

# Investing for your child's future— Your account options

Whether your goal is to save for a college education or to teach your child about investing, choosing the right investment account is the first step in helping your child toward a more secure financial future—and Schwab can help.

## What are your goals?

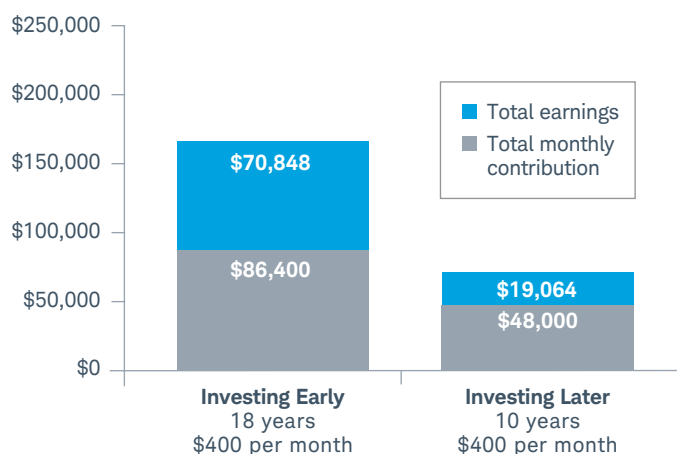
- **Save for college**—Consider a 529 plan or Education Savings Account (ESA), both of which offer special tax advantages that can help you save more over time.
- **Teach your child about investing**—Consider a Schwab One® custodial account, which allows you to give money to a child for any purpose while enjoying some tax advantages. Or open a Custodial IRA to give a teen with earned income a head start on saving for retirement.
- **Transfer a significant amount of wealth to a child**—Consider opening a Trust account, which offers more flexibility, control and protection than any other type of account. When you're setting up a trust, we recommend that you consult an attorney who can help ensure that you meet all your goals.

## Why start saving now?

**The advantages of compounding.** Time is your biggest ally when it comes to saving, thanks to the power of compounding. Your original investments—plus any earnings on those investments—can grow together over time. And if the earnings are reinvested back into your original investment, your money can grow much faster than your original investment alone.

By starting just eight years earlier than another investor, and earning compounded interest, you could grow your money as much as four times more. The earlier you start saving, the more you gain from compounding. See how your savings can grow at [schwab.com/compounding](https://schwab.com/compounding).

### The Power of Compounding



Note: Hypothetical example assumes an annual rate of 6% investment return, does not take into account taxes or fees, and assumes reinvestment of dividends and interest. Does not represent the performance of any specific security. It cannot be used to predict or project investment performance.

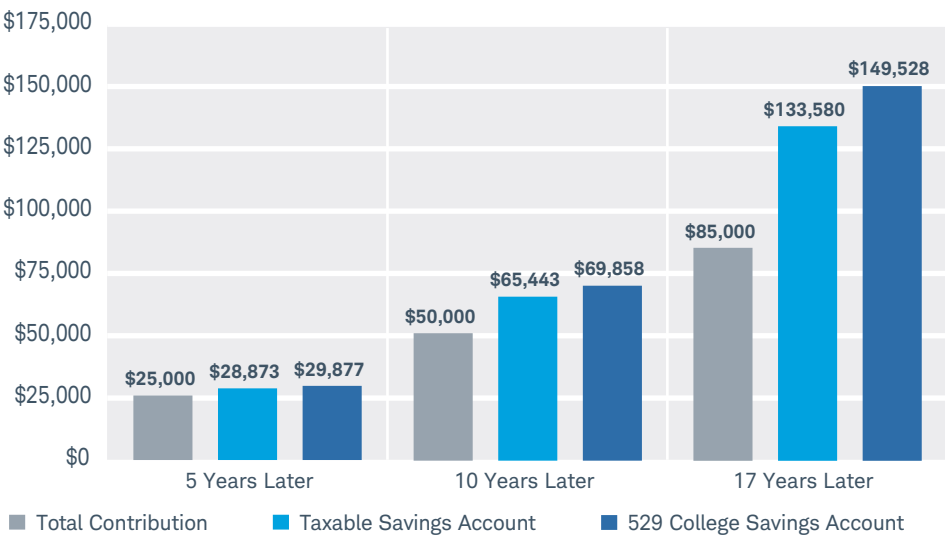
Why are tax-advantaged accounts so important?

**The power of tax-advantaged investing.** Keeping more of your investment earnings can be vital to achieving your long-term goals, and contributing to a tax-advantaged account allows you to keep all of your earnings invested.

Any earnings in tax-advantaged accounts, such as 529 plans and ESAs, are free from federal income tax as long as they are used for qualified education expenses, so your investment can grow at an even faster pace than it would in a taxable account.<sup>1</sup>

The benefit of tax-advantaged investing

The longer your time horizon, the greater your tax advantage.



Assumptions: \$5,000 after-tax contributions made at the beginning of each year, a hypothetical 6% annualized return, and a 28% tax rate on taxable income. Chart is for illustrative purposes only and does not represent the performance of any investment security. State taxes or account fees, if any, were not considered in the calculations. Investors should consult their tax advisors or legal counsel for advice and information concerning their particular situations. Does not represent the performance of any specific security. It cannot be used to predict or project investment performance.

Are you ready for the rising cost of college?

College is one of the most significant investments that can affect your child’s future—and it’s getting more expensive. With costs rising annually, college can quickly add up to a six-figure investment for a four-year education. The sooner you start saving and investing for college, the greater your chance of successfully covering your costs.

The average costs\* for a bachelor’s degree over the next 18 years

Starting year	Public (in-state)	Public (out-of-state)	Private
2018	\$89,500	\$157,000	\$202,400
2026	\$132,300	\$231,900	\$299,000
2036	\$215,400	\$377,800	\$487,000

Source: Annual Survey of Colleges 2017-2018 by the College Board. Chart assumes a 5% average annual increase.  
\*Average tuition, fees, room and board, and expenses.

## How do I choose?

Schwab offers a choice of accounts that can help you save for your child's future, with different features that support different goals. When choosing the right account for you, keep in mind your specific goals and the advantages of each type of account.

	Account Types			
	Schwab 529 Education Savings Plan	Education Savings Account (ESA)	Schwab Custodial Account	Schwab Trust Account
<b>Primary goal</b>	Save for elementary, secondary, or college expenses	Save for elementary, secondary, or college expenses	Teach a child about investing	Transfer wealth to a child
<b>Tax advantages</b>	Tax-deferred growth Tax-free qualified withdrawals <sup>1</sup>	Tax-deferred growth Tax-free qualified withdrawals <sup>1</sup>	Growth taxed at special rates <sup>2</sup>	Growth may be taxed at special rates
<b>Contribution limit</b>	\$402,000 lifetime limit per beneficiary <sup>3</sup>	Annual limit of \$2,000 (income limits apply) <sup>4</sup>	No limit	No limit
<b>Gift limit without incurring gift tax</b>	\$75,000 (\$150,000 per couple) in a single year <sup>5</sup>	\$2,000 <sup>6</sup>	\$15,000 (\$30,000 per couple)	\$15,000 (\$30,000 per couple)
<b>Ownership</b>	Adult, (or child if custodial 529)	Adult	Child at age 18 to 25 <sup>7</sup>	Depends on type of trust
<b>Investing options</b>	Choice of pre-defined asset allocation portfolios	Open	Open	Open
<b>Financial aid impact</b>	Minimal <sup>8</sup>	Minimal <sup>8</sup>	Potentially significant <sup>9</sup>	Depends on type of trust
<b>Age limits</b>	None	Contributions can be made until the beneficiary reaches age 18 All funds must be distributed to the beneficiary by the age of 30	Beneficiary must be under age 18 when account is opened	Flexible
<b>Ability to change beneficiary</b>	Anytime	Until beneficiary reaches age 30	Never	Depends on type of trust

<sup>1</sup> Qualified education expenses can include tuition, fees, books, supplies, equipment, and room and board. The earnings portion of a nonqualified withdrawal is subject to federal and state income tax and a 10% penalty. State tax treatment of earnings may vary. Check with your tax advisor for rules on your state's tax treatment. The availability of tax or other benefits may be conditioned on meeting certain requirements, such as residency, purpose for or timing of distribution, and other factors.

<sup>2</sup> For a child under the age of 19 considered a dependent at the end of year (or a full-time college student under the age of 24), the first \$2,100 (\$2,200 in 2019) of child's unearned income is tax-free, amounts over the \$2,100 (\$2,200 in 2019) threshold will be taxed at the rates for trusts and estates.

<sup>3</sup> The contribution limit is reached when the entire value of all Kansas 529 plans for one beneficiary reaches \$402,000 through a combination of contributions and account appreciation. The state treasurer may review and adjust the contribution limit as needed.

<sup>4</sup> The contributor's adjusted gross income must be less than \$95,000 (\$190,000 per couple) to contribute \$2,000. No contributions are allowed when the contributor's adjusted gross income is \$110,000 (\$220,000 per couple) or more.

<sup>5</sup> To qualify for the special gift tax exclusion, you need to file a gift tax return to treat the gift as if it were made in equal payments over five years. To avoid gift tax, you should make no additional gifts to the beneficiary during those five years.

<sup>6</sup> Applies toward the annual gift tax exclusion.

<sup>7</sup> Generally, a child gains control of the account at age 18 to 25 (varies by state).

<sup>8</sup> Only 5.6% of the value of an account owned by the parent or student is counted in financial aid calculations.

<sup>9</sup> 20% of the account value is considered to be the student's asset for financial aid calculations.

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**What resources are available?**

Schwab offers a wide range of online tools and resources to help you get started at [schwab.com/collegesavings](https://schwab.com/collegesavings):

- **College Savings Calculator**—Estimate your college expenses at [schwab.com/collegecalculator](https://schwab.com/collegecalculator).
- **529 State Tax Calculator**—Find out if your state offers a tax benefit at [schwab.com/529calculator](https://schwab.com/529calculator).

You'll also find **College Planning** suggestions and helpful links that show you additional financial options for college, such as loans, scholarships and aid opportunities.

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**What are my next steps?**

**Call** 1-888-903-3863 to speak with a Schwab investment professional.

**Schedule** an appointment at a Schwab branch near you at [schwab.com/branch](https://schwab.com/branch).

**Go to** [schwab.com/college](https://schwab.com/college) to apply for an account.

**If you are not a Kansas taxpayer, consider before investing whether your or the beneficiary's home state offers a 529 plan that provides its taxpayers with state tax and other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available in such state's qualified tuition program. Tax and financial aid treatment of 529 plans is subject to change. As with any investment, it is possible to lose money by investing in this plan.**

The investment return and the value of 529 Plan investment units will fluctuate so that an investor's units, when redeemed, may be worth more or less than their original cost; and actual 529 Plan performance may be lower or higher than the performance data included in the advertisement.

The Schwab 529 Education Savings Plan is available through Charles Schwab & Co., Inc. and is managed by American Century Investment Management, Inc. The plan was created by the Kansas State Legislature under the provisions of Section 529 of the Internal Revenue Code and is administered by Kansas State Treasurer Jake LaTurner.

Notice: Accounts established under the Schwab 529 Education Savings Plan and their earnings are neither insured nor guaranteed by the State of Kansas, the Kansas State Treasurer, American Century Investments®, or Charles Schwab & Co., Inc. Accounts established under the Schwab 529 Education Savings Plan are domiciled at American Century Investments and not Schwab.

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This information is not intended to be a substitute for individualized tax, legal or investment planning advice. Where specific advice is necessary or appropriate, Schwab recommends consultation with a qualified advisor.

**Brokerage Products: Not FDIC-Insured • No Bank Guarantee • May Lose Value**

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