

Comparison of CESAs and 529 Plans: Which One Is Right For You?

Do investments grow tax-free?	
CESA	Yes.
529 Plan	Yes.
Are withdrawals tax-free?	
CESA	Yes, though a 10% penalty applies on most excess distributions.
529 Plan	Yes for federal purposes, though a 10% penalty exists for most excess distributions. Most states exclude withdrawals from state taxable income as well.
Who may participate?	
CESA	A CESA may be established for anyone. Eligibility to make contributions phase out at certain income thresholds (see above).
529 Plan	Generally, anyone. Some states limit participation to state residents only.
Is there an annual limit on contributions?	
CESA	\$2,000, though this limitation is phased out when income levels exceed certain thresholds (see above).
529 Plan	Varies by state plan, though by federal law there is no limit.
Can withdrawals be used for elementary and secondary educational expenses?	
CESA	Yes.
529 Plan	No.
Can the beneficiary be changed tax-free?	
CESA	So long as the new beneficiary is a family member of the old and under the age of 30, there is no income tax consequence.
529 Plan	So long as the new beneficiary is a family member of the old (including cousins) there is no income tax consequence.
Who should invest?	
CESA	Those below the contribution thresholds who have a long time to save before the beneficiary attains the desired level of education.
529 Plan	Those with high incomes above CESA contribution thresholds. Those with older children and more than \$2,000 to invest.