

Coverdell Education Savings Account

For the past several years, college costs have risen significantly — and they continue to do so. To help meet these expenses, you'll want to explore a variety of funding vehicles, one of which is the Coverdell Education Savings Account (Education Savings Account), formerly known as the Education IRA. An education savings account can offer you some key benefits, including tax-free earnings and investment flexibility.

Education Savings Accounts can be used to accumulate money for any college or university you choose. New tax laws also allow these accounts to be used to help fund elementary and secondary school education.

EDUCATION SAVINGS ACCOUNT TAX ADVANTAGES

Contributions to an Education Savings Account are not tax-deductible, but all earnings and withdrawals are tax-free, provided you use the money for qualified education expenses. Furthermore, your contributions to an Education Savings Account qualify for the annual \$13,000 (2011) gift tax exclusion.

Any non-education withdrawals from an Education Savings Account may be subject to a 10 percent penalty. Also, if the account beneficiary — typically, your child or grandchild — turns 30 without having used all the money in the account, then he or she will pay taxes on all withdrawals, along with an additional 10 percent penalty. However, your child or grandchild may be able to avoid these taxes by transferring the remaining account balance to another family member.

CONTRIBUTION LIMITS

If you meet certain adjusted gross income limits, you can contribute \$2,000 annually to an Education Savings Account. The deadline for making a contribution is April 15th of the following year. Contributions to an Education Savings Account must cease once the child reaches the age of 18.

The \$2,000 in allowable contributions is gradually reduced for single taxpayers with adjusted gross income (AGI) between \$95,000 and \$110,000. For married taxpayers filing jointly, the AGI limits are between \$190,000 and \$220,000. For taxpayers above these upper limits, contributions are not allowed for these accounts.

INVESTMENT FLEXIBILITY

You can fund your Education Savings Account via a variety of mutual fund families that work closely with RBC Wealth Management. The investments you select should reflect your tolerance for risk and your time horizon.

MULTIPLE ACCOUNTS ALLOWABLE

You can open Education Savings Accounts for all your children or grandchildren, although you cannot contribute more than \$2,000 per year to any one account. Other people may also establish Education Savings Accounts for your children or grandchildren, although the total annual amount contributed must not exceed \$2,000 per year, per beneficiary.



RBC Wealth Management®

Coverdell Education Savings Account, continued

EFFECT ON FINANCIAL AID

If the parent is the account owner, the assets are treated as the parents for financial aid purposes. Colleges generally require children to contribute about 20 percent of their assets for college costs, compared with 5.64 percent of the parents' assets.

HOW RBC WEALTH MANAGEMENT CAN HELP YOU

Although RBC Wealth Management does not offer Education Savings Accounts, we work with several mutual fund families that do, including the following:

- American Funds
- Delaware Funds
- Franklin/Templeton
- MFS
- Oppenheimer
- Putnam
- Seligman
- AIM
- Evergreen Funds
- PIMCO Funds
- Vanguard Funds
- Hartford
- T. Rowe Price
- Calamos

CALL YOUR FINANCIAL CONSULTANT

If you have additional questions about these accounts, please contact your RBC Wealth Management® Financial Advisor.

Your Financial Advisor can help you evaluate your education funding needs and make appropriate recommendations.

For more information about RBC Wealth Management and our products and services, visit www.rbcwm-usa.com

RBC Wealth Management is not a tax advisor. All decisions regarding the tax implications of your investments should be made in connection with your independent tax advisor.

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