

Many people assume that a 529 plan is the ideal college savings tool, but other vehicles can help parents save for college expenses, too. Take the Roth IRA, for example. Whether you should use one or the other (or both) depends on several factors, including how much you intend to contribute and how you'll use the earnings.

Plan Snapshots

A [529 plan](#) allows participants to make substantial nondeductible contributions — up to hundreds of thousands of dollars, depending on the plan and state limits. The funds grow tax-free, and there's no tax on withdrawals, provided they're used for "qualified higher education expenses" such as tuition, fees, books, computers, and room and board. If you use the funds for other purposes, you'll generally be subject to income taxes and a 10% penalty on the earnings portion. Some 529 plans are also eligible for state tax breaks.

[Roth IRA contributions](#) also are nondeductible and grow tax-free. And you can withdraw those contributions anytime, tax- and penalty-free, for any purpose. Qualified distributions of earnings — generally, after age 59½ and more than five years after your first contribution — are also tax- and penalty-free.

Advantages and Drawbacks

The main advantages of 529 plans are generous contribution limits and the ability to accept contributions from relatives or friends.

Roth IRAs, on the other hand, are subject to annual contribution limits of currently \$6,000 (\$7,000 if you're 50 or older).

So, even if you and your spouse each set up Roth IRAs when your child is born, the most you'll be able to contribute over 18 years is \$216,000. Another drawback is that you must have earned income at least equal to the contribution, and you can't contribute to a Roth IRA if your adjusted gross income exceeds certain limits.

Funds in a 529 plan that aren't used for qualified education expenses will eventually trigger taxes and penalties when they're withdrawn. However, with a Roth IRA, you can use contributions, as well as qualified distributions of earnings, for any purpose without triggering taxes or penalties. This includes items that wouldn't be qualified expenses under a 529 plan, such as a car or off-campus housing expenses that exceed the college's room and board allowance. Plus, if you don't need all your Roth IRA funds for college expenses, you can leave them in the account indefinitely.

Consider Goals

Before selecting a plan, consider your overall financial, retirement, and estate planning goals. Our firm can help. [Give us a call.](#)