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College Savings Strategy Kit: 529 vs Roth vs Brokerage

Choosing where to save for college is not one decision—it is a sequence of decisions about tax treatment, financial aid impact, account control, and what happens if plans change. A 529 funded generously today may shelter tuition costs efficiently, or it may reduce aid eligibility by the wrong percentage, or it may sit partially unused if your child earns scholarships. A Roth IRA offers flexibility but counts as retirement savings competing for the same dollars. A UGMA hands the asset to your child at 18 with no restrictions. Getting this right requires understanding the actual rules for each account type, not just the marketing narrative.

1. Foundation

Five account types dominate the college savings decision: the 529 plan, the Coverdell Education Savings Account (ESA), the UGMA/UTMA custodial account, the Roth IRA, and Series I Savings Bonds. Each has a different tax profile, a different control structure, and a different interaction with the federal financial aid formula. Understanding where they differ prevents the most expensive mistakes—such as opening a UGMA because you liked the flexibility, then losing three to four times more in aid eligibility than you would have with a 529.

The Free Application for Federal Student Aid (FAFSA) uses the Expected Family Contribution (EFC) formula, and asset type determines how much each dollar reduces aid eligibility. Parent-owned assets—including parent-owned 529 plans—are assessed at a maximum of 5.64% of their value. That means \$100,000 in a parent-owned 529 reduces aid eligibility by up to \$5,640 per year. Child-owned assets, including custodial accounts where the student is the owner, are assessed at 20% of their value. The same \$100,000 in a UGMA/UTMA account in the child's name reduces aid by up to \$20,000 per year—more than three times the impact. Grandparent-owned 529s were once a special case, but under FAFSA Simplification rules taking effect for the 2024-25 award year,

grandparent 529 distributions no longer count as student income, which significantly improves their aid treatment.

Account comparison matrix covering 529, Coverdell ESA, UGMA/UTMA, Roth IRA, and I-Bonds across contribution limits, tax treatment, qualified use, flexibility, and aid impact. The 529 plan allows contributions up to the annual gift exclusion (\$18,000 per donor per beneficiary in 2024, or \$90,000 front-loaded via 5-year gift-tax averaging), grows tax-free, and distributions for qualified education expenses—tuition, fees, room and board, books, and K-12 up to \$10,000 per year—are federal-tax-free. The Coverdell ESA allows only \$2,000 per year total from all contributors, has income limits for contributors (phase-out begins at \$95,000 single / \$190,000 married), and covers K-12 and college. UGMA/UTMA accounts have no contribution limit or income requirement, but earnings above \$2,500 are taxed at the child's or parent's rate under the Kiddie Tax rules, and full control transfers to the child at the age of majority (18-21 depending on the state). The Roth IRA allows \$7,000 per year in 2024, permits tax-free withdrawals of contributions at any time, and earnings can be used for higher education expenses without the 10% early-withdrawal penalty—though they are still subject to income tax if taken before 59½. Series I Bonds issued in the parent's name may have interest excluded from federal tax if proceeds are used for qualified education expenses and income falls within the phase-out range (\$96,800–\$126,800 single / \$145,200–\$175,200 married in 2024).

Financial aid impact analyzer that maps each account type to its FAFSA treatment, projected aid reduction, and the conditions under which each structure wins. The key insight is that a parent-owned 529 is almost always the first choice from an aid-impact standpoint because of the 5.64% assessment rate. UGMA/UTMA accounts sit at the opposite extreme: the 20% student-asset rate means a family with \$50,000 in a custodial account is assessed as having \$10,000 more available annually than an identical family with the same money in a parent-owned 529. Roth IRAs are not reported on the FAFSA (retirement accounts are excluded from the asset calculation), which makes them the most aid-favorable vehicle if you treat education withdrawals as a secondary option, but using them for college reduces retirement security. I-Bonds owned by parents are reported at face value plus accrued interest as a parent asset, so they get the 5.64% rate—reasonably favorable, with the added benefit of inflation protection on the 3% composite baseline, though their contribution capacity is limited to \$10,000 per person per year plus \$5,000 via tax refund.

