

## Key Features of New Education Savings Account

- You may contribute up to \$2,000 per beneficiary annually.
- Contributions are nondeductible.
- Qualified distributions are tax-free.
- Virtually anyone can contribute.
- You may contribute up to the beneficiary's 18th birthday. Contribution permitted after age 18 for special needs children.
- Funds must be disbursed or rolled over by beneficiary's 30th birthday.

*What better gift could you give a child than the gift of education? Open an Education Savings Account with us today and enjoy the satisfaction that comes from knowing you have contributed to a brighter future.*



### TEFCU

PO Box 509  
Greenbelt, MD 20768-0509  
**(301) 289-9800**

**memberservices@tefcu.org**  
**www.tefcu.org**

## COVERDELL Education Savings Account

This brochure is for general information only and is not intended to provide specific advice or recommendations for any individual. We suggest that you consult your attorney, accountant, financial or tax advisor with regard to your personal situation.

WELCOME  
TO OUR FAMILY

Your *Journey*  
is Just Beginning ....



Federally Insured by NCUA



EQUAL HOUSING  
LENDER

## Questions and Answers

### **What is the Coverdell Education Savings Account (ESA)?**

Formerly called the Education IRA, the Coverdell Education Savings Account (ESA) is a type of tax-advantaged savings account created by the Taxpayer Relief Act of 1997 specifically for paying qualified higher education expenses.

Contributions are non-deductible, earnings are tax-deferred and distributions are tax-free if used to pay for the account beneficiary's qualified expenses for costs of kindergarten through 12th grade, college or trade school.

### **Who is Eligible to Contribute to an Education Savings Account?**

Anyone, whether related to the account beneficiary or not, may contribute toward the combined maximum of \$2,000 to a child's ESA, provided their earned income is less than \$220,000 (for married couples filing jointly) or \$110,000 (for individual filers).

Proportionately smaller contributions are permitted for couples earning between \$190,000 and \$220,000 and for individuals earning between \$95,000 and \$110,000.

### **Are Earnings Taxable?**

All distributions of earnings are tax-free and can be withdrawn at any time, either in total or partially as needed, if they are used for qualified education expenses. Any balance remaining in the account when the beneficiary turns 30 must be distributed or rolled over to a new account for the benefit of another family member. If the balance is not distributed or rolled over, the earnings portion is included in income and is subject to a 10% penalty tax.

### **How Much Can I Contribute to an Education Savings Account?**

Any one beneficiary (student) may have only \$2,000 contributed on his or her behalf for any given year, regardless of the number of ESAs of which he or she is the beneficiary. Contributing to an ESA in no way affects your ability to contribute to your own Traditional IRA or Roth IRA.

### **Must I Contribute the Full Amount Each Year?**

No. You can contribute any amount your budget allows. In fact, if you choose, you need not make any contributions in a given year.

### **What is the Age Limit for Contributions to an Education Savings Account?**

No contributions are allowed after the account beneficiary reaches age 18.

Contributions are permitted after age 18 for special needs children.

### **Is There a Penalty If Funds Are Not Used for the Account Beneficiary's Education?**

Any distributions of earnings not used for qualified education expenses are subject to taxes and to a 10% penalty, as well.

### **What is the Deadline For Contributions?**

You can open or make contributions to your ESA any time up to and including the due date of your tax return for the previous tax year, normally April 15th.

### **Can I Roll Funds from a Roth IRA or Traditional IRA Into an Education Savings Account?**

No. Rollovers from a Roth IRA or Traditional IRA into an ESA are not allowed.

### **If I Contribute to an Education Savings Account, Can I Still Contribute to a Traditional IRA or Roth IRA?**

Yes. As long as you are eligible, you may contribute up to the combined full amount allowed to a Traditional IRA and or a Roth IRA and up to \$2,000 to each of your children's ESA annually.

### **When Can I Withdraw Funds From an Education Savings Account?**

As the responsible individual, you can withdraw funds at any time. However, to avoid tax consequences from the withdrawal, you must use the funds to pay for qualified expenses for (the IRA's designated beneficiary) your child before he or she reaches age 30.

### **Who Controls an Education Savings Account?**

An ESA must have one "responsible individual" to oversee the account. This person decides when funds will be withdrawn and if and when funds will be rolled over to the ESA of a family member. You can be the "responsible individual" as long as you are a parent or legal guardian of the child.