



The Cost of Higher Learning

Comparing college savings alternatives

Every parent envisions the day their child receives an acceptance letter from the college of their dreams. But as the dream fades, reality sets in: How are you going to pay for it? The good news is, there are more college savings plan options available than ever before. The chart below provides an overview of the primary features of several different plans.

	529 Plan	Taxable Account	Coverdell Education Savings Account (formerly Education IRA)	Uniform Gift to Minors/Uniform Transfer to Minors (UGMA/UTMA)
Are contributions, earnings or withdrawals tax exempt?	Contributions are made after federal taxes. Earnings grow tax deferred. Earnings are exempt from federal taxes if distributions do not exceed beneficiary's qualified higher education expenses during the year. ¹	Contributions are made after federal taxes. Dividends and interest are taxed to the account owner as ordinary income. Capital gains are taxed at capital gains rates.	Contributions are made after federal taxes. Earnings grow tax deferred. Earnings are exempt from federal taxes if distributions do not exceed beneficiary's qualified higher education expenses during the year. ²	Contributions are made after federal taxes. For children under 14, the first \$950 of earnings is tax free; earnings between \$950 and \$1,900 are taxed at the child's rate; earnings in excess of \$1,900 are taxed at the parents' top marginal rate. All earnings for children 14 and older are taxed at the child's rate.
Is there a penalty for a nonqualified withdrawal?	Nonqualified withdrawal of earnings is taxed to the recipient as ordinary income plus a 10% federal penalty tax.	No	Nonqualified withdrawal of earnings is taxed to the recipient as ordinary income plus a 10% federal penalty tax.	No
Is there a maximum contribution per beneficiary?	Contributions cannot exceed "the amount necessary to provide for the qualified higher education expenses of the beneficiary." ³ Actual amount varies by plan.	No	\$2,000 per year	No
Who controls the account?	Account owner	Account owner	Responsible individual (parent), but beneficiary may assume control at age of majority (varies by state)	Custodian, until child reaches the age of majority (varies by state)
Can the beneficiary be changed?	The beneficiary can be changed any time to a member of the family.	Not applicable	The beneficiary can be changed any time to a member of the family.	No. This is an irrevocable gift to the child.
To whom are assets attributed for financial aid purposes?	Account owner ⁴	Account owner	Account owner	Student

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What are the estate tax benefits?	Assets are transferred out of the donor's estate and donor (if also account owner) retains control. Donors can contribute \$65,000 (\$130,000 per married couple) every five years without triggering gift tax or generation skipping transfer tax. ⁵	None	Assets are transferred out of donor's estate.	Assets are transferred out of donor's estate. Contributions greater than \$13,000 (\$26,000 per married couple) per year may be subject to gift tax.
Are there limitations on income or age?	No	No	The ability to contribute is phased out for individuals with income between \$95,000 and \$110,000 and for married couples with income between \$190,000 and \$220,000. No contributions are allowed after beneficiary reaches 18; all withdrawals must be made by 30.	No contributions may be made after child reaches the age of majority (varies by state).
Where can qualified withdrawals be used?	Any institution eligible to participate in federal financial aid programs administered by the U.S. Department of Education	Withdrawals can be used for any purpose.	Any accredited program, including K to 12, in the U.S. and some overseas, including any institution eligible to participate in federal financial aid programs administered by the U.S. Department of Education	Any institution

The information presented in this document does not constitute tax advice. State and local tax laws vary. Additionally, your home state may only offer favorable tax treatment for investing in a plan that your state offers. Please consult your tax advisor for specific information about your tax situation, including any state tax consequences of an investment.

- 1 Pursuant to the Economic Growth and Tax Relief Reconciliation Act of 2001, earnings must be used to pay for qualified higher education expenses to be federally tax free. The earnings portion of a nonqualified withdrawal will be subject to ordinary income tax at the recipient's marginal rate and subject to a 10% federal penalty tax. The plan is subject to enrollment, maintenance, administrative and management fees and expenses.
- 2 Any distribution exceeding education expenses may be taxable and subject to a 10% federal penalty tax.
- 3 IRC §529(b)(6)
- 4 Under federal law, if the account owner is the beneficiary's parent, an investment in a 529 plan is considered the parent's assets and will decrease the beneficiary's financial aid award by about 5.6% of the account value (5.6% of the value of the account is considered the parent's contribution toward the beneficiary's higher education costs). If the account owner is the beneficiary, an investment in the plan is considered the beneficiary's assets and will decrease his/her financial aid reward by 35% of the account value (35% of the value of the account is considered the beneficiary's contribution toward his/her higher education costs).
- 5 A \$65,000 gift is viewed as an accelerated gift over five years. Any other gifts made to the same beneficiary by the contributor in the current year or in any of the succeeding four calendar years may result in a federal gift-tax liability. If the contributor dies within the five-year period, a prorated portion of the contribution may be included in the taxable estate.
The Coverdell Education Savings Account (formerly Education IRA) allows contributors to invest an annual nondeductible contribution to a designated beneficiary under 18. Contributors are subject to adjusted gross income limits.
The UGMA (Uniform Gifts to Minors Act) allows contributors to establish a custodial account in a minor's name without having a trust. Contributions to UGMAs are considered irrevocable gifts. The UTMA (Uniform Transfers to Minors Act) expands the UGMA's definition of "gifts" to include more than cash and securities.

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Consider the investment objectives, risks, and charges and expenses associated with a municipal fund security (529 plan) before investing. This and other information about a municipal fund security is available in an issuer's official statement, which should be read carefully before investing. For this and other information about AIM funds, obtain a prospectus from your financial advisor and read it carefully before investing.

Note: Not all products, materials or services available at all firms. Advisors, please contact your home office.

Supplemental Information

As of Sept. 30, 2009, Invesco Aim's assets under management were approximately \$157 billion and Invesco Ltd.'s assets under management were approximately \$417 billion.

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It is anticipated that on or about the end of the fourth quarter of 2009, Invesco Aim Advisors, Inc., Invesco Aim Capital Management, Inc., Invesco Aim Private Asset Management, Inc. and Invesco Global Asset Management (N.A.), Inc. will be merged into Invesco Institutional (N.A.), Inc., and the consolidated adviser firm will be renamed Invesco Advisers, Inc. Additional information will be posted at invescoaim.com on or about the end of the fourth quarter of 2009.

