

Education savings plan vs prepaid tuition plan

Compared to a prepaid tuition plan where you purchase units or credits for future tuition locked in at a set rate, under an education savings plan, you invest your funds in a portfolio of your choice. Therefore, while under an education savings plan you rely on the performance of your investment portfolio, a prepaid plan guarantees you'll be able to withdraw enough funds to cover a certain amount of credits.

Most prepaid plans are state-sponsored and have strict residency requirements, while 529 education savings plans don't have any residency restrictions, though maybe FDIC-insured. Finally, prepaid tuition plans are more restrictive: you can only use them to cover tuition and mandatory fees, while eligible expenses for 529 education savings plans include not only tuition, and fees for K-12 school and college, but also room and board. Unlike prepaid tuition plans, 529 savings plan don't lock in tuition prices, nor does the state back or guarantee the investments.