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# College Savings Plans vs. Prepaid Tuition Plans

## College Savings Plans vs. Prepaid Tuition Plans

Question	College Savings Plans	Prepaid Tuition Plans
What does the plan pay for?	You may use money in the plan to pay educational expenses at any accredited college, public or private, in the United States or abroad. Graduate school costs are also covered.	Payments generally cover only tuition and fees for undergraduates. For state-sponsored prepaid plans, tuition credits may be used only at in-state universities or public colleges. For college-sponsored prepaid tuition plans, tuition credits may be used only at the private colleges that participate in the plan. In either case, if your child attends a non-member college, there are limitations on how much the prepaid plan will pay.
Can nonresidents apply?	Most college savings plans allow out-of-state residents to join their programs.	Most state-sponsored prepaid plans are open only to state residents. College-sponsored prepaid plans are generally open to anyone.
How are contributions invested?	The trend is for you to have a choice of investment portfolios for your account. Options may range from conservative money market accounts to aggressive stock funds.	Your money goes into the plan's general fund for the purchase of tuition credits. You have no choice in how assets in this general fund are invested.
Will the plan	No. Most plans offer	In theory, yes. The

<p>guarantee an investment return?</p>	<p>participants a selection of investment portfolios from which to choose. The assets in your account gain or lose value according to the performance of the portfolio's funds.</p>	<p>plans were originally sold as a way to guarantee that your investment would keep pace with the rise in tuition costs. But some plans have been unable to meet that guarantee. Fully research any prepaid plan before investing money.</p>
<p>When can withdrawals be made?</p>	<p>There is generally no time limit.</p>	<p>Tuition credits must generally be used by the time your child reaches age 30. You must also notify the plan when you expect to begin making withdrawals within the time frame stated in your contract.</p>
<p>What is the impact on federal financial aid?</p>	<p>A college savings plan is considered a parental asset (if the parent is the account owner) and assessed at 5.6% per year. Distributions (withdrawals) are not counted as parent or student income.</p>	<p>A prepaid tuition plan is treated the same way as a college savings plan. (Prior to July 1, 2006, a prepaid tuition plan was not classified as either a parental or student asset, but any distributions reduced federal aid dollar-for-dollar.)</p>
<p>What types of fees and expenses are charged?</p>	<p>Each year the investment company managing your portfolio retains a certain percentage of your account's value as a fee for managing and administering money in the plan. Some plans also include an initial new account fee and a flat annual maintenance charge.</p>	<p>You will pay a flat enrollment fee. Prepaid plans also charge more miscellaneous fees than college savings plans, such as fees for returned checks, beneficiary changes, or changes to the payment schedule.</p>

[See disclaimer on final page.](#)

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