

GL 140-30 - Roth IRA of 529 Plan



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## Saving for College Which is Best Roth IRA or 529 Plans?

I bet you want a clear answer to the above question. You'll find many articles on the internet that recommend Roth IRA over 529 Plans and others that recommend 529s over Roth IRAs. Sadly, most of these articles are written by someone selling one product or the other and thus are slanted to their best interest not your best interest.

The fact is:

Different financial vehicles have different features. The goal is to select the vehicle that best fits "your" situation.

1. There is no right or wrong answer.
2. Either Plan is better than no plan at all.

**529 Plans:** If the child will need \$100,000 or more to cover education costs. The 529 is worth considering as it has higher contributions limits.

Advantage:

- Contribution size may be larger
- Ease of Use
- If there is less than 5 years till the money will be needed for qualified education expenses.

**Roth IRA:** If it's unlikely you will contribute more than \$5,500 a year and you want to select how the money will be invested; you may consider the Roth IRA.

Advantage

- Investment Flexibility
- Broader uses for the benefits (especially if the child does not use all the funds for higher education)
- Does not appear on the FAFSA Application

**Can we have both a Roth IRA and a 529 Plan? YES**

For a better explanation for some of the differences please see the next page:

 More Information

|  | <b>Roth IRAs</b>  | <b>529 Plans</b>  |
|--|---|---|
| Controlled by  | Internal Revenue Service  | State by State  |
| Contributions  | Limited to 100% of earnings not to exceed \$5,500   | Generally higher (State by State)                             |
| Are contributions deductible when computing your Income Tax? | No  | No  |
| Are distributions from the Plan taxable income?              | No (on the amount contributed)<br>If the account is five or more years old.<br><br>10% on the amount above contributions<br>If the account is five or more years old. | No (on the total value),<br>if used for "Qualified Education" |
| Use of Funds   | Higher Education<br>First Home<br>Retirement  | Higher Education  |

|  |  |  |
|--|--|--|
| <p>What Higher Education expenses are covered?<br/><br/>(May vary by State).</p>   | <p>Tuition and Fees<br/>Room and Board<br/>Required Textbooks<br/>Supplies (Computers)<br/>Off Campus Room and Board<br/>Transportation and Travel costs<br/>Insurance costs</p> | <p>Tuition and Fees<br/>Room and Board<br/>Required Textbooks<br/>Supplies (Computers)</p>   |
| <p>Does the value in the account “count” when computing the Expected Family Contribution (EFC) on the FAFSA Application?</p> | <p>No</p>  | <p>Yes</p>   |
| <p>Can be transferred to another child if not used for education for the first child.</p>                                    | <p>No</p>  | <p>Yes</p>   |
| <p>You can Self Directed the funds to allow a broader range of investment opportunities</p>                                  | <p>Yes</p>   | <p>No<br/>Typically, the State controls the selection of how the funds will be invested.</p> |
| <p>Is there the 10% penalty for early distribution if the funds are used to pay Qualified Higher Education expenses.</p>     | <p>No<br/>(On the amount of contribution)</p>  | <p>No</p>  |