

EDUCATION SAVINGS OPTIONS

RESOURCES FOR A SOUND EDUCATION SAVINGS PLAN

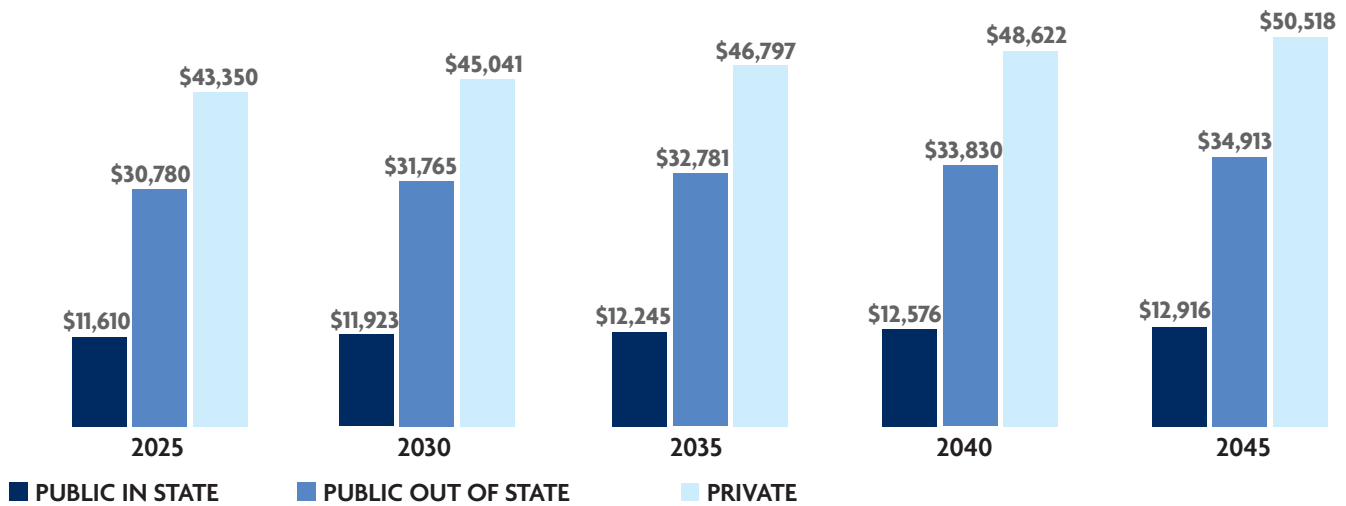


Higher education can provide children with the necessary skills to succeed. However, the cost of education continues to rise.

Before considering your savings options, it is important to consider how much you will need to save. As the chart on page three shows, the cost of sending just one child to college for four years is significant, and education expenses regularly rise faster than inflation. Once you define your expected financial outlay, you can begin to create a plan to prepare yourself.

COLLEGE SAVINGS PLAN COMPARISON TABLE

	How Much Can You Invest?	Who Controls The Account?	Tax Treatment	Restrictions On Using The Money
529 Plans	Varies by state and plan, perhaps as low as \$10 a month though total contributions could be as high as \$235,000-\$550,000 per beneficiary, depending on state plan allowances ³	Account owner (not beneficiary)	Tax-deferred growth Tax varies by state Qualified withdrawals may be federal-tax-free Contributions may qualify for state-income-tax deduction No gift tax up to \$85,000 for an individual in 1st year of a 5-year period or a total of \$170,000 with both spouses contributing Earnings portions of distributions may be taxable in years the American Opportunity Credit or Lifetime Learning Credit is used if same expenses used to qualify for credit.	Withdrawals must be used for a wide range of qualified education expenses Eligible institutions include post-secondary institutions (apprenticeships, or up to \$10,000 at elementary)
Coverdell ESA²	\$2,000 maximum annual contribution per child up to age 18; over 18 if beneficiary has special needs	Parent or other "responsible individual"	Tax-deferred growth Qualified withdrawals may be federal-tax-free Earnings portion of distributions may be taxable in years the American Opportunity Credit or Lifetime Learning Credit is used if same expenses used to qualify for credit.	Withdrawals must be used for qualified elementary or secondary expenses (K-12) ³ , or for qualified higher education expenses
UGMA/UTMA	Unlimited contributions, but the donor should consider the \$18,000 annual gift-tax exclusion Limit is per donor or contributing couple	The custodian, until the minor reaches the age the custodianship terminates (varies by state)	Once the child is over 18 and has earned income greater than half his support, the "kiddie tax" no longer applies Under 24 and a dependent, subject to "kiddie tax" rules	Must be used for the benefit of the student
Savings Bonds	Up to \$10,000 per year electronically and an additional \$5,000 in paper bonds (per social security number)	Bond owner	Interest is taxable unless higher-education exclusion applies. See IRS Form 8815 for details Not tax-free if American Opportunity Credit or Lifetime Learning is used	For tax-free treatment, withdrawals must be used for qualified higher education expenses as per Form 8815
Roth IRA	Currently, up to \$7,000 across all Roth and traditional IRAs Age 50 and older: an extra \$1,000 is allowed in 2024	Account owner (not beneficiary)	Withdrawals of principal are tax- and penalty-free Withdrawals of earnings are tax-free after 5 years and age 59½ Withdrawals of earnings for education expenses may be penalty-free	None

Projected Annual College Costs¹

**Financial Aid
Considerations**
Advantages
Disadvantages
529 Plans

Considered account owner's assets, unless owned by the student or custodian owned

529 accounts owned by student are considered parental assets

Penalty-free withdrawals if student receives a scholarship

Restrictions apply

Contributions may be made by anyone

Account owner retains control

No family income restrictions

Plans can be transferred to another qualified family member without penalty or to another qualified tuition program once every 12 months

Tax and 10% penalty on earnings for non-qualified withdrawals

Investment options are limited to those offered by a particular plan

May only change investment options twice per calendar year or when changing beneficiary

**Coverdell
ESA²**

Considered account owner's assets, with the exception of student or custodian-owned ESA

Accounts owned by a dependent student or a custodian for the student are considered the parents' assets

Restrictions apply

Penalty-free withdrawals if student receives tax-free scholarship

Can transfer account to an eligible family member

Contributions may be made by anyone who is under MAGI limits

Withdrawals can be used for qualified K-12 expenses

Self-directed investment choices

Not available to taxpayers for MAGI over \$220,000 (joint) or \$110,000 (single)

Low contribution limit

Tax and 10% penalty on earnings for non-qualified withdrawals

**UGMA/
UTMA**

Considered student's assets—20% student assets and 50% student's income.

Contributions may be made by anyone

No restrictions on amount, purpose, or date of withdrawals

Possibly lower taxation on investment income

No family income restrictions

No tax deferral

Student gains complete control of money at age of majority (varies by state)

**Savings
Bonds**

Considered bond owner's assets

Guaranteed minimum return

Tax on interest income can be deferred until the earlier of redemption or maturity

Tax-free if you qualify for the education exclusion

Low rate of return

Eligibility for tax-free interest is subject to phaseouts per IRS Publication 970

Benefit of interest exclusion is limited to person(s) taking a dependency exemption for the student on Form 1040.

Roth IRA

Considered account owner's assets

Account owner retains control of assets and can use savings for any child

Long-term retirement tax advantages, if not spent for education

Child must earn income to open own account

Those whose MAGI does not exceed \$240,000 (joint) or \$161,000 (single) in 2024 are eligible to contribute. Phase out limitations apply.

“ *The best time to plant a tree was 20 years ago. The next best is today.* ”

Choosing the Right Plan

Clearly, there are many investment vehicles available with a wide range of benefits and restrictions. However, not all are equally well-suited for funding the education needs of your loved ones. While there is no simple answer for what plan is best for someone, there are some general guidelines to consider.

529 Plans are an excellent choice for those who want to contribute more than \$2,000 per year, retain control over the assets and how they are used, and to be able to change beneficiaries. They are also well suited for those who are considering using the funds to pay for post-graduate expenses, are considering out-of-state schools, or want the flexibility to choose whatever school they may want down the road.

UGMA/UTMA and Savings Bonds are good for those that may not be sure if they necessarily want to use the funds only for education expenses. Coverdell ESAs should be considered for those looking to save \$2,000 a year or less, have a modified adjusted gross income of no more than \$110,000 for individuals or \$220,000 for married couples filing jointly are confident that the funds will be used by the beneficiary's 30th birthday, and want the flexibility to be able to use for other education expenses than college.

Finally, those that are sure of the school to which their beneficiary will be admitted and value the idea of locking in current tuition rates should consider Prepaid Tuition Plans. It should be noted, however, that books, fees, and room and board are typically not covered.

1. Total yearly costs for four-year, in-state public and private institutions including tuition and fees. Base is 2024-2025 school year. Costs for all future years projected assuming a national average annual increase of 2.7%, 3.2%, and 3.9% per year for public in state, public out of state, and private institutions, respectively. Source: Trends in College Pricing.

2. Formerly known as the Education IRA

3. Savingforcollege.com, "Maximum 529 Plan Contribution Limits by State," February 2024. Illinois accepts contributions until all balances in Illinois 529 Plans for the same beneficiary reach \$500,000; Wisconsin's plan maximums per beneficiary are \$545,500.

Please consider the investment objectives, risk, charges and expenses carefully before investing in a 529 savings plan. The official statement, which contains this and other information, can be obtained by calling your financial professional. Read it carefully before you invest. An investor should consider, before investing, whether the investor's or designated beneficiary's home state offers any state tax or other benefits that are only available for investments in such state's 529 college savings plan. The availability of such tax or other benefits may be conditioned on meeting certain requirements.

State Taxation Implications—in certain states, 529 plan distributions used to pay for K-12 tuition may be taxable at the state level, and any state income tax benefits claimed may be subject to recapture. For more information on state tax treatment of 529 plan distributions please consult your tax advisor.

Our firm does not provide tax or legal advice. Be sure to consult with your own tax and legal advisors before taking any action that may have tax consequences.

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