



THE UKRAINIAN NATIONAL ASSOCIATION FORUM

Insurance MATTERS...

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The UNA Q&A: The Coverdell ESA

I heard that I should get a Coverdell for my grandchild by the end of the year. What is a Coverdell and why the urgency?

The Coverdell Education Savings Account (ESA) is named in honor of the late Sen. Paul Coverdell, who introduced the plan in Congress. Established in 2002, the Coverdell ESA is the descendant of the short-lived "Education IRA" that had been developed in 1997.

The original Education IRA allowed for a maximum annual contribution of \$500 to be deposited in an educational savings account for a child or grandchild; the Coverdell ESA, usually referred to simply as a Coverdell, allows for an annual contribution of up to \$2,000.

However, this higher \$2,000 limit belongs to the package of tax legislation

that is due to expire at the end of 2012. Unless the legislation is modified or extended, the contribution amount will revert to the original \$500. Therefore, the reason for the sense of urgency to set up a Coverdell account now may be to take advantage of the higher \$2,000 limit that is due to expire on December 31.

A savings of \$2,000 a year for education may not seem like much these days; however, the Coverdell has distinct advantages that should be considered. The money deposited in a Coverdell account grows tax-free until needed for educational expenses. When money is withdrawn, as long as the qualified educational expenses are more than the money taken out of the Coverdell account, the withdrawal is also tax-free.

Unlike the popular 529 college savings plans, which pay only for college expenses, the Coverdell is an educational savings plan and can pay for qualified elementary and secondary education expenses as well, such as tuition at a private elementary school. Furthermore, the list of Coverdell qualified expenses is quite generous, even including the purchase of a home computer for a child to use during high school. It is possible to establish both a 529 plan and a Coverdell for the same child, which can offer greater flexibility when making payments for educational expenses.

Coverdell accounts are easy to set up, and they can be set up with a small minimum contribution. Unlike many 529 college savings plans, which often require quite large annual management fees, fees on Coverdell accounts are generally quite low. At the UNA, the annual fee is the lowest of all – zero. There is no annual fee to maintain your child or grandchild's Coverdell at the UNA.

In order to establish an account for a child, the child must be under the age of 18 and the modified adjusted gross income of the account holder (usually the parent or grandparent) must be less than \$110,000 (single) or \$220,000 (joint). Once open, the account can remain open and contributions can be made until the age of 30, helping pay expenses through graduate school. If a child or grandchild

decides not to go to college, or vocational school, and if the money in the account is not used by age 30, then the balance must be withdrawn and is taxable. There is a provision, however, that allows money to be rolled over without penalty into the Coverdell account of another family member.

Although Coverdell ESAs are limited to an annual contribution of \$2,000 (unlike 529 plans that allow an unlimited annual contribution), the Coverdell ESAs allow parents and grandparent more control. At the UNA, the Coverdell account is opened as an annuity with annual interest compounded, and there is no risk to loss of principal. This is unlike many 529 plans that invest in the stock market, often with uncertain returns and no direct input from the plan owners.

As for financial aid, Coverdell funds are not counted as the child's money as long as the owner of the account is someone else, such as a parent or grandparent. As a result, the child has a better chance to receive financial aid.

So maybe this year is the year to set up a Coverdell ESA account with the UNA. Contact the UNA Home Office at 1-800-253-9862 or the UNA sales staff directly at 1-888-538-2833, or find your local UNA branch secretary through the UNA website at www.ukrainiannationalassociation.org to learn more about the Coverdell Education Savings Account.