



**UBS Financial Services Inc.**  
The Anselmo/ Meade Group  
331 Newman Springs Road  
Building 1, 3rd Floor  
Red Bank, NJ 07701  
866-231-3533

[www.ubs.com/financialservicesinc](http://www.ubs.com/financialservicesinc)

**Alice Anselmo**  
First Vice President – Investments  
Wealth Advisor  
Advisory & Brokerage Services  
732-219-7239  
[alice.anselmo@ubs.com](mailto:alice.anselmo@ubs.com)

**Heather Meade**  
Financial Advisor  
Wealth Advisor  
Advisory & Brokerage Services  
732-219-5503  
[heather.meade@ubs.com](mailto:heather.meade@ubs.com)

# Coverdell Education Savings Accounts

## An Important Education Funding Strategy

The *Coverdell* Education Savings Account (CESA)—formerly called the Education IRA—has become an effective way to save for education expenses for your children, grandchildren or any other eligible beneficiaries. Since the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) increased the CESA maximum annual contribution limit, this once modest education savings vehicle now has the power to help you accumulate a considerable education savings nest egg.

## Benefits

### Contributions

Maximum annual contribution is \$2,000 (increased from \$500) per beneficiary from all sources.\*

### Tax advantages

Although contributions are not deductible on federal or state income tax returns, earnings accumulate tax-free. Distributions are exempt from federal income tax when the money is used to pay for qualified expenses at an eligible educational institution.

- **Qualified expenses**—can include tuition, fees, books, supplies, equipment, room and board, academic tutoring, special needs services, uniforms, transportation and the purchase of computer technology or equipment used while attending an eligible educational institution.
- **Eligible educational institutions**—include colleges, universities, vocational schools or other post-secondary educational institutions eligible to participate in a student aid program administered by the Department of Education. Also included are public, private or religious elementary or secondary schools (grades K-12).

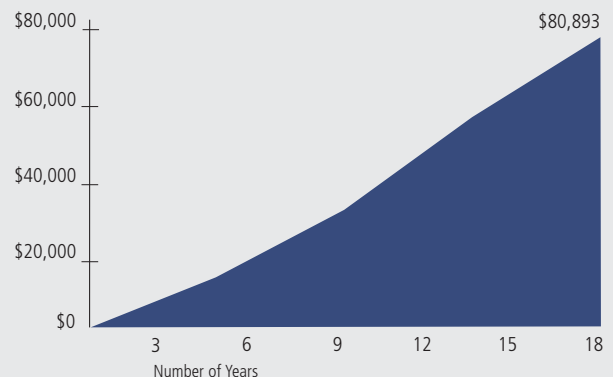
## Investment Flexibility

Unlike a 529 plan, you can make virtually any kind of investment within a CESA (i.e., mutual funds, stocks, bonds, etc.), as well as change investments at any time.

## Simultaneous contributions

You can make contributions to both a CESA and a 529 plan on behalf of the same beneficiary during the same tax year.

## How Coverdell Education Savings Account Contributions Accumulate



**Assumptions**—You contribute the maximum amount each year into your Coverdell Education Savings Account at the beginning of the year for 18 years, earn 8% annually and do not take any distributions. This illustration is hypothetical, does not represent the result of any specific investment and assumes that the 2001 tax law will be extended past 2010.

\* The EGTRRA provisions affecting CESAs sunset on December 31, 2010, which means that unless Congress enacts legislation that extends or makes the \$2,000 annual contribution limit permanent, it will revert to \$500 after that date.

## Important Considerations

### Eligibility

Contribution limits are gradually reduced for those with adjusted gross income (AGI) between \$95,000 and \$110,000 (single filers) and \$190,000 and \$220,000 (married filing jointly). Those above the maximum AGI are not eligible to contribute.

Organizations, such as corporations and trusts, can also contribute to CESAs. Currently, there is no requirement that an organization's income be below a certain level.

### Beneficiary age limits

Contributions may be made only until the beneficiary reaches age 18. Also, the money must be used by the time the beneficiary reaches age 30 or the earnings will be taxed as ordinary income plus a 10% penalty. There are no age limits, however, for special needs beneficiaries.

### Beneficiary changes

The designated beneficiary can be changed to a member of the beneficiary's family with no tax consequences if the new beneficiary is under age 30 or is a special needs beneficiary. The beneficiary's family includes the following relatives of the beneficiary:

- Spouse
- Child or descendant of a child
- Brother, sister, stepbrother or stepsister
- Father or mother or ancestor of either
- Stepfather or stepmother
- Son or daughter of a brother or sister
- Brother or sister of a father or mother
- Son-in-law, daughter-in-law, father-in-law, mother-in-law, brother-in-law or sister-in-law
- The spouse of any individual listed above
- First cousin

### Rollovers

Any amount distributed from a CESA is not taxable if it is rolled over to another CESA for the benefit of the same beneficiary or a member of the beneficiary's family.

### Contribution deadline

Annual contributions may be made until the due date of the contributor's tax return (normally April 15 of the following year).

## Your Financial Advisor Can Help

The best way to prepare for education expenses is to become familiar with your savings options and determine how each can address your specific needs. Call your Financial Advisor today to discuss CESAs and other education savings alternatives in light of your current goals, objectives and financial situation.

Neither UBS Financial Services Inc. nor any of its employees provide legal or tax advice. The tax implications of education savings vehicles should be discussed with your legal and/or tax advisor. The information in this communication piece should not be relied upon for specific tax-related recommendations, and does not constitute a solicitation or recommendation to purchase a specific security.

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