SECURE 2.0 529-to-Roth rollover guide that shows when and how to convert unused 529 funds to the beneficiary's Roth IRA without penalty. Starting in 2024, unused 529 funds can be rolled to the beneficiary's Roth IRA subject to these rules: the 529 account must be at least 15 years old; the rollover amount in a given year cannot

exceed the annual IRA contribution limit (\$7,000 in 2024 minus any other Roth contributions that year); contributions and earnings from the last 5 years are not eligible; and the lifetime rollover maximum per beneficiary is \$35,000. This rule changes the risk calculus of funding a 529 aggressively—the downside of over-contributing is significantly smaller than it was before 2024, because up to \$35,000 can be redirected to retirement rather than being subject to taxes and a 10% penalty on earnings.

2. Step-by-Step System

1

Classify your household by income, time horizon, and aid expectation

Before selecting an account type, establish three facts: your household adjusted gross income (AGI), the number of years until the child starts college, and your realistic expectation of financial aid eligibility. Families with AGI above roughly \$200,000 are unlikely to qualify for need-based federal grants and can focus almost entirely on tax efficiency—the 529 wins here straightforwardly. Families with AGI under \$100,000 need to think carefully about FAFSA asset treatment because need-based aid can be worth \$5,000 to \$30,000 per year in grants, and the wrong account structure can erase much of that. Families in between—AGI \$100,000 to \$200,000—need the comparison tool most urgently because small changes in account ownership can shift aid calculations meaningfully. The time horizon matters because a longer runway allows the 529's tax-free compounding to build more value and because a child more than 15 years from college lets you explore the 529-to-Roth rollover option meaningfully.

2

Fill the account comparison matrix with your specific numbers

Open the comparison matrix and enter your numbers, not generic ones. For the 529: select two or three candidate plans (your home state's plan if it offers a state tax deduction, and low-cost alternatives like Utah my529, Nevada Vanguard 529, or New York 529 Direct). Record the state tax deduction amount—for example, Virginia allows up to \$4,000 per account per year, New York allows up to \$10,000 per couple filing jointly—and compare the after-tax return on the deduction to the index-fund expense ratio. For the Coverdell ESA: check whether your income qualifies (contributor MAGI must be under \$110,000 single / \$220,000 joint to contribute fully) and note the \$2,000/year hard cap. For UGMA/UTMA: note that contributions are irrevocable gifts and calculate the potential annual aid reduction using the 20% rule on your projected balance at the time of the first FAFSA. For the Roth IRA: verify that you and your spouse have earned income and note how much room exists within the \$7,000 annual limit after your own retirement contributions. For I-Bonds: check whether your income falls within the education interest exclusion phase-out range.

3

Run the aid-impact calculation for your top two options

For each account type under consideration, estimate the projected balance at the first FAFSA filing (typically when the child is a high school junior or senior) and apply the appropriate assessment rate. For a parent-owned 529 with a projected balance of \$80,000: multiply $\$80,000 \times 5.64\% = \$4,512$ maximum annual aid reduction. For a UGMA with the same \$80,000: multiply $\$80,000 \times 20\% = \$16,000$ maximum annual aid reduction. The difference is \$11,488 per year, or \$45,952 over four years—before accounting for compounding on the aid received. This calculation alone will close the comparison for most families. Where UGMA still makes sense is in cases where the family has no realistic path to need-based aid at all, where the investment control and flexibility of a taxable account are genuinely needed, or where the child's state of majority provides favorable protection of assets until a later age.

4

Determine the right ownership and beneficiary structure

For 529 plans, the account owner controls the money—not the beneficiary. A parent as owner gives you the favorable 5.64% FAFSA assessment and lets you change the beneficiary to a sibling, cousin, yourself, or even a grandchild if the original beneficiary does not use the funds. A grandparent as owner used to trigger aid issues when distributions were reported as student income, but the new FAFSA Simplified rules remove that problem starting with the 2024–25 award year. If you want a grandparent to contribute to a 529, having them contribute to a parent-owned account (gift to the parent) or waiting until the child's last year of college (so distributions do not appear on the last FAFSA cycle) both work well. For Roth IRAs used as college accounts, the Roth belongs to the parent—do not open a custodial Roth for the child unless the child has earned income (from a part-time job or self-employment), in which case a custodial Roth IRA is one of the most powerful long-term tools available because the tax-free compounding starts decades before retirement.

5

Set contribution targets tied to a realistic college cost model

A common target is saving enough to cover the full cost of the most likely college scenario—typically in-state public tuition plus room and board. In 2024, the average total cost of a 4-year public university runs about \$28,000 per year in-state, or roughly \$110,000 for four years. Projected forward 10 years at 5% annual education inflation, that four-year in-state cost reaches approximately \$179,000. Saving \$179,000 over 10 years at a 7% return requires approximately \$1,075 per month in contributions. If you have 15 years, the same target requires approximately \$620 per month. These numbers clarify why front-loading and starting early matter: every year of delay meaningfully increases the required monthly contribution. One concrete rule is to target 30% to 50% of projected college costs in savings and plan for financial aid, merit scholarships, loans, or work-study to cover the rest—over-funding a 529 by tens of thousands creates a different kind of planning problem.

6

Document the plan and set a beneficiary change trigger

The final step is writing down the chosen account type, the target balance, the monthly contribution, the investment selection inside the account, the review date (annually or after each FAFSA filing), and the condition that would trigger a beneficiary change or rollover decision. For a 529: write the account number, the state plan name, the investment option (age-based or specific allocation), the current beneficiary, and the alternative beneficiaries in priority order. Set an alert for when the child turns 13 to review whether to shift the allocation toward more conservative options inside the 529. Note that the 529-to-Roth rollover requires the account to be 15 years old—if you opened it recently, write down the date it becomes rollover-eligible so you do not wait unnecessarily.

3. Key Worksheets & Checklists

These worksheets turn the comparison analysis into a durable decision record. Use the setup table to capture the core facts about each account under consideration, the execution checklist to confirm you have addressed every planning point before funding the account, and the 30-day tracker to complete the paperwork and funding steps that turn a decision into an active plan.

1. Account Comparison Setup Worksheet

Child's name and birth year	Used to calculate time horizon and determine 529-to-Roth rollover eligibility window (account must be 15 years old by rollover date).
Household AGI	Determines I-Bond education exclusion eligibility, Coverdell ESA contributor eligibility, and informs aid expectation. Note whether AGI is above or below \$200K.
529 state tax deduction available	List your state's deduction limit, the marginal tax rate, and the after-tax value of the deduction per dollar contributed. This is a direct return that taxable accounts cannot match in year one.
FAFSA expected submission year	Typically the fall of the child's junior year of high school. All account balances at that snapshot date will be reported. This is the date to model projected balances toward.
Preferred account type and owner	Write the decision here after comparing assessment rates: parent-owned 529, grandparent-owned 529, Roth IRA (parent's), UGMA, ESA, or I-Bond.
Monthly contribution target	Based on college cost model, time horizon, and assumed 7% return. Recalculate if rate of return assumption changes more than 1 percentage point.

2. Execution Checklist

- Confirm household AGI and verify Coverdell ESA eligibility and I-Bond education exclusion eligibility before opening either account.
- Identify whether your state offers a 529 tax deduction, the annual deduction cap, and whether the deduction is available for contributions to any state's plan or only your home state's plan.
- Run the FAFSA aid-impact calculation for the top two account options using the projected balance at the child's FAFSA filing year: balance \times 5.64% for parent assets, balance \times 20% for student (UGMA) assets.
- Confirm the chosen 529 plan's investment options include a low-cost index-fund option with an expense ratio under 0.15%, such as Vanguard or Fidelity index-fund portfolios.
- If using a Roth IRA as a secondary education funding option, verify your earned income qualifies and confirm the contribution does not crowd out retirement savings below 10% of income.
- If a grandparent wants to contribute, confirm the new FAFSA Simplified rules for your child's enrollment year and determine whether a parent-owned account or a grandparent-owned account with delayed distributions is more advantageous.
- Open the account, select the investment option, set up automatic monthly contributions, and confirm the account beneficiary and contingent beneficiary are correct.
- Record the account opening date for the 529—this starts the 15-year clock for the SECURE 2.0 rollover option.

3. 30-Day Follow-Through Tracker

Window	Action	Evidence Complete
Week 1	Gather AGI from last year's tax return, note state 529 deduction rules, and calculate projected college cost at current 5% education inflation rate.	Numbers written down with sources; college cost projection completed for base case and conservative case.
Week 2	Run the account comparison matrix; calculate FAFSA aid-impact for 529 and UGMA scenarios; confirm Roth IRA contribution room if applicable.	Comparison matrix filled with real numbers; aid-impact difference documented in dollar terms over four years.
Week 3	Open the chosen account; select investment option; set up automatic monthly contribution; record beneficiary and alternate beneficiary information.	Account open and funded with first contribution; automatic contribution scheduled; account number and log-in saved securely.

Window	Action	Evidence Complete
Week 4	Review state tax deduction mechanics; set a calendar reminder for annual review at FAFSA filing year minus two years; document the plan in one written record.	Tax deduction strategy confirmed; calendar reminder set; one-page plan document completed and saved with financial records.

4. Common Mistakes

Opening a UGMA because it "feels flexible" without calculating the aid penalty

The 20% student-asset assessment rate compared to the 5.64% parent-asset rate is not a small difference. On a \$60,000 balance at FAFSA time, the UGMA reduces available aid by up to \$12,000 per year versus \$3,384 for a parent-owned 529—a difference of \$8,616 annually, or more than \$34,000 over four years. The flexibility of a UGMA rarely justifies that cost for families who expect any need-based aid.

Treating Coverdell ESA as a meaningful primary savings vehicle

The \$2,000 annual contribution cap makes the Coverdell ESA almost impossible to use as a primary college savings tool. Even starting at birth with \$2,000 per year for 18 years at 7% return, you would accumulate approximately \$71,000—well short of the cost of most private universities and even many public schools with room and board. ESAs work best as supplements when K-12 private school expenses are part of the plan, because 529 plans only cover K-12 up to \$10,000 per year.

Funding a 529 past the likely college cost without modeling the excess

Overfunding a 529 creates two problems: non-qualified withdrawals incur income tax plus a 10% penalty on earnings, and the SECURE 2.0 Roth rollover cap is \$35,000 lifetime per beneficiary. A family that puts \$200,000 in a 529 for a child who earns a full scholarship has a real tax problem. Model two scenarios—full tuition paid and partial scholarship—and size contributions accordingly, leaving some flexibility in the Roth IRA rather than front-loading all savings into the 529.

Ignoring state tax deductions in favor of a higher-rated out-of-state plan

If your state offers a tax deduction for 529 contributions to your home state's plan, calculate the after-tax value before switching to an out-of-state plan for slightly lower fees. A 5% state income tax on a \$10,000 deduction is a \$500 guaranteed return—equivalent to 0.5% extra per year on a \$100,000 balance. In many cases the home state plan's fees are comparable enough that the deduction makes it the clear first choice, even if the out-of-state plan would otherwise rank slightly higher on investment options alone.

5. Next Steps

After selecting the account type and funding the first contribution, the work becomes a review process, not a continuous research project. Set three calendar reminders: one annual check-in to confirm the investment allocation and contribution rate still match the target; one for the year the child turns 13, to shift any age-based 529 portfolio toward a more conservative allocation if it has not auto-adjusted; and one for two years before the expected FAFSA filing to model the projected account balance and consider any structural changes before the snapshot date. If you later decide to change beneficiaries, add a sibling as an alternate, or execute a 529-to-Roth rollover after the 15-year mark, the kit's comparison matrix will still be the right starting point. For ongoing tracking of household savings progress, pair this kit with the [Budget Calculator](#) and review net worth annually alongside the college savings balance.

- Open the chosen account this week—every month of delay reduces the time for tax-free compounding by one month.
- Set up automatic contributions so the saving is not a recurring decision.

- Record the account opening date for the 529-to-Roth rollover 15-year eligibility clock.
- Review the comparison matrix annually as contribution limits, tax law, and your income change—the optimal structure today may shift after a salary increase or tax-law change.
- Keep retirement savings above college savings in priority order; you can borrow for college but not for retirement.

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