

# 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?

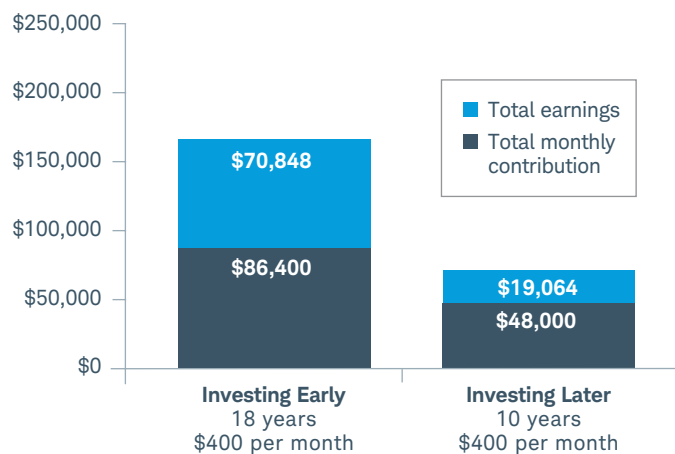
- **Save for college**—Consider a 529 plan or Education Savings Account (ESA), both of which offer special tax advantages that can help you save more over time.
- **Teach your child about investing**—Consider a Schwab One® custodial account, which allows you to give money to a child for any purpose while 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/learn/story/investing-basics-power-compounding](https://schwab.com/learn/story/investing-basics-power-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.

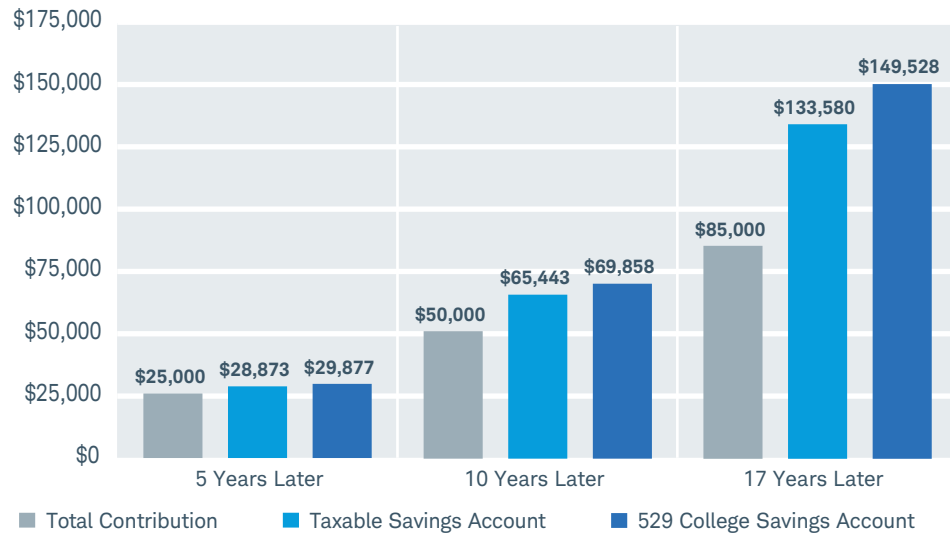
**Why are tax-advantaged accounts so important?**

**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 cost\* per year for a bachelor’s degree over the next 18 years**

| Starting year | Public (in-state) | Public (out-of-state) | Private  |
|---------------|-------------------|-----------------------|----------|
| 2025          | \$24,700          | \$43,000              | \$56,700 |
| 2033          | \$31,200          | \$54,500              | \$71,800 |
| 2043          | \$42,000          | \$75,400              | \$96,500 |

Source: The College Board, Trends in College Pricing 2022. Chart assumes a 3% 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<br>Tax-free qualified withdrawals <sup>1</sup> | Tax-deferred growth<br>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>                    | \$501,000 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> | \$95,000 (\$190,000 per couple) in a single year <sup>5</sup>      | \$2,000 <sup>6</sup>  | \$19,000 (\$38,000 per couple)                          | \$19,000 (\$38,000 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<br><br>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. Certain costs associated with K-12 tuition, participation in a registered apprenticeship program, or payment of a qualified education loan up to \$10,000 may also be considered qualified educational expenses. The availability of tax or other benefits may be conditioned on meeting certain requirements, such as residency, purpose for or timing of distribution, or other factors. Clients should consult a qualified tax advisor to discuss their individual situation.

<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).

Tax Year 2025, the first \$1,350 of a child's unearned income is tax-free, the next \$1,350 is taxed at the child's rate. Amounts over the \$2,700 threshold will be taxed at the parent's tax rate. View IRS Form 8814 and IRS Form 8615 for instructions.

<sup>3</sup>The contribution limit is reached when the entire value of all Kansas 529 plans for one beneficiary reaches \$501,000 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 \$110,000 (\$220,000 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>A special gift-tax exclusion allows for contributions exempt from federal gift taxes of \$95,000 (\$190,000 per couple) per beneficiary in a single year. To qualify for the special gift-tax exclusion, you need to file a United States Gift-Tax Return form 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. To qualify for gift-tax exclusion, contribution must be received by December 31. If you are a Kansas taxpayer and make a contribution between January 1 and the tax filing deadline, you are allowed to choose either the current tax year or previous tax year for the state income tax deduction.

<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.

**Before investing, carefully consider the plan's investment objectives, risks, charges and expenses. This information and more about the plans can be found in the Schwab 529 Education Savings Plan Guide and Participation Agreement available from Charles Schwab & Co., Inc., and should be read carefully before investing.**

**You may request a Schwab 529 Education Savings Plan Guide and Participation Agreement by calling 1-888-903-3863 or going to [schwab.com/529](https://schwab.com/529). 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 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.

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, you should consult with a qualified tax advisor, CPA, Financial Planner, or Investment Manager.

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