ul>	<ul style="list-style-type: none"> <li>Value of account reported as an investment of the account owner</li> </ul>

<sup>2</sup> Annual contribution amount affected by modified AGI

Savings Option	Description	Annual Limits	Advantages	Disadvantages	FAFSA
<b>Virtual Currency</b>	Digital currency that has an equivalent value in real currency, or that acts as a substitute for real currency. Can be digitally traded between users, purchased for, or exchanged into U.S. dollars, Euros, and other real or virtual currencies	Unlimited	<ul style="list-style-type: none"> <li>Ease of use</li> <li>Ability to conduct faster transactions</li> </ul>	<ul style="list-style-type: none"> <li>Unregulated virtual currencies do not offer legal recourse to investor as they are not regulated by financial authorities</li> </ul>	<ul style="list-style-type: none"> <li>Value of account must be reported in U.S. currency as an asset of owner</li> </ul>

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**NASFAA**

NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

**1801 PENNSYLVANIA AVENUE NW, SUITE 850  
WASHINGTON, DC 20006**

**202.785.0453 FAX. 202.785.1487 WWW.NASFAA.ORG